BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of Poinciana Utilities, Inc. for a Rate Increase in Osceola County.	))))	DOCKET NO. 881503-WS ORDER NO. 22166 ISSUED: 11-9-89

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD
GERALD L. GUNTER

APPEARANCES:

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On behalf of Poinciana Utilities, Inc.

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On behalf of the Citizens

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On behalf of the Commission Staff

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Counsel to the Commissioners

FINAL ORDER SETTING RATES AND CHARGES, FINING UTILITY $2,500, AND REQUIRING ESCROW OF REVENUE AND CHARGES COLLECTED FROM WILDERNESS DEVELOPMENT PENDING AN INVESTIGATION TO BE COMPLETED IN A SEPARATE DOCKET

BY THE COMMISSION:

BACKGROUND

Poinciana Utilities, Inc., is a Class B water and sewer utility with approximately 2,498 water customers and 2,296 sewer customers. Based on the Utility's 1988 annual report, annual revenues were $408,070 for water and $586,174 for sewer, with net operating income reported at $49,686 for water and $(36,608) for sewer.

On February 22, 1989, Poinciana Utilities, Inc., (Poinciana or the Utility) filed this application for increased water and sewer rates in Osceola and Polk Counties. In its application, the Utility requested rates which would produce annual operating revenues of $525,594 for water service and $807,395 for sewer service. Those requested revenues exceeded test year revenues by $124,574 and $218,985 for water and sewer, respectively. The Utility did not request an interim increase.

The test year approved for this rate application is the twelve-month period ended October 31, 1988. On April 3, 1989, we issued Order No. 20974 suspending the rates proposed by the Utility.

On May 1, 1989, the Office of Public Counsel filed its Notice of Intervention in this proceeding, pursuant to the provisions of Section 350.0611, Florida Statutes. On June 8, 1989, by Order No. 21356 we acknowledged the intervention of the Office of Public Counsel.

A prehearing conference was held on July 5, 1989. As a result of that prehearing conference, Prehearing Order No. 21553 was issued on July 17, 1989. That Order set out the issues to be heard, defined the positions of the parties, set the order of witnesses, and disposed of other procedural matters. A formal hearing was held on July 20, 1989.

STIPULATIONS

The following stipulations were agreed to by the Utility and the Office of Public Counsel and were supported by our Staff. We find these stipulations to be reasonable and, therefore, we approve them.

1. To correct a misclassification of sewer plant-in-service between plant and land, the following adjusting entry should be made:

Acct	Description	Debit	Credit
354.2	Struct. & Improve.	$14,096	
361.0	Collection Sewers	$17,136	
353.2	Land		$31,232

2. The Utility has not recorded an adjustment which was incorporated in Commission Order No. 15796. Therefore, both average and year-end accumulated depreciation should be increased by $20,285 for water and decreased by $17,058 for sewer.

3. The reserve balance of accumulated depreciation should be increased by $9,100 for water and $13,142 for sewer to reflect the pro forma increase to depreciation expense for adjustment to the guideline depreciation rates, consistent with Commission policy.

4. The Utility has not recorded an adjustment which was incorporated in Commission Order No. 15796. Therefore, the 13-month average balances of accumulated amortization of CIAC should be increased by $62,299 for water and $58,393 for sewer.

5. Preliminary survey and investigation charges should be removed from the working capital calculation. Therefore, working capital should be decreased by $1,178 for water and $2,068 for sewer.

6. The capitalization and cost of Avatar Utilities, Inc. and Subsidiaries, consistent with the capital structure set out in Order No. 15796 in the prior case, is the appropriate capital structure to use in this proceeding.

7. The leverage graph, adopted in Order No. 21775, issued on August 23, 1989, provides that this Utility's return on equity is 13.95%. This leverage graph is the appropriate one to use in the calculations for this proceeding.

8. The following adjustment should be made to reflect purchased power at the actual test year levels:

	Water	Sewer
A. Adjust for out-of-period expenses.	$345	$ 6,163
B. Remove end of year accrual.	(53)	(592)
C. Correct expenses for coding.		2,482
	$292	$ 8,053

9. A four-year period should be used to amortize rate case expense consistent with Commission policy.

10. Annual amortization expense of $13,760 for the prior rate case should be removed because this expense will be fully

amortized shortly after rates for the current case go into effect.

11. The Commission allowed $25,700 for rate case expense related to the service availability portion of the last rate case, Docket No. 840047-WS. This expense was to be amortized over 8 years. The annual amortization to be included for this expense is $3,212.

12. Depreciation expense is overstated due to the inclusion of depreciation on power operated equipment. Depreciation should be reduced by $5,203 for water and $1,153 for sewer.

13. The appropriate net depreciation expense to be used in the determination of rates is $30,956 for water and $40,526 for sewer.

QUALITY OF SERVICE

Our findings regarding this Utility's quality of service are based on testimony regarding compliance with state regulations and customer testimony from the public hearing. Poinciana has four wastewater treatment plants in its service area. The Department of Environmental Regulation (DER) Witness Darling testified that there has been no enforcement action against these plants within the past two years. These treatment plants are capable of serving present customers based on permitted capacity. The Utility has applied to DER for an expansion at Plant #3 since it has an unauthorized discharge. The plant capacity is sufficient, but it discharges to a wetland known as the Boot, and the Boot discharges into a ditch which discharges to London Creek and then to a surface water of the state. The discharge from the wetlands to the Creek was designed for emergencies only, but instead discharges more often then its permit allows. This problem is being addressed in the expansion through DER's permitting process.

Witness Darling testified that the overall maintenance of the treatment, collection and disposal facilities was satisfactory. There have been periodic complaints of manhole overflows or lift station failures, but Witness Darling testified that by the time DER receives a complaint from a customer, the Utility would have already notified DER of some kind of failure, typically mechanical in nature.

Poinciana has four water treatment plants. Two plants are in Osceola County and are regulated by DER's Central District. The other two plants are in Polk County and are regulated by DER's Southwest District with the assistance of Polk County. Witness Miller testified regarding the two water systems in Osceola County. DER performed an inspection of these plants on June 1, 1989. Witness Miller discussed the technical violations resulting from that inspection. He stated that it is not uncommon for a Utility to receive a notice of violation after an inspection. The Utility normally agrees to a specific time in which to make the required modifications. Poinciana met with DER to resolve the violations, and agreed that it would enter into a consent agreement to correct the violations. The technical violations did not affect the quality of water or appearance of the plants. Witness Miller testified that the water produced by the Utility met the state and federal maximum contaminant levels for primary and secondary water quality standards, and stated that additional treatment of the water was not necessary as a result of the chemical analyses. The plants have sufficient capacity to serve the Utility's present customers at the required minimum pressure. He further stated that the overall maintenance of the treatment plants and distribution system was satisfactory.

The two plants in Polk County were inspected by Polk County Witness Kollinger. There were no warning notices or formal enforcement actions against these facilities. There were some technical violations noted in his May 2, 1989, inspection report. The Utility responded by letter on May 15, 1989, stating that two of the four violations were corrected and it had plans for correcting the remaining two violations. Witness Kollinger testified that the water produced by the Utility met state and federal maximum contaminant levels for primary and secondary water quality standards, and stated that additional treatment of the water was not necessary as a result of the chemical analyses. The plants have sufficient capacity to serve present customers at the required minimum pressure. He further stated that the overall maintenance of the treatment plants and distribution system was satisfactory.

Approximately 25 customers testified at the hearing. The Utility was requested to respond to eleven specific complaints by the customers. The Utility provided information regarding its response to these complaints in a late-filed exhibit. The Utility provided adequate explanations, with the exception of the provision of the required notices, which we will address later herein. In addition, a late-filed exhibit was provided by the Utility regarding its customer relations program. This program appears sufficient for determining the source of usage problems on the customer side of the meter.

Based on our consideration of the foregoing, we find that this Utility's overall quality of service is satisfactory.

DENIAL OF PUBLIC COUNSEL'S MOTION TO DISMISS; $2,500 FINE FOR NOTICE DEFICIENCIES

During the customer testimony portion of this hearing, 6 customers testified that they had not received adequate notice of this rate increase application and of the hearing. The Office of Public Counsel moved to dismiss this rate proceeding because the Utility did not technically comply with Order No. 21235 and the Commission's Rules regarding provision of notice to customers of rate applications and public hearings. The noticing requirements for this proceeding are set out in the Order Establishing Procedure, Order No. 21235, and Rules 25-22.040 and 25-22.0406, Florida Administrative Code. These require that the utility begin noticing its customers within 30 days of the mailing of the rate case time schedule and that they receive notice of the hearing no later than fourteen days prior to the hearing.

The Utility filed a Report on Customer Notices on August 10, 1989, as a late-filed exhibit, in which it admitted having failed to comply with the technical requirements of the Commission's Rules regarding providing notice to customers of a rate increase proceeding and not complying with Order No. 21235, the Order Establishing Procedure. The Utility explained that it had difficulties sending out the notice of the hearing because of the July 4, 1989, holiday weekend. The Utility stated that it regretted that the rule requirements were not precisely met, but that it believes that the customers in this proceeding were not prejudiced because notice was supplied, if late, and because the customers were represented by the Office of Public Counsel.

It is apparent that the customers were generally aware of the rate increase application and that they were represented by the Office of Public Counsel with great professionalism. However, the Utility did not notice its customers of its filing of this rate increase application in compliance with our Rules and the Order Establishing Procedure. Nor did the Utility notify its customers of the date of the public hearing in this matter in compliance with our Rules and the Order Establishing Procedure. These notice requirements, as set out in our Rules and in the Order Establishing Procedure, are extremely important. This is not only because the customers may be prejudiced by lack of notice, but because this Commission is also prejudiced by the lack of information that may result when customers do not receive adequate notice. This case has an unusual, but effective, example of this very phenomenon in the Wilderness matter. It is possible that the Commission would have received more information, earlier on, from customers on this matter if the customers had received more timely notice. In consideration of the foregoing, we find it appropriate to deny the Public Counsel's Motion to Dismiss, but to fine the Utility $2,500 for its failure to provide the notice required by our Rules and by Order No. 21235.

RATE BASE

1. Used and Useful Adjustments

The utility did not provide any used and useful calculations because it asserted that excess plant is either funded through contributions-in-aid-of-construction (CIAC) or advances for construction. We have previously approved this approach of not allocating plant between used and useful and excess capacity in a prior rate case processed in Docket No. 840047-WS, by Order No. 15796.

The construction of all on-site and off-site facilities has been funded by the developer through a combination of advances for construction and contributions-in-aid-of-construction. The utility's investment is (1) a $620 refund per equivalent residential connection (ERC) to the developer when a customer connects to the system, (2) water meters which are partially reimbursed by tap-in fees, (3) general plant, and (4) additions, replacements or modifications to the system.

The Utility establishes its investment in used and useful plant in incremental amounts as new customers are served. As each customer becomes connected to the system, the Utility pays $620 to the developer. Based on this method of funding, when the Utility is serving all of the customers which its plants are designed to serve, the plant will be 100% used and useful, and the Utility's investment is projected at approximately 25% of its total capital cost.

Public Counsel argued in its brief that this method of funding ignores the physical capacity of the system in relation to the demand actually placed on it. However, the physical capacity and historical demands on a system are always reviewed in determining service availability charges. This Commission recently reviewed this Utility's method of adding plant and funding such additions in the Utility's request for higher capacity fees in Docket No. 870689-WS, by Order No. 19092, issued April 4, 1988. We found that the charges will, at design capacity, provide an overall contributed level of 73.67%, which is within the guidelines set forth in Rule 25-30.580, Florida Administrative Code.

Public Counsel appeared to have concerns regarding excessive operation and maintenance expenses associated with excess plant. The maintenance fee was designed to recover any cost associated with such excess plant. Specifically regarding this concern, we discuss further additions to the maintenance fee for line flushing and infiltration later in this Order when we address the Utility's unaccounted for water. For all of these reasons, we find that used and useful adjustments are not appropriate in this proceeding.

2. Land

Land costs total $68,284 for the water system, while land costs total $715,421 for the sewer system (adjusted for the account reclassification stipulation of $31,232). The Utility has acquired land in several ways. Some of the land was 100% contributed by CIAC, and the rest was acquired from a related party, some of which was funded by advances.

a) Land Supported by CIAC

Land totaling $13,025 for water and $171,466 for sewer is supported by CIAC. All of this property was donated by GAC Properties, the pre-bankruptcy company of both Avatar Holdings and Avatar Utilities. Public Counsel argued, and Mr. Reeves agreed, that the Utility did not establish, in the record of this proceeding, the prudence or the price paid by the developer for the cost of land included in Utility plant-in-sevice. As a result, Public Counsel argues that the land should be excluded from rate base. The Utility argues in its brief that the recorded amounts represent the land value at the time the property was dedicated to public service and was offset at the time by an advance or CIAC. Additionally, the

Utility argues that, on contributed land, the value is offset by CIAC with no resulting effect on rate base. For the land values offset by CIAC, we agree with the Utility that, with an equal amount in CIAC, the effect on rate base is zero. As a result, we find no adjustment appropriate.

b) Land Purchased From a Related Party for Which an Independent Appraisal was Performed

Based on the record, four parcels of land valued at $48,456 for water and $370,603 for sewer were purchased by the Utility from a related party and an independent appraisal was performed on each parcel of land. The parcels which are identified as Tract P, Tract G, and Tract A, and Tract 10 and 11, were acquired from Avatar Properties and/or Avatar Holdings, related companies. Public Counsel argues that when a developer's plan includes provisions for utilities necessary to serve residential and business areas, it is at that time that the land is dedicated to public use. The price which the developer pays for the utility portion of land is the amount that should be recorded on the books of the utility. The Utility's records show substantial additions to water operations land accounts in 1984 and additions to wastewater operations land accounts in 1975, 1984 and 1987. In addition, the land associated with the Utility plant in this proceeding was purchased sometime prior to 1969.

Poinciana is a planned community development in which the land was purchased and developed with the anticipation of putting in roads, street lights, shopping centers and utilities. It was intended from the very beginning of the development that utilities would be built and expanded as necessary to provide service. The existence of utility service and its availability gives increased value to the lots that are sold by Avatar Properties. This is the basis for Public Counsel's argument that the land was dedicated to public use by the developer and the appropriate cost of land to be included in rate base is the cost to the developer.

The Utility argues, however, that the recorded amounts are the land values at the time the property was dedicated to public service. Further, the Utility argues that any attempt to substitute any land value based upon "original cost to the developer" is an inappropriate, oversimplified approach to Utility accounting principles. The utility cited, in its brief, the definitions of "original cost" and "public utility" from Public Utility Economics to support its position.

However, neither these definitions, nor their source, are a part of the record.

According to late-filed Exhibit No. 10, an independent appraisal was performed on all four of these parcels of land. The report for Tracts P, G, and A was dated July 16, 1984. The report for Tracts 10 and 11 was dated May 6, 1985. Our review of these appraisal reports raises several questions. First, the appraised values of Tract G, which is detailed as Parcel 1, and Tract P, which is detailed as Parcel 3, are based on a comparable sale which was pending at the time. Therefore, the price per acre of $6,500 which was used in determining the cost was not final.

Second, the report states that both sites are slated for use as utility property, Tract G as a utility plant site and Tract P as a water supply unit. In valuing both of the "utility" sites, the appraiser stated ". . . keeping in mind our previous estimated value for a utility site and making the appropriate adjustments for its location within the overall project . . .," it does not appear the sites were valued at their highest and best use. However, it is impossible to determine that with certainty. The following table details the appraised values, recorded values, and the differences between the appraised and recorded amounts for the Tracts P and G.

Tract	Appraised Value	Recorded Value	Difference
P	$ 5,000	$19,764	$14,764
G	$24,000	$28,692	$ 4,692

Exhibit No. 10 revealed that Tract A was commercially zoned and not originally zoned as utility property. That exhibit shows that acreage sales were utilized to estimate the value. From the list of sales, it is not possible to determine whether the sale was to a related party or not. Nor is it possible to determine whether the parcel was appraised at its highest and best use. The following table details the appraised value, recorded value, and the differences in the appraised and recorded amounts for Tract A.

Tract	Appraised Value	Recorded Value	Difference
A	$136,000	$255,987	$119,987

The May 6, 1985, appraisal report included in Exhibit No. 10 addresses Tracts 10 and 11. It showed the estimated market value of this property as of May 1, 1985. From the report it appears that the land was being used for sod cultivation at that time, but was slated for the site of the sewage disposal treatment plant. It does not appear that the known fact that the land was to be used for utility purposes was taken into account in determining its highest and best use. The report states that agricultural purposes were its highest and best use. There is no evidence as to what the value of the property would be for utility use. The following table details the appraised value, recorded value, and the difference in the appraised and recorded amounts for Tracts 10 and 11.

Tract	Appraised Value	Recorded Value	Difference
10 and 11	$106,500	$114,616	$8,116

Utility Witness Reeves testified that another method which could be used to establish the valuation of land would be to adjust the original cost of the land to the developer for inflation until the year the land was dedicated to public service. As the Utility indicated in its August 18, 1989, letter submitting Late-Filed Exhibit No. 10, the Utility is experiencing a great deal of difficulty in securing some of the land cost data. On September 13, 1989, the Utility filed revised Late-Filed Exhibit No. 10 which contained the date of purchase by the affiliated company and the cost of the land acquired. The Utility calculated the cost per acre and adjusted the per acre cost by the percentage increase in the Consumer Price Index (CPI) from the date of original purchase to the year the land was placed in service by Poinciana.

A review of this supplemental data raises several questions. It appears that the Utility used the amount of documentary stamps on each deed to determine the total land costs. While we agree with the approach, the calculation cannot be verified for several reasons. The record in this case does not contain the tax rate used by the county to determine the amount of documentary stamps necessary for each transaction. In addition, the value of documentary stamps is not legible on all the deeds.

Late-Filed Exhibit No. 10 also reveals per acre costs ranging from $129.57 to $1,944.44 before adjustment for the increase in the CPI. Even with an adjustment for the percentage increase in the CPI, these costs appear much lower than the values established by the independent appraisals, which could be used as an indication of what the cost would be in an arms-length transaction. However, there is no information in the record as to what the cost per acre would be in an arms-length transaction. Additionally, the per acre costs, adjusted for the percentage increase in the CPI, appear to be unreasonably low and unrealistic for per acre costs during the time period when Poinciana purchased the land.

Although the appraisal methodologies are somewhat questionable, they are independent. Our preference has been to use independent appraisals when they exist. In every instance the recorded value is greater than the appraisal value and there was no support whatsoever to explain the difference. Based on the foregoing, we find it appropriate to reduce the recorded cost for each of the four parcels to the appraised value. It is the Utility's burden to prove that it has recorded its investment at the original cost when first devoted to public service and we do not believe that the Utility has met this burden for its recorded cost. In determining the amount of the adjustment to advances, we have used the advances portion of each parcel of land in relation to the total recorded land cost for each parcel. Therefore, we find the following adjustments to be appropriate.

	Debit	Credit
Advances - Water	$ 17,967	
Advances - Sewer	$127,634	
Common Equity	$ 1,958	
Land - Water		$ 19,456
Land - Sewer		$128,103

c) Land Purchased From a Related Party for Which No Appraisal Has Been Provided

Late-Filed Exhibit No. 10 details two land purchases from related parties for which an independent appraisal does not appear to have been performed. The parcels are identified as Tract L and Tract G. The basic arguments proposed by Public Counsel and the utility are the same for these land costs as discussed previously and will not be readdressed here. The entire cost of land is included in advances and the issue for this land is the amount which is to be included in rate base. Public Counsel further argues that even though the Utility maintained that the cost of the land is offset by advances, the Utility's rate base in this proceeding actually includes amounts for land. Right now the Utility is small in relation to its total capacity so that the effects of any inflated land values may be small. However, the effects of inflated land prices are being felt in direct proportion to the plant that is now used and useful in relation to total plant. The Utility's land cost was included in the calculation of the service availability charges and fees now in effect. Therefore, the amount of land which is included in rate base for these properties is represented by the amount of land included in the service availability charges and that were paid by the customers presently served by the Utility. Public Counsel argues that this land cost should be excluded from rate base.

The record in this case, however, does not contain the information necessary to adjust the value of these tracts of land. As previously discussed, the original cost to the developer is not known for one parcel. The Utility has calculated the cost per acre adjusted for the percentage increase in the CPI, as discussed in Section b for the other parcel. Our concerns with this calculation will not be readdressed here. In addition, the amount of land included in the $620 capital investment fee included in rate base cannot be determined from information contained in this record. A review of our order which established the service availability rates reveals that no cost information nor the calculation of the rates was included. We do not have sufficient information in this record to perform a calculation or make an adjustment on this land. Based on the existing number of customers and capacity of the system, we agree that it appears that the effect of the inflated land values is small in this case; however, the effect in future rate cases can be substantial.

We believe that the record shows that for the four parcels discussed in Section b, which were purchased from a related party, the recorded costs were higher than the appraised values by 64.79% ($271,500 appraised value divided by $419,058 recorded value). We believe it is reasonable to assume that this land, purchased from a related party without an independent appraisal, is overstated. In addition, there is no information in the record which indicates how the cost was determined. As a result, we find it appropriate to reduce land costs and advances for Tracts L and G by 64.79% for water and sewer. The following adjustments should be made.

	Debit	Credit
Advances - Water	$ 4,408	
Advances - Sewer	$112,315	
Land - Water		$ 4,408
Land - Sewer		$112,315

d) Summary Of All Land Adjustments

We find the following adjustments to land and advances for water and sewer to be appropriate.

	Water			Sewer		
	Land	Advances	Equity	Land	Advances	Equity
Rec. Cost	$68,284	$51,553		$715,420	$542,881	
1. Sec. a	0	0		0	0	
2. Sec. b	(19,456)	(17,967)		(128,103)	(127,634)	
3. Sec. c	(4,408)	(4,408)		(112,315)	(112,315)	
Total Adj.	(23,864)	(22,375)	(1,489)	(240,418)	(239,949)	(469)
Adj. Bal.	$44,420	$29,178	(1,489)	$475,003	$302,933	(469)

The above adjustments result in a net reduction to rate base of $1,489 for water and $469 for sewer.

3. Construction Work in Progress (CWIP)

All parties are in agreement as to the amount of CWIP to be included in rate base. Included in the Utility's rate base are construction-work-in-progress (CWIP) totals in the amount of $697,045 for water and $999,358 for sewer. Utility Witness Cardey stated that CWIP was included because these facilities are funded through contributions and advances, and its inclusion will have no affect on rate base. Utility Witness Reeves agreed that the minimum filing requirements (MFRs) indicate that all of this CWIP is funded or supported by advances for construction except $15,440 for water and $26,657 for sewer. This is strictly the difference in the 13-month average CWIP and 13-month average advances supporting CWIP. Public Counsel Witness Larkin recommended in his testimony that this amount of CWIP be removed from rate base, to be consistent with the general ratemaking practice of excluding CWIP from rate base.

Exhibit No. 11 details net CWIP funded by Poinciana of $9,263 for water and $30,267 for sewer. These amounts differ from the previous amounts of $15,440 and $30,267 in that the Utility, in Exhibit No. 11, included the amount of CIAC supporting CWIP. The increase in the amount of sewer CWIP not supported by advances or CIAC is due to a change in the 13-month average amount of advances supporting CWIP. The MFRs reference advances of $972,701, while the exhibit lists an average balance of $965,254. Both the Utility and the Public Counsel accept the revised amounts contained in Exhibit No. 11 and agree that CWIP should be reduced by $9,263 for water and $30,267 for sewer.

We find such a reduction to CWIP to be appropriate because it is not possible to determine the types of projects included in the category of "Other CWIP funded by PUI". These projects could add capacity and, therefore, be revenue producing, or the projects could be for existing customers, and not add capacity to the system. In addition, Mr. Reeves testified that the MFRs do not detail what projects are included in CWIP and what the dollar amount is associated with those projects. In any case, if the CWIP which is not offset by advances or CIAC is excluded from rate base, it does not appear that the revenue effect will be material. Therefore, since the revenue effect is immaterial, we do not believe that the Utility will be financially impaired by its exclusion.

4. <u>Working Capital</u>

Our policy has been to include deferred rate case expense in the working capital allowance. Deferred rate case expense represents the investment of the Utility during the pendency of the rate case which will not be recovered for several years due to amortization.

Public Counsel Witness Larkin testified that the ratepayers should not be burdened with paying a return on this item while paying the rate case expense as part of the cost of service. Utility Witness Cardey testified that our treatment of deferred rate case expense is similar to the treatment of other non-interest bearing deferred debits in the working capital calculation. In addition, he testified that this Commission has consistently included the average unamortized balance of allowed rate case expense in the working capital allowance calculation. Witness Larkin has failed to show how this Commission's policy of including deferred rate case expense in the working capital calculation is incorrect and why the treatment of deferred rate case expense should differ from the treatment of similar non-interest bearing deferred debits. As a result, we find that deferred rate case expense should be included in the working capital calculation at its average unamortized balance, consistent with our policy.

In the Utility's response to Public Counsel's Interrogatory No. 38, it detailed amortization of prior cases' rate case expense. All parties have stipulated to the amount of prior rate case expense amortization. Based on the rate case expense totals and the amortization periods, the average unamortized deferred balance which relates to the prior dockets was calculated to be $25,584.

The parties have stipulated to a four-year amortization period for the rate case expense of this rate case. The Utility estimated current rate case expense to be $45,000 (MFR page 56, allocated 50/50 to water and sewer). We believe that the evidence shows that the level of estimated rate case expense is reasonable and find its inclusion in the cost of service determination to be appropriate and that it should be amortized over the four-year period stipulated to by the parties. The average unamortized deferred balance of this rate case expense was calculated to be $22,500. This results in total average unamortized rate case expense of $48,084 to be included in the calculation of the working capital allowance.

The parties agreed that no adjustment to working capital for accrued interest payable is necessary. The company borrowed $2,750,000 from the North Carolina National Bank to fund the construction of wastewater treatment plant (WWTP) #2. The company, in turn, contracted with Avatar Properties to pay all the interest on that loan. Avatar Properties funds those interest payments by providing monies to the Utility which in turn makes the interest payment. Included in the Utility's calculation of working capital, using the balance sheet approach, is a deduction for accrued interest relating to the WWTP #2 loan. It would, therefore, be inappropriate to remove accrued interest from current liabilities in the working capital calculation unless the associated cash was also removed from current assets. Because a like amount of cash is provided, the inclusion of both amounts would result in a neutral impact.

Because we have found that the Utility had zero income tax expense in the test year, we will not include any income tax liability in its working capital allowance.

The Utility originally requested working capital allowances of $80,729 for water and $141,665 for sewer. These amounts were revised in the Utility's brief. The adjustments were to reflect deferred rate case expense, income taxes, and to remove preliminary charges as stipulated to by all parties. This results in the Utility's revised numbers of $81,065 for water and $142,454 for sewer.

Public Counsel raised two items in its brief on this point: The clearing accounts inclusion in the calculation and an offset to payables for the inclusion of maintenance fees in cash. Regarding the clearing accounts, the Utility included the clearing account in its calculation of working capital. Utility Witness Reeves testified that the clearing accounts include labor, transportation cost, purchasing, etc. However, no specific dollar amount for each type of item is given nor can we discern it from data in the record. Mr. Reeves further testified that a part of those items are capitalized, and that no payables are established for these accounts because the expense has already been paid. As a result, Public Counsel proposes an adjustment to remove the unexplained clearing accounts from the working capital calculation. For those items capitalized, the cost would be included in rate base already; however, it is not possible to determine the cost associated with the capital items. In addition, it is not possible to separate the cost associated with expense items, nor is it possible to determine which ones have been paid and how much was paid for each and the expense items which are truly waiting to be cleared. This item is not addressed by the Utility in its brief. Based on the foregoing, we agree with Public Counsel's adjustment to remove the clearing accounts from the working capital calculation.

The second item raised by Public Counsel deals with the cash balance in current assets. Mr. Reeves testified that when the maintenance fee revenue is received it is recorded in the cash account. The maintenance fees are included in above-the-line revenue. Further, the cash account is included in the working capital calculation. These fees are associated with the cost of maintaining service for those lots that have service available to them but are vacant. As a result, Public Counsel argues that the inclusion of the maintenance fees in cash without an equal amount of payables improperly increases the rate base and revenue requirement to on-line customers. Public Counsel does not recommend a specific adjustment for this item in its brief.

We disagree with Public Counsel that rate base and the revenue requirement are increased. As Mr. Reeves testified, the expenses associated with the maintenance of those lots is intermingled with all the other expenses. This is supported by several Exhibits in the record which show that maintenance costs agree dollar for dollar to the amounts per account as presented in the MFRs on pages 71 and 74. For example, water labor which is one component of the cost for maintaining all lines, per Exhibit 9 is $30,065 and page 71 of the MFRs details the total labor of transmission and distribution expense account 601 as $30,065. The expenses for maintenance of the distribution and collection system represent the total cost for currently occupied lots and vacant lots with service available to them. Additionally, the total expense for maintenance of the distribution/collection systems is $215,114 as shown on Exhibit No. 9. As a dollar of this total expense is incurred either a payable is established if it is not paid, or an outlay of cash is made. Thus the effect on working capital would be a reduction to cash, increase to payables or a combination thereof in the amount of $215,144. The amount of maintenance fees revenue generated from the vacant lots and therefore included in cash was $134,716 according to page 50 of the MFRs. In this situation, we do not believe an overstatement of rate base and the revenue requirement to existing customers can result as a result of the inclusion of cash from maintenance fee revenue. Therefore, we find no adjustment appropriate for this second item.

The following summary details our adjustments to the working capital calculation and the total final allowance we find appropriate.

	Water	Sewer
Original Company Request	$80,729	$141,665
1. Remove preliminary survey	(1,178)	(2,068)
2. Adjust deferred debit for prior rate case expense	(13,392)	(23,501)
3. Remove clearing accounts	(18,705)	(32,824)
4. Reflect current deferred rate case expense	8,168	14,352
5. Reflect deferred expense for monitoring wells	972	1,706
Commission Approved Allowance	$56,594	$ 99,330

Using a thirteen-month average and our adjustments, we find that the appropriate average rate base for the water system is $1,019,779 and for the sewer system it is $1,327,148. The schedules of water and sewer rate base are attached as Schedules Nos. 1-A and 1-B. The schedule of adjustments to rate base is attached as Schedule No. 1-C.

COST OF CAPITAL

The Utility borrowed $2,750,000 from the North Carolina National Bank (NCNB) to fund the construction of WWTP #2. The Utility, in turn, contracted with Avatar Properties, an affiliated company, to pay all interest on the loan. Utility Witness Cardey testified that the contract with Avatar Properties shifts the financial risk to the developer, where the risk belongs, and it is a sound business transaction. In this respect, the loan would appear to be cost free to the Utility, and one possible option would be to include it in the capital structure at zero cost, as recommended by Public Counsel Witness Larkin. However, the Utility has treated the loan as an advance and reduced its rate base. Mr. Cardey testified that this contract is not much different than the AFPI or guaranteed revenue charges which reimburse the company for costs incurred for future service commitments.

Public Counsel argues that, because interest payments on this loan are in fact made by Avatar Properties, a sister corporation, the proceeds of this loan are cost-free to Poinciana. Mr. Cardey stated in his prefiled direct testimony that the end product of Mr. Larkin's proposal to include this loan as cost free in the Utility's capital structure would result in a hypothetical company. Mr. Cardey conceded, however, that Avatar Properties is not included in the consolidated capital structure of Avatar Utilities, which is the capital structure proposed to be used by Poinciana in this case. Additionally, Mr. Cardey agreed, on cross-examination, that the use of Avatar Utilities' capital structure was itself a hypothetical capital structure and not that actually associated with Poinciana. As a result, Public Counsel argues that, since Avatar Properties is not a part of the consolidated entity used to determine the capital structure of this case, but is paying the interest on this loan without refund, this loan should be considered cost free capital to Avatar Utilities and its subsidiaries and accordingly reflected as cost free capital to Poinciana.

If the loan were also to be included in the capital structure at zero cost as recommended by Public Counsel, the Utility, in effect, would be penalized twice, once through rate base reduction and again through a lower rate of return. Mr. Cardey testified that reducing both rate base and cost of capital is unrealistic. We agree that the Utility would be penalized twice if the loan which has been included as an advance and used to reduce rate base, was also included in the capital structure at a zero cost. As a result, we find that the loan should be included in the capital structure at its cost of 9.5%.

The Utility has never had income tax expense in its rates, and had a negative balance in retained earnings of $1,096,306 as of October 31, 1988. There are no deferred income taxes on the books of the Utility; all net operating losses generated by Poinciana have been used by the parent company, Avatar Utilities. The related deferred taxes will not be transferred to the books of Poinciana until the retained earnings are positive, which is not expected to happen until three or four years into the future. Because we have found that the Utility had zero income tax expense the test year, we will not include deferred income taxes in the capital structure of Poinciana.

All investment tax credits (ITCs) generated by Poinciana have been used by and are reflected on the books of the parent, Avatar Utilities. When Poinciana has achieved a positive balance in retained earnings, the balance of those ITCs will be transferred to Poinciana's books. Poinciana has operated at a tax loss since it was organized. The Utility has incurred no income tax liability and so could not have used ITCs on a stand-alone basis. Therefore, we will not include any ITC balance in its capital structure.

The appropriate overall rate of return for this utility is derived as shown on Schedule No. 2-A. Our adjustments to the capital structure are shown on Schedule No. 2-B. Based on the previous decisions, we find that the appropriate overall rate of return should be determined using the Utility's adjusted capital structure and each item reconciled on a pro rata basis. This results in an overall rate of return of 11.58% with a range of 11.20% to 11.96%.

NET OPERATING INCOME

1. Major Maintenance

The Utility has included in test year expenses the accrued amount of expense for major maintenance of the water and sewer systems. The Utility did make an adjustment to reduce the accrued amount of sewer maintenance expense on the collection facilities by $19,589. Even with this adjustment, the accrued amounts exceed the actual expense levels by $5,459 for water and $39,587 for sewer. Utility Witness Cardey indicated that the Utility does not perform a "true-up" adjustment to adjust accrued maintenance to actual maintenance expenses for the test year.

Public Counsel Witness Larkin proposes to reduce the Utility's estimated (accrued) expenditures to the actual expense incurred during the test year to be consistent with the treatment of major maintenance expense in the last case. Further, Public Counsel argues, based on the filing and the Utility's response to Public Counsel Interrogatory No. 48, that an additional reduction of $4,084 to sewer major maintenance is necessary. This additional amount appears to be due to the discrepancy in the two amounts stated as the actual amount spent for source/collection for the test year ended October 31, 1988. Page 57 of the MFRs indicates the actual amount to be $42,764, while Mr. Cardey testified the actual amount was $23,388.

Exhibit No. 9 indicates that in all maintenance categories except sewer pumping, the actual expense incurred for the test year is less than the accrued amount. In addition, the schedule indicates that the accrued test year levels are more than the average amount accrued for 1984 through 1988 in all categories except sewer pumping. Further, the actual test year expense levels are less or in line with the average 1984 through 1988 actual expense levels in all categories except sewer treatment. A comparison of the annual amounts for each year subsequent to the last rate case (1983 test year) indicates that both the actual and accrued amounts for 1987 appear to be significantly higher than the totals for all other years from 1984 to 1988.

Utility Witness Reeves testified that the function of establishing rates on a test year basis was mainly a synchronization of revenues, operating cost to produce these revenues, and Utility plant to provide the service that produces the revenues. Major maintenance is not an expense item that is the same year in and year out. The Utility sets up an accrual to provide for the funds to do the work on such a cycle. Witness Reeves further testified that sound maintenance programs are fundamental to the Utility's operations and that the programs permit it to maintain its facilities in a state of readiness to provide a high level of service to its customers over the "long haul". Mr. Reeves argued that Mr. Larkin's theory would synchronize the maintenance schedule with a rate case, and would result in the full cost of maintenance being included in cost of service. Mr. Reeves believes this to be a poor business practice and unfair to the consumer.

We addressed this issue in the Utility's last rate case. In that case, we made an adjustment to reduce the accrued major maintenance expense to the actual levels for the test year. Based on the foregoing, we find that the actual test year levels for major maintenance are representative and in line with the Utility's actual maintenance expenses for the past five years, and to include the accrued amounts in cost of service determination would result in an overstatement of the expenses and rates. As a basis for the adjustment, we utilize Schedule Rev - 4, of Composite Exhibit No. 9. This schedule details the actual and accrued amounts for major maintenance expense for all categories. The schedule agrees with the amount Mr. Cardey represented as accrued for sewer collection/source maintenance of $61,589. However, the actual amount was detailed as $27,472 which does not agree to either the amount listed on page 57 of the MFRs or in the response to Interrogatory 48. All other amounts agree 100% to the amounts listed in the MFRs, therefore, we believe the $27,472 amount to be correct and the adjustment will be based on these totals. Therefore, we find that major maintenance and O & M expenses must be reduced by $5,459 for water and $20,098 for sewer. The following schedule summarizes our adjustments.

	Water	Sewer
Major Maintenance Accrued	$7,663	$83,507
Company Adjustment	0	(19,589)
Adjusted Major Maint. Accrued	$7,663	$63,918
Actual Major Maint. Expense	2,204	43,820
Excess over Actual to Disallow	$5,459	$20,098

2. Payroll Increases

The Utility has included a pro forma adjustment for payroll increases of 5.6% for 1988 and 5.2% for 1989. Public Counsel Witness Larkin testified that these payroll expense increases are rightfully a component of rate indexing adjustments, which are awarded to utilities to keep their rates commensurate with price indexes. He further testified that the Utility was recently authorized an indexing increase by this Commission in Order No. 19895, issued August 30, 1988, and to avoid duplicate increases in rates for this item, he recommends removing the 1988 payroll increase. Mr. Larkin also recommends removing the 1989 payroll expense adjustment since this increase is outside of the test year and should be a component of an indexing adjustment.

The index increase acknowledged by Order No. 19895, was a 1988 index based on a 1987 test year. The increase to expenses as a result of the 1988 index have not been recognized in this rate case because actual 1988 expenses are being used in this rate case. This, in effect, will nullify the 1987 index increase when the rate case rates are implemented, because they are based on true 1988 amounts. If an adjustment was made in the rate case to reflect the increase to expenses as a result of the index increase, and the pro forma adjustment to salary was made, the Utility would in fact recover twice the 1988 increase. This, however, has not been done. The 1988 salary increase proposed by the Utility would be addressed by a 1989 index application. The 1989 salary increase proposed by the Utility (to be implemented at the end of 1989) would be addressed by a 1990 index application. In any case, the increase can either be addressed in the rate case or through the index applications. If the pro forma increase is granted in the rate case, that rate case adjustment would be taken into account and would be adjusted in the index applications so that the utility does not recover the salary increases twice.

When asked whether the Utility would refrain from filing for the 1989 and 1990 price index increases, Mr. Reeves stated that he would have to look at it a little closer. Because the increases may be recovered through an index application, we find it appropriate that the pro forma increases be disallowed in the rate case. As a result, salaries and wages should be decreased by $4,917 for water and $6,731 for sewer, and taxes other than income should be decreased by $392 for water $517 for sewer.

3. Miscellaneous Expense

The Utility included a test year miscellaneous expense of $5,355 for seven well samples for primary and secondary analyses for the initial sampling of the monitoring wells at WWTP #2. The entire cost of the sampling was included in test year expenses. Despite its nonrecurring nature, it is unknown at this time if additional sampling will be required, and with increasing regulations, the possibility of additional sampling becomes likely. In response to Staff Interrogatory No. 36, the Utility indicated that an amortization period of three years would be more realistic. We find this expense to be prudent and that the expense should be amortized. As a result, we find it appropriate that the $5,355 expense for the initial sampling of the monitoring wells at WWTP #2 be amortized over three years. This results in a reduction to sewer O&M expenses of $3,570. The average deferred balance of $2,678 should be included in the working capital calculation.

4. Unaccounted for Water

Unaccounted for water is water from a source into a distribution system which is not delivered to the customers or otherwise accounted for. The Utility produced 361,202,000 gallons of water during the test year, but sold only 233,815,000 gallons. The remaining 127,387,000 gallons (35.3%) was considered a combination of Utility use (19.0%) and unaccounted for water (16.3%). The Utility's response to Staff Interrogatory #37 indicated a total Utility usage of 68,700,000 gallons during the test year. The Utility usage is further broken down to 52,250,000 gallons for line flushing and 16,450,000 gallons for wastewater treatment plant and miscellaneous uses.

The water lines in Poinciana's service area have been oversized for the existing customers to take care of future customers. The lines need to be flushed more often than usual to sustain the required chlorine residual. If the lines are not flushed, the residual is depleted due to lack of circulation caused by the size of the pipe and the low number of customers. At the hearing, Utility Witness Cardey stated that the expenses associated with the flushing should be charged to the empty lots.

We agree and, therefore, we have included an adjustment of $9,692 to be charged to the maintenance fee to recover expenses associated with this flushing. The adjustment was calculated by using the ratio of line flushing to the total gallons produced (52,250,000/361,202,000 = 14.5%), and applying that percentage to related electrical, chemical and labor expense accounts. Labor in the Transmission and Distribution account was used based on the assumption that labor from that account was necessary to perform the actual line flushing. The remaining unaccounted for water losses amount to 58,690,000 gallons or 16.3%. We find this quantity excessive and that only 10% unaccounted for water is appropriate. This results in a reduction of 6.3%, or $2,316, to expenses associated with the treatment and production of water.

The sewer system has similar problems with excessive infiltration and inflow. Infiltration is the quantity of groundwater that leaks into a pipe through joints, porous walls or breaks. Inflow is usually surface water run-off that enters in the collection system through manholes, lift stations, etc. Consistent with our earlier adjustment for unaccounted for water, we find an adjustment for excessive infiltration to be appropriate. Therefore, we will reduce sewer power and chemical expenses by $8,372. The quantity of sewage treated during the test year was 268.0 million gallons (mg.). The water sold and used by the treatment plants totalled 250.265 mg. It is obvious that the Utility treated more sewage (268.0/250.265 = 107.1%) than the water sold or used by the plants.

In response to Staff interrogatories, the Utility provided an analysis of allowable infiltration rates based on the lengths and sizes of all active pipes in its collection system. The allowable infiltration rate was calculated at 26.0 mg per year. The Utility then argued that the adjusted percentage of sewage treated to water sold or consumed (268.0-26.0)/250.3 = 97%) was not excessive.

We believe that the methodology used by the Utility in calculating the allowable infiltration rate of 26.0 mg. per year is reasonable. However, we believe the costs to treat this infiltration should be charged to the maintenance fee based on the same philosophy used on the water system. Construction of individual homes within Poinciana's service area has been somewhat scattered based on the lot owners determination of the appropriate time to build. This practice has necessitated the construction of long gravity sewer collection lines to service only a few residential homes. The Utility has included 655,993 lineal feet of active collection lines in its allowable infiltration rate calculation. Due to the enormous collection system, we find it appropriate to charge the vacant lots as well as the existing customers for this infiltration.

We find an adjustment of $7,734 to be charged to the maintenance fee to be appropriate to recover expenses associated with this allowable infiltration rate. This adjustment was calculated by using the ratio of the allowable infiltration rate to the total wastewater treated (26.0/268.0 = 9.7%), and applying that percentage to related electrical and chemical expense accounts.

In consideration of the above, we find it appropriate to require that the expenses used to develop the maintenance fee be increased by $9,692 for water expenses and $7,734 for sewer expenses due to excessive flushing of mains and infiltration.

5. Benchmark Test

It is our policy to apply the benchmark test in water and sewer rate cases to examine the reasonableness of the Utility's requested test year expenses. The benchmark analysis essentially compares requested expenses with those approved in the Utility's last rate case as adjusted for growth and inflation. This test is a tool which provides an objective method for analyzing the reasonableness of the requested expenses. An adjustment based on the benchmark is made to reduce the requested expenses when the Utility cannot satisfactorily justify why the requested levels exceed the expenses approved in the last rate case, adjusted for customer growth and inflation.

Public Counsel Witness Larkin performed an analysis of expenses based on account grouping (source, pumping, treatment, etc.). In addition, a review of his revised calculation attached to Public Counsel's brief reveals that he failed to remove chemical expense from his sewer plant operating and maintenance (O&M) analysis. Consistent with Commission policy, this account should be excluded from the analysis since it is subject to external factors other than growth and inflation. Another problem with Mr. Larkin's analysis results from the

1984 revision of the Uniform System of Accounts. As Mr. Cardey testified, this revision resulted in differences in how accounting data is classified, and these differences in accounting make comparisons between past and present accounts difficult. As a result, Mr. Cardey testified that an analysis based on total expenses less power, chemicals and other such expenses would be appropriate. Mr. Cardey prepared a benchmark analysis with his supplemental rebuttal testimony. This analysis, performed on a total expense basis, shows that the present level of expenses is less than the benchmark expenses. As a result of the 1984 revision to the NARUC Chart of Accounts, we believe a benchmark analysis based on total O&M expenses less those expenses subject to external factors other than growth and inflation is more appropriate than an account or account grouping analysis. We have reviewed the analysis prepared by Mr. Cardey and agree with the calculation and its results. Test year expenses are less than the benchmark expenses and an adjustment is not necessary.

Public Counsel Witness Larkin testified that based on the MFRs the company charges Accounts 633/733 - Contractual Services - Legal with $166 for water and $234 for sewer amount each month. However, for the months of November and December, unusually high amounts ($731 and $800, respectively for water account 633 and $930 and $1,018, respectively for sewer account 733) were charged to both of these accounts. Mr. Larkin testified that the November and December charges are obviously abnormal when compared to the "standard" charges to these accounts. In addition to being abnormally high, it is possible that these legal costs are related to one or more of the Utility's rate filings, in which case they would be given consideration as part of rate case expense, or to some other unusual occurrence. As a result, Mr. Larkin recommends disallowance of the excess over the normal monthly charge.

Mr. Cardey testified that the excess legal costs of $1,199 ($731 + $800 less $166 x 2 months) and $1,480 ($930 + $1,018 less $234 x 2 months) are a part of the Utility's overall cost and should be included in cost of service. The Utility did not provide any explanation for the higher charges in those two months. As a result, we agree with Public Counsel and find that the excess expense over the normal monthly charges should be disallowed. This reduces water expenses by $1,199 and sewer expenses by $1,480.

The Utility estimated current rate case expense to be $45,000. We analyzed the estimate and believe it is a reasonable amount for a case set straight for hearing, especially in light of the number of interrogatories and requests for production of documents sent by Public Counsel alone. We believe that the level of estimated rate case expense is reasonable and find it appropriate to authorize its inclusion in the cost of service determination amortized over the four-year period stipulated to by the parties.

Based on all the foregoing O & M expense adjustments, we find the appropriate total test year level of O & M expenses for the water system to be $285,298 and for the sewer system to be $462,455. A detailed breakdown of the account balances is shown on Schedules Nos. 4 and 5.

6. Regulatory Assessment Fee

Poinciana's water and sewer systems cross county lines. The Commission has jurisdiction over the Osceola County operations; however, the Polk County revenue is not subject to the 2 1/2% regulatory assessment fee. Utility Witness Reeves testified that the Utility erred in its calculation of regulatory assessment fees that would be required for the requested increase in revenues by utilizing a full 2-1/2% factor. Consistent with our decision in Poinciana's last rate case, a reduced factor is needed which takes into account that no regulatory assessment fees would be assessed on Polk County revenues. Therefore, we find a new reduced factor of 1.73%, based on estimated regulatory assessment fees on Osceola County revenue and the total proposed revenue requirement, to be appropriate. Total taxes other than income are detailed on Schedules Nos. 6 and 7.

7. Income Tax Expense

The Utility requested income tax expense of $26,631 for water and $34,872 for sewer. In his rebuttal testimony and under cross examination, Mr. Cardey stated that, for purposes of income taxes, the Utility should be treated as if it were a stand-alone entity paying taxes on its own return. He also agreed that, if it had been filing tax returns on its own, the Utility would probably never have had positive taxable income and would now have a tax loss carryforward available. Utility Witness Miller testified that the Utility has always operated at a tax loss. Avatar Holdings, Inc., the holding company, had net operating loss (NOL) carryforwards and ITC carryforwards in both 1986 and 1987, and anticipates additional losses as of December 31, 1988.

Poinciana has had no income tax expense on its books, having operated at a loss in every year since 1972. As of October 31, 1988, the balance of retained earnings was negative $1,096,306. All tax losses and ITC generated by Poinciana have been used by the parent, Avatar Utilities. However, Poinciana has received no benefit for that use, and will not until Poinciana achieves a positive level of retained earnings. Based on the August, 1988 budget, retained earnings will not reach a positive level for another three or four years, well beyond the test period for this case. Until that time, any income tax liability incurred by Poinciana will be paid by Avatar Utilities.

Mr. Cardey argued that disallowing income tax expense would make earnings more volatile by providing no cushion to absorb possible future increases in expenses. Income tax expense is allowed in rates, however, to cover actual tax expense of the utility. In a case such as this, where all tax expense is offset by loss carryforwards, there is no income tax expense to recover. Therefore, we find that income tax expense for the test year should be zero.

A parent debt adjustment is only made when income tax expense is allowed. Based on our finding that the utility had zero income tax expense, a parent debt adjustment is not appropriate. An ITC interest synchronization adjustment is only made for an Option 2 company with income tax expense and with ITCs in the capital structure. Therefore, such an adjustment is not appropriate in this proceeding. Obviously, because of the zero ITC balance in the capital structure, there will be no amortization of any ITC balance. Also, there will be no excess deferred tax adjustment because there is no deferred tax balance.

WILDERNESS DEVELOPMENT

On January 30, 1986, Poinciana and Tru-Bilt Construction, Inc., The Wilderness/Joint Venture (Tru-Bilt) entered into a service and central plant agreement. The service agreement was executed and the lines in Phase I were donated to Poinciana. The lines which serve Phase II have not been conveyed to

Poinciana, and it is not clear from the record whether the lines are to be conveyed to Poinciana.

Until July 12, 1988, Poinciana operated a temporary water treatment plant. In accordance with the central plant agreement, the plant was to be conveyed to Poinciana, however, as a result of the new law regarding tax on CIAC, the developer refused to convey the central plant. On March 21, 1989, Poinciana filed a complaint against Tru-Bilt in the Circuit Court of the Ninth Judicial Circuit, in and for Osceola County, Florida, Case No. 89-704. The issue of ownership of the central plant and appurtenances is currently in court; however, no decision has been made yet.

As testified to by several customers and Mr. Reeves, the Wilderness Homeowner's Association has been operating and incurring the expenses for the central plant and the lines in Phase II. The central plant provides water to the total subdivision - Phase I and II. However, these customers are billed the full customer rate by Poinciana. From testimony at the hearing, it appears that the only service the customers in Phase II are receiving is billing. The customers in Phase I appear to receive line maintenance and billing service.

For three months during the test year (August, 1988 through October, 1988) Poinciana billed these customers the full rate even after Poinciana discontinued operating and incurring any expense associated with the plant in July, 1988. We believe Poinciana should be reimbursed for the services it provides to the Wilderness customers. However, full rate billing to the Wilderness customers is not appropriate based on the special circumstances surrounding the ownership issue of the central plant and the lines in Phase II. Poinciana is not currently incurring an expense in these areas and may not in the future depending on the outcome of the litigation in court.

As a result of this issue being raised at the hearing and the majority of the technical information being received in a late-filed exhibit, we do not have sufficient detail on costs or billing to determine the appropriate rates to bill this group of customers. In addition, a final determination is contingent upon the outcome of the ownership litigation. Therefore, we find it appropriate to require that all monthly service rates and service availability charges to customers in the Wilderness Development be placed in a joint, interest bearing escrow account. We will initiate a separately docketed investigation which will to address possible show cause proceedings concerning the operation and certification of the water treatment plant within the development. In addition, we do not know the exact services provided to these customers by their homeowners' association or the amount charged to the customers by the association. Based on the limited information we have at this time, we are not in a position to determine the appropriate rates for these customers.

REVENUE REQUIREMENT

The appropriate revenue requirement for a utility results from our independent consideration of its rate base, its cost of capital, and its operating expenses. Based upon the adjustments discussed above, we find that the annual revenues required by this Utility are $473,279 for the water system and $732,636 for the sewer system. This amounts to an increase of $72,259 for water and $144,226 for sewer. This results in an increase of 14.38% and 28.06% in existing water and sewer rates, respectively, when applied as an across the board increase to total revenues, excluding miscellaneous and maintenance fee revenues. These revenues are designed to give the utility an opportunity to earn the approved overall rate of return of 11.58%.

RATES

We find it appropriate to approve rates for this Utility designed to allow it the opportunity to generate $473,279 and $732,636 in annual operating revenues for water and sewer, respectively. The utility's current and requested rates and the Commission approved rates are shown on Schedules Nos. 8 and 9. The approved maintenance fees, which shall be effective thirty days from the stamped approval date on the revised tariff sheets, are shown on Schedule No. 10.

The approved rates shall be implemented for meter readings on or after thirty days from the stamped approval date on the revised tariff sheets, subject to the Utility's filing revised tariff sheets, our approval of those tariff sheets, and a proposed notice to the customers notifying them of the approved increase.

POST-HEARING ISSUES

The Public Counsel raised two issues in its brief that we find it inappropriate to act on because the Utility had no prior notice and, therefore, no opportunity to address. The first such issue was "Does the Utility keep its books consistent with the Uniform System of Accounts?" and the second issue was "Is it necessary for Poinciana to "purchase" an investment of $620 per ERC as customers connect to its system to satisfy our policy of having assets supported by no more than 75% CIAC and 25% investment?"

PUBLIC COUNSEL'S PROPOSED FINDINGS OF FACT

Based on our foregoing analysis and decisions, we find it appropriate to adopt the Public Counsel's Proposed Findings of Fact for the following Issues as indicated below.

Issue 1, Is the quality of service provided by Poinciana Utilities, Inc., satisfactory?, Findings of Fact Nos. 1-11

Issue 2, What used and useful adjustments are necessary in this case?, Findings Nos. 1, 2, 4-6, 8-11

Issue 3, Is an adjustment for land included in the water and sewer rate bases necessary?, Findings Nos. 2-21

Issue 6, Is an adjustment to remove accrued interest from the working capital calculation necessary?, Findings Nos. 1, 2

Issue 8, What is the appropriate working capital allowance?, Finding No. 1

Issue 10, Should the balance of the loan for Wastewater Treatment Plant #2 be considered cost free to the utility?, Findings Nos. 1-3

Issue 14, Should test year operation and maintenance (O & M) expenses for major maintenance be adjusted?, Findings Nos. 1-4, 6, 7

Issue 16, Is an adjustment necessary to expenses as a result of unaccounted for water and/or infiltration?, Findings Nos. 1-10

Issue 21, What is the appropriate amount of income tax expense for the test year?, Issue 22, Should a parent debt adjustment be made in this case?, Issue 23, What is the

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appropriate amount of the ITC interest synchronization adjustment?, Issue 24, What is the appropriate amount of ITC amortization in the test year?, Issue 25, What is the appropriate excess deferred tax adjustment?, Findings Nos. 1-5

New Public Counsel Post-Hearing Issue 28, Is it necessary for Poinciana to "purchase" an investment of $620 per ERC as customers connect to its system to satisfy the Commission's policy of having assets supported by no more than 75% CIAC and 25% investment?, Findings Nos. 1-3

New Public Counsel Post-Hearing Issue 29, Should salary increases be allowed in the Utility's filing? (This issue was originally identified in the Citizens' prehearing statement but was omitted from the prehearing order. It was addressed through direct testimony of witnesses and on cross-examination), Findings Nos. 1, 2

However, we find it necessary to deny the Proposed Findings of Fact set out below for the reasons set forth.

Issue 1, Finding No. 12 - We reject this Finding because the Public Counsel reaches a conclusion that the quality of service of this Utility is less than satisfactory. We have already set out a complete discussion of why we find this Utility's quality of service to be satisfactory.

Issue 2, Findings Nos. 3, 7 - We reject these Findings because, although there is conflicting testimony in the record, the Utility does not admit that its approach to used and useful is without regard to plant capacity and demands and such a conclusion is not compelled by the record.

Issue 3, Finding No. 1 - We reject this Finding. It represents Mr. Larkin's opinion as testified to on page 282 of the transcript. However, we do not agree that land is devoted to public use when the developer's plan sets it aside and that the developer's cost is the price that should be recorded on the utility's books. The Utility was asked to provide in a late-filed exhibit when each parcel was utilized for the customers. Late-Filed Exhibit No. 10 indicates dates much later than the developer's purchase date in most cases. The time when land is utilized is the more appropriate indication of when it was dedicated to public service. We also believe that the more appropriate measure of the cost is that achieved in an arms-length transaction.

Issue 10, Finding No. 4 - We reject this Finding for the reasons set out earlier in this Order. To include the balance of the loan for wastewater treatment plant number 2 as cost free in the Utility's capital structure and to treat it as a reduction to the Utility's rate base penalizes the Utility twice.

Issue 14, Finding No. 5 - We reject this Finding because it is not clearly supported by the record.

Issue 16, Finding No. 11 - We reject this Finding because it represents conclusions and calculations by Public Counsel that are not explicitly set out in the record.

Issue 28 (or Issue 26C in our Staff's Recommendation), Findings Nos. 4, 5 - We reject these Findings for the reasons set out earlier in this Order.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that the application of Poinciana Utilities, Inc., for an increase in its water and sewer rates to its customers in Osceola County, Florida, is granted to the extent set forth in the body of this Order. It is further

ORDERED that the utility shall charge the approved final water and sewer rates set forth in the body of this Order. It is further

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

ORDERED that the maintenance charges approved herein shall be effective thirty days after the stamped approval date on the revised tariff sheets. It is further

ORDERED that Poinciana Utilities, Inc., shall escrow all monthly service revenue and service availability charges collected from customers in the Wilderness Development until the completion of the separately docketed investigation of that situation. It is further

ORDERED that the utility shall notify each customer of the new rates and charges approved herein and explain the reasons therefore. The form of such notice and explanation shall be submitted to the Commission for its prior approval. It is further

ORDERED that an investigation shall be initiated in a separate docket to determine the appropriate billing for the customers in the Wilderness Development and to determine the appropriateness of any show cause proceedings related to that situation. It is further

ORDERED that Poinciana Utilities, Inc., is hereby fined $2,500 for the violation of the Commission's Rules and the Order Establishing Procedure in this matter regarding the provision of notice to its customers of this rate increase application and of the specific dates of the hearing. It is further

ORDERED that Poinciana Utilities, Inc., shall pay this fine within 15 days of the date of this Order. It is further

ORDERED that each of the specific findings of fact and conclusions of law contained in the body of this Order are approved and ratified in every respect. It is further

ORDERED that all matters contained herein and 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 upon the submission, and our approval, of revised tariff sheets reflecting our decisions herein, this docket may be closed.

By ORDER of the Florida Public Service Commission this 9th day of NOVEMBER, 1989.

Steve Tribble

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

SFS

461-A

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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POINCIANA UTILITIES, INC
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDED 10/31/88

SCHEDULE NO. 1-A
DOCKET NO. 881503-WS

COMPONENT	(A) AVERAGE TEST YEAR PER UTILITY	(B) ADJUSTMENTS TO THE TEST YEAR	(C) ADJUSTED TEST YEAR	(D) PRO FORMA ADJUSTMENTS	(E) PRO FORMA TEST YEAR
UTILITY					
UTILITY PLANT IN SERVICE	$ 9,080,455	$	$ 9,080,455	$	$ 9,080,455
LAND	68,284		68,284		68,284
CONSTRUCTION WORK IN PROGRESS	697,045	(9,263)	687,782		687,782
C.I.A.C.	(1,963,553)	(10,389)	(1,973,942)		(1,973,942)
ACCUMULATED DEPRECIATION	(395,170)	(20,285)	(415,455)	(9,100)	(424,555)
AMORT OF C.I.A.C. AND ADVANCES	214,003	65,181	279,184		279,184
ADVANCES FOR CONSTRUCTION	(6,752,534)		(6,752,534)		(6,752,534)
WORKING CAPITAL ALLOWANCE	80,729	336	81,065		81,065
RATE BASE	$ 1,029,259	$ 25,580	$ 1,054,839	$ (9,100)	$ 1,045,739

COMPONENT	(A)	(B)	(C)	(D)	(E)
COMMISSION					
UTILITY PLANT IN SERVICE	$ 9,080,455	$	$ 9,080,455	$	$ 9,080,455
LAND	68,284	(23,864)	44,420		44,420
CONSTRUCTION WORK IN PROGRESS	697,045	(9,263)	687,782		687,782
C.I.A.C.	(1,963,553)	(10,389)	(1,973,942)		(1,973,942)
ACCUMULATED DEPRECIATION	(395,170)	(20,285)	(415,455)	(9,100)	(424,555)
AMORT OF C.I.A.C. AND ADVANCES	214,003	65,181	279,184		279,184
ADVANCES FOR CONSTRUCTION	(6,752,534)	22,375	(6,730,159)		(6,730,159)
WORKING CAPITAL ALLOWANCE	80,729	(24,135)	56,594		56,594
RATE BASE	$ 1,029,259	$ (380)	$ 1,028,879	$ (9,100)	$ 1,019,779

COMPONENT	(A)	(B)	(C)	(D)	(E)
CITIZENS					
UTILITY PLANT IN SERVICE	$ 9,080,455	$	$ 9,080,455	$	$ 9,080,455
LAND	68,284		68,284		68,284
CONSTRUCTION WORK IN PROGRESS	697,045	(9,263)	687,782		687,782
C.I.A.C.	(1,963,553)	(10,389)	(1,973,942)		(1,973,942)
ACCUMULATED DEPRECIATION	(395,170)	(20,285)	(415,455)	(9,100)	(424,555)
AMORT OF C.I.A.C. AND ADVANCES	214,003	65,181	279,184		279,184
ADVANCES FOR CONSTRUCTION	(6,752,534)		(6,752,534)		(6,752,534)
WORKING CAPITAL ALLOWANCE	80,729	(42,562)	38,167		38,167
RATE BASE	$ 1,029,259	$ (17,318)	$ 1,011,941	$ (9,100)	$ 1,002,641

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POINCIANA UTILITIES, INC
SCHEDULE OF SEWER RATE BASE
TEST YEAR ENDED 10/31/88

SCHEDULE NO. 1-B
DOCKET NO. 881503-WS

	COMPONENT	(A) AVERAGE 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	$ 19,925,082	$ 31,232	$ 19,956,314	$	$ 19,956,314
4	LAND	746,653	(31,232)	715,421		715,421
5	CONSTRUCTION WORK IN PROGRESS	999,358	(30,267)	969,091		969,091
6	C.I.A.C.	(3,705,393)	(5,590)	(3,710,983)		(3,710,983)
7	ACCUMULATED DEPRECIATION	(597,610)	17,058	(580,552)	(13,142)	(593,694)
8	AMORT OF C.I.A.C. AND ADVANCES	397,260	59,438	456,698		456,698
9	ADVANCES FOR CONSTRUCTION	(16,564,560)		(16,564,560)		(16,564,560)
10	WORKING CAPITAL ALLOWANCE	141,665	589	142,254		142,254
11						
12						
13	RATE BASE	$ 1,342,455	$ 41,228	$ 1,383,683	$ (13,142)	$ 1,370,541
14						
15	COMMISSION					
16						
17	UTILITY PLANT IN SERVICE	$ 19,925,082	$ 31,232	$ 19,956,314	$	$ 19,956,314
18	LAND	746,653	(271,650)	475,003		475,003
19	CONSTRUCTION WORK IN PROGRESS	999,358	(30,267)	969,091		969,091
20	C.I.A.C.	(3,705,393)	(5,590)	(3,710,983)		(3,710,983)
21	ACCUMULATED DEPRECIATION	(597,610)	17,058	(580,552)	(13,142)	(593,694)
22	AMORT OF C.I.A.C. AND ADVANCES	397,260	59,438	456,698		456,698
23	ADVANCES FOR CONSTRUCTION	(16,564,560)	239,949	(16,324,611)		(16,324,611)
24	WORKING CAPITAL ALLOWANCE	141,665	(42,335)	99,330		99,330
25						
26						
27	RATE BASE	$ 1,342,455	$ (2,165)	$ 1,340,290	$ (13,142)	$ 1,327,148
28						
29	CITIZENS					
30						
31	UTILITY PLANT IN SERVICE	$ 19,925,082	$ 31,232	$ 19,956,314	$	$ 19,956,314
32	LAND	746,653	(31,232)	715,421		715,421
33	CONSTRUCTION WORK IN PROGRESS	999,358	(30,267)	969,091		969,091
34	C.I.A.C.	(3,705,393)	(5,590)	(3,710,983)		(3,710,983)
35	ACCUMULATED DEPRECIATION	(597,610)	17,058	(580,552)	(13,142)	(593,694)
36	AMORT OF C.I.A.C. AND ADVANCES	397,260	59,438	456,698		456,698
37	ADVANCES FOR CONSTRUCTION	(16,564,560)		(16,564,560)		(16,564,560)
38	WORKING CAPITAL ALLOWANCE	141,665	(74,690)	66,975		66,975
39						
40						
41	RATE BASE	$ 1,342,455	$ (34,051)	$ 1,308,404	$ (13,142)	$ 1,295,262
42						

POINCIANA UTILITIES, INC
EXPLANATION OF THE ADJUSTMENTS TO
WATER RATE BASE SCHEDULE NO. 1-A

DOCKET NO. 881503-WS
SCHEDULE 1-C
PAGE 1 OF 4

ADJUSTMENT	(A) UTILITY	(B) COMMISSION	(C) CITIZENS
LAND			
CORRECTIVE ADJUSTMENTS			
1. Reduce land costs to appraised value for property purchased from an affiliate.	$ 0	$ (23,864)	$ 0
TOTAL CORRECTIVE ADJUSTMENTS	$ 0	$ (23,864)	$ 0
CONSTRUCTION WORK IN PROGRESS			
1. Remove CWIP not supported by CIAC/advances.	$ (9,263)	$ (9,263)	$ (9,263)
TOTAL ADJUSTMENT TO CONSTRUCTION WORK IN PROGRESS	$ (9,263)	$ (9,263)	$ (9,263)
CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION			
CORRECTIVE ADJUSTMENTS			
1. Adjustment to reflect gross CIAC not reduced by income taxes.	$ (10,389)	$ (10,389)	$ (10,389)
TOTAL CORRECTIVE ADJUSTMENTS	$ (10,389)	$ (10,389)	$ (10,389)
ACCUMULATED DEPRECIATION			
CORRECTIVE ADJUSTMENTS			
1. Record adjustment per Order 15796 Audit Exception No. 1. STIPULATION	$ (20,285)	$ (20,285)	$ (20,285)
TOTAL CORRECTIVE ADJUSTMENTS	$ (20,285)	$ (20,285)	$ (20,285)
PRO FORMA ADJUSTMENTS			
2. Adjust reserve for pro forma adjustment to depreciation expense. STIPULATION	$ (9,100)	$ (9,100)	$ (9,100)
TOTAL PRO FORMA ADJUSTMENTS	$ (9,100)	$ (9,100)	$ (9,100)

POINCIANA UTILITIES, INC
EXPLANATION OF THE ADJUSTMENTS TO
WATER RATE BASE SCHEDULE NO. 1-A

DOCKET NO. 881503-WS
SCHEDULE 1-C
PAGE 2 OF 4

ADJUSTMENT	(A) UTILITY	(B) COMMISSION	(C) CITIZENS
AMORT. OF C.I.A.C. AND ADVANCES			
CORRECTIVE ADJUSTMENTS			
1. Adjustment to reflect amortization on reduction to CIAC for taxes.	$ 2,882	$ 2,882	$ 2,882
2. Record adjustment per Order 15796 Audit Exception No. 3. STIPULATION	62,299	62,299	62,299
TOTAL CORRECTIVE ADJUSTMENTS	$ 65,181	$ 65,181	$ 65,181
ADVANCES FOR CONSTRUCTION			
CORRECTIVE ADJUSTMENTS			
1. Reduce land costs to appraised value for property purchased from an affiliate.	$ 0	$ 22,375	$ 0
TOTAL CORRECTIVE ADJUSTMENTS	$ 0	$ 22,375	$ 0
WORKING CAPITAL ALLOWANCE			
CORRECTIVE ADJUSTMENTS			
1. Reflect average deferred debit for well monitoring expense.	$ 0	$ 972	$ 0
2. Remove preliminary survey charges. STIPULATION	(1,178)	(1,178)	(1,178)
3. Reflect federal and state income taxes.	(6,158)	0	0
4. Adjust/remove deferred debit for prior rate case expense.	0	(13,392)	(22,679)
5. Remove clearing accounts.	0	(18,705)	(18,705)
6. Reflect deferred debit for current rate case expense.	7,672	8,168	0
TOTAL ADJUSTMENT TO THE ALLOWANCE FOR WORKING CAPITAL	$ 336	$ (24,135)	$ (42,562)

POINCIANA UTILITIES, INC
EXPLANATION OF THE ADJUSTMENTS TO
SEWER RATE BASE SCHEDULE NO. 1-B

DOCKET NO. 881503-WS
SCHEDULE 1-C
PAGE 3 OF 4

ADJUSTMENT	(A) UTILITY	(B) COMMISSION	(C) CITIZENS
UTILITY PLANT IN SERVICE			
CORRECTIVE ADJUSTMENTS			
1. Correct plant misclassification Audit Exception No. 2. STIPULATION	$ 31,232	$ 31,232	$ 31,232
TOTAL CORRECTIVE ADJUSTMENTS	$ 31,232	$ 31,232	$ 31,232
LAND			
CORRECTIVE ADJUSTMENTS			
1. Correct plant misclassification Audit Exception No. 2. STIPULATION	$ (31,232)	$ (31,232)	$ (31,232)
2. Reduce land costs to appraised value for property purchased from an affiliate.	0	(240,418)	0
TOTAL CORRECTIVE ADJUSTMENTS	$ (31,232)	$ (271,650)	$ (31,232)
CONSTRUCTION WORK IN PROGRESS			
1. Remove CWIP not supported by CIAC/advances.	$ (30,267)	$ (30,267)	$ (30,267)
TOTAL ADJUSTMENT TO CONSTRUCTION WORK IN PROGRESS	$ (30,267)	$ (30,267)	$ (30,267)
CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION			
CORRECTIVE ADJUSTMENTS			
1. Adjustment to reflect gross CIAC not reduced by income taxes.	$ (5,590)	$ (5,590)	$ (5,590)
TOTAL CORRECTIVE ADJUSTMENTS	$ (5,590)	$ (5,590)	$ (5,590)
ACCUMULATED DEPRECIATION			
CORRECTIVE ADJUSTMENTS			
1. Record adjustment per Order 15796 Audit Exception No. 1. STIPULATION	$ 17,058	$ 17,058	$ 17,058
TOTAL CORRECTIVE ADJUSTMENTS	$ 17,058	$ 17,058	$ 17,058

POINCIANA UTILITIES, INC
EXPLANATION OF THE ADJUSTMENTS TO
SEWER RATE BASE SCHEDULE NO. 1-B

DOCKET NO. 881503-WS
SCHEDULE 1-C
PAGE 4 OF 4

ADJUSTMENT	(A) UTILITY	(B) COMMISSION	(C) CITIZENS
PRO FORMA ADJUSTMENTS			
2. Adjust reserve for pro forma adjustment to depreciation expense. STIPULATION	$ (13,142)	$ (13,142)	$ (13,142)
TOTAL PRO FORMA ADJUSTMENTS	$ (13,142)	$ (13,142)	$ (13,142)
AMORT. OF C.I.A.C. AND ADVANCES			
CORRECTIVE ADJUSTMENTS			
1. Adjustment to reflect amortization on reduction to CIAC for taxes.	$ 1,045	$ 1,045	$ 1,045
2. Record adjustment per Order 15796 Audit Exception No. 3. STIPULATION	58,393	58,393	58,393
TOTAL CORRECTIVE ADJUSTMENTS	$ 59,438	$ 59,438	$ 59,438
ADVANCES FOR CONSTRUCTION			
CORRECTIVE ADJUSTMENTS			
1. Reduce land costs to appraised value for property purchased from an affiliate.	$ 0	$ 239,949	$ 0
TOTAL CORRECTIVE ADJUSTMENTS	$ 0	$ 239,949	$ 0
WORKING CAPITAL ALLOWANCE			
1. Reflect average deferred debit for well monitoring expense.	$ 0	$ 1,706	$ 0
2. Remove preliminary survey charges. STIPULATION	(2,068)	(2,068)	(2,068)
3. Reflect federal and state income taxes.	(10,807)	0	0
4. Adjust/remove deferred debit for prior rate case expense.	0	(23,501)	(39,798)
5. Remove clearing accounts.	0	(32,824)	(32,824)
6. Reflect deferred debit for current rate case expense.	13,464	14,352	0
TOTAL ADJUSTMENT TO THE ALLOWANCE FOR WORKING CAPITAL	$ 589	$ (42,335)	$ (74,690)

POINCIANA UTILITIES, INC
SCHEDULE OF CAPITAL STRUCTURE
TEST YEAR ENDED 10/31/88
CAPITALIZATION OF AVATAR UTILITIES, INC.

SCHEDULE NO. 2-A
DOCKET NO. 881503-WS

COMPONENT	BALANCE PER MFR	TEST YEAR ADJUSTMENTS	ADJUSTED TEST YEAR	PRO RATA ADJUSTMENTS	ADJUSTED BALANCE	WEIGHT	COST	WEIGHTED COST
UTILITY								
LONG-TERM DEBT	56,605,194	0	56,605,194	(55,500,339)	1,104,855	45.73%	10.18%	4.65%
BANK LOANS	1,873,000	0	1,873,000	(1,836,442)	36,558	1.51%	10.00%	0.15%
PREFERRED STOCK	9,133,631	0	9,133,631	(8,955,355)	178,276	7.38%	9.84%	0.73%
COMMON EQ/MINORITY INTEREST	41,291,427	0	41,291,427	(40,485,476)	805,951	33.36%	14.35%	4.79%
ITC'S	4,915,929	0	4,915,929	(4,819,977)	95,952	3.97%	10.75%	0.43%
DEFERRED INCOME TAXES	9,974,449	0	9,974,449	(9,779,762)	194,687	8.06%	0.00%	0.00%
OTHER - WWTP#2 LOAN	0	0	0	0	0	0.00%	0.00%	0.00%
TOTAL	123,793,630	0	123,793,630	(121,377,350)	2,416,280	100.00%		10.75%
COMMISSION								
LONG-TERM DEBT	56,605,194	0	56,605,194	(55,385,298)	1,219,896	51.98%	10.18%	5.29%
BANK LOANS	1,873,000	0	1,873,000	(1,832,635)	40,365	1.72%	10.00%	0.17%
PREFERRED STOCK	9,133,631	0	9,133,631	(8,936,793)	196,838	8.39%	9.84%	0.83%
COMMON EQ/MINORITY INTEREST	41,291,427	(1,958)	41,289,469	(40,399,641)	889,828	37.91%	13.95%	5.29%
ITC'S	4,915,929	(4,915,929)	0	0	0	0.00%	0.00%	0.00%
DEFERRED INCOME TAXES	9,974,449	(9,974,449)	0	0	0	0.00%	0.00%	0.00%
OTHER - WWTP#2 LOAN	0	0	0	0	0	0.00%	0.00%	0.00%
TOTAL	123,793,630	(14,892,336)	108,901,294	(106,554,367)	2,346,927	100.00%		11.58%

RANGE OF REASONABLENESS:	HIGH	LOW
EQUITY	14.95%	12.95%
OVERALL RATE OF RETURN	11.96%	11.20%

COMPONENT	BALANCE PER MFR	TEST YEAR ADJUSTMENTS	ADJUSTED TEST YEAR	PRO RATA ADJUSTMENTS	ADJUSTED BALANCE	WEIGHT	COST	WEIGHTED COST
CITIZENS								
LONG-TERM DEBT	54,162,224	0	54,162,284	(52,995,056)	1,167,228	49.73%	10.18%	5.06%
BANK LOANS	1,873,000	0	1,873,000	(1,832,636)	40,364	1.72%	10.00%	0.17%
PREFERRED STOCK	9,133,631	0	9,133,631	(8,936,796)	196,835	8.39%	9.84%	0.83%
COMMON EQ/MINORITY INTEREST	41,291,427	0	41,291,427	(40,401,573)	889,854	37.92%	14.35%	5.44%
ITC'S	4,915,929	(4,915,929)	0	0	0	0.00%	0.00%	0.00%
DEFERRED INCOME TAXES	9,974,449	(9,974,449)	0	0	0	0.00%	0.00%	0.00%
OTHER - WWTP#2 LOAN	2,442,910	0	2,442,910	(2,390,264)	52,646	2.24%	0.00%	0.00%
TOTAL	123,793,630	(14,890,378)	108,902,252	(106,556,325)	1,298,750	100.00%		11.50%

POINCIANA UTILITIES, INC
EXPLANATION OF THE ADJUSTMENTS TO
CAPITAL STRUCTURE SCHEDULE NO. 2-A

DOCKET NO. 881503-WS
SCHEDULE 2-B
PAGE 1 OF 1

ADJUSTMENT	(A) UTILITY	(B) COMMISSION	(C) CITIZENS
LONG TERM DEBT			
1. Pro rata reduction to equal rate base.	$ (55,500,339)	$ (55,385,298)	$ (52,995,056)
TOTAL ADJUSTMENT TO LONG TERM DEBT	$ (55,500,339)	$ (55,385,298)	$ (52,995,056)
BANK LOANS			
1. Pro rata reduction to equal rate base.	$ (1,836,442)	$ (1,832,635)	$ (1,832,636)
PREFERRED STOCK			
1. Pro rata reduction to equal rate base.	$ (8,955,355)	$ (8,936,793)	$ (8,936,796)
COMMON EQUITY & MINORITY INTEREST			
1. Reduction to equity land costs.	$ 0	$ (1,958)	$ 0
2. Pro rata reduction to equal rate base.	(40,485,476)	(40,399,641)	(40,401,573)
TOTAL ADJUSTMENT TO COMMON EQUITY & MINORITY INT	$ (40,485,476)	$ (40,401,599)	$ (40,401,573)
ITC'S			
1. Exclude due to taxes not being allowed.	$ 0	$ (4,915,929)	$ (4,915,929)
2. Pro rata reduction to equal rate base.	(4,819,977)	0	0
TOTAL ADJUSTMENT TO ITC'S	$ (4,819,977)	$ (4,915,929)	$ (4,915,929)
DEFERRED INCOME TAXES			
1. Exclude due to taxes not being allowed.	$ 0	$ (9,974,449)	$ (9,974,449)
2. Pro rata reduction to equal rate base.	(9,779,762)	0	0
TOTAL ADJUSTMENT TO DEFERRED INCOME TAXES	$ (9,779,762)	$ (9,974,449)	$ (9,974,449)
OTHER - WWTP #2 LOAN			
1. Pro rata reduction to equal rate base.	$ 0	$ 0	$ (2,390,264)

POINCIANA UTILITIES, INC
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED 10/31/88

SCHEDULE NO. 3-A
DOCKET NO. 881503-WS

	DESCRIPTION	(A) AVERAGE 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	$ 394,450	$ 6,570	$ 401,020	$ 124,574	$ 525,594
4	OPERATING EXPENSES:					
5	OPERATION & MAINTENANCE	$ 295,301	$ 2,335	$ 297,636	$	$ 297,636
6	DEPRECIATION	27,059	(5,203)	21,856	9,100	30,956
7	AMORTIZATION	0		0		0
8	TAXES OTHER THAN INCOME	35,404	2,632	38,036	3,114	41,150
9	INCOME TAXES	0		0	31,867	31,867
10						
11	TOTAL OPERATING EXPENSES	$ 357,764	$ (236)	$ 357,528	$ 44,081	$ 401,609
12						
13	OPERATING INCOME	$ 36,686	$ 6,806	$ 43,492	$ 80,493	$ 123,985
14						
15	RATE OF RETURN	3.56%		4.12%		11.86%
16						
17						
18	COMMISSION					
19						
20	OPERATING REVENUES	$ 394,450	$ 6,570	$ 401,020	$ 72,259	$ 473,279
21	OPERATING EXPENSES:					
22	OPERATION & MAINTENANCE	$ 295,301	$ (10,003)	$ 285,298	$	$ 285,298
23	DEPRECIATION	27,059	(5,203)	21,856	9,100	30,956
24	AMORTIZATION	0		0		0
25	TAXES OTHER THAN INCOME	35,404	2,240	37,644	1,250	38,894
26	INCOME TAXES	0		0		0
27						
28	TOTAL OPERATING EXPENSES	$ 357,764	$ (12,966)	$ 344,798	$ 10,350	$ 355,148
29						
30	OPERATING INCOME	$ 36,686	$ 19,536	$ 56,222	$ 61,909	$ 118,131
31						
32	RATE OF RETURN	3.56%		5.46%		11.58%
33						
34						
35	CITIZENS					
36						
37	OPERATING REVENUES	$ 394,450	$ 6,570	$ 401,020	$ 47,777	$ 448,797
38	OPERATING EXPENSES:					
39	OPERATION & MAINTENANCE	$ 295,301	$ (31,200)	$ 264,101	$	$ 264,101
40	DEPRECIATION	27,059	(5,203)	21,856	9,100	30,956
41	AMORTIZATION	0		0		0
42	TAXES OTHER THAN INCOME	35,404	2,240	37,644	788	38,432
43	INCOME TAXES	0		0		0
44						
45	TOTAL OPERATING EXPENSES	$ 357,764	$ (34,163)	$ 323,601	$ 9,888	$ 333,489
46						
47	OPERATING INCOME	$ 36,686	$ 40,733	$ 77,419	$ 37,889	$ 115,308
48						
49	RATE OF RETURN	3.56%		7.65%		11.50%

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POINCIANA UTILITIES, INC
STATEMENT OF SEWER OPERATIONS
TEST YEAR ENDED 10/31/88

SCHEDULE NO. 3-B
DOCKET NO. 881503-WS

DESCRIPTION	(A) AVERAGE TEST YEAR PER UTILITY	(B) ADJUSTMENTS TO THE TEST YEAR	(C) ADJUSTED TEST YEAR	(D) CONSTRUCTED ADJUSTMENTS	(E) CONSTRUCTED TEST YEAR
UTILITY					
OPERATING REVENUES	$ 576,138	$ 12,272	$ 588,410	$ 218,985	$ 807,395
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	$ 511,764	$ (4,909)	$ 506,855	$	$ 506,855
DEPRECIATION	28,537	(1,153)	27,384	13,142	40,526
AMORTIZATION	0		0		0
TAXES OTHER THAN INCOME	69,003	4,994	73,997	5,474	79,471
INCOME TAXES	0		0	35,104	35,104
TOTAL OPERATING EXPENSES	$ 609,304	$ (1,068)	$ 608,236	$ 53,720	$ 661,956
OPERATING INCOME	$ (33,166)	$ 13,340	$ (19,826)	$ 165,265	$ 145,439
RATE OF RETURN	-2.47%		-1.43%		10.61%
COMMISSION					
OPERATING REVENUES	$ 576,138	$ 12,272	$ 588,410	$ 144,226	$ 732,636
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	$ 511,764	$ (49,309)	$ 462,455	$	$ 462,455
DEPRECIATION	28,537	(1,153)	27,384	13,142	40,526
AMORTIZATION	0		0		0
TAXES OTHER THAN INCOME	69,003	4,477	73,480	2,556	76,036
INCOME TAXES	0		0		0
TOTAL OPERATING EXPENSES	$ 609,304	$ (45,985)	$ 563,319	$ 15,698	$ 579,017
OPERATING INCOME	$ (33,166)	$ 58,257	$ 25,091	$ 128,528	$ 153,619
RATE OF RETURN	-2.47%		1.87%		11.58%
CITIZENS					
OPERATING REVENUES	$ 576,138	$ 12,272	$ 588,410	$ 138,292	$ 726,702
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	$ 511,764	$ (50,281)	$ 461,483	$	$ 461,483
DEPRECIATION	28,537	(1,153)	27,384	13,142	40,526
AMORTIZATION	0		0		0
TAXES OTHER THAN INCOME	69,003	4,477	73,480	2,282	75,762
INCOME TAXES	0		0		0
TOTAL OPERATING EXPENSES	$ 609,304	$ (46,957)	$ 562,347	$ 15,424	$ 577,771
OPERATING INCOME	$ (33,166)	$ 59,229	$ 26,063	$ 122,868	$ 148,931
RATE OF RETURN	-2.47%		1.99%		11.50%

POINCIANA UTILITIES, INC
EXPLANATION OF THE ADJUSTMENTS TO
WATER OPERATING STATEMENT NO. 3-A

DOCKET NO. 881503-WS
SCHEDULE 3-C
PAGE 1 OF 6

ADJUSTMENT	(A) UTILITY	(B) COMMISSION	(C) CITIZENS
OPERATING REVENUES			
CORRECTIVE ADJUSTMENTS			
1. Annualize revenue for indexing.	$ 6,570	$ 6,570	$ 6,570
OPERATION AND MAINTENANCE			
CORRECTIVE ADJUSTMENTS			
1. Adjust to actual test year power expense. Audit Exception No. 5. STIP	$ 292	$ 292	$ 292
2. To adjust maintenance expense to actual.	0	(5,459)	(5,459)
3. To adjust abnormal legal expense.	0	(1,199)	(1,199)
4. To adjust claimed rate case expense.	0	0	(8,596)
5. Amount to equal OPC schedules.	0	0	812
6. Reduce unusual expenses to benchmark.	0	0	(873)
7. Remove abnormal management fees.	0	0	(4,330)
8. Adjust for unaccounted for water.	(2,362)	(2,316)	(19,121)
PRO FORMA ADJUSTMENTS			
9. Reflect 1988 and 1989 labor increase.	4,917	0	0
10. Reflect taxes on labor increase.	809	0	0
11. Reflect net decrease in insurance.	(1,132)	(1,132)	(1,132)
12. Reflect rate case expense.	(189)	(189)	8,406
TOTAL ADJUSTMENTS TO OPERATION AND MAINTENANCE	$ 2,335	$ (10,003)	$ (31,200)

POINCIANA UTILITIES, INC
EXPLANATION OF THE ADJUSTMENTS TO
WATER OPERATING STATEMENT NOS. 3-A

DOCKET NO. 881503-WS
SCHEDULE 3-C
PAGE 2 OF 6

ADJUSTMENT	(A) UTILITY	(B) COMMISSION	(C) CITIZENS
DEPRECIATION			
CORRECTIVE ADJUSTMENTS			
1. Remove depr on power operated equip. Audit Exception No. 4. STIPULATION	$ (5,203)	$ (5,203)	$ (5,203)
PRO FORMA ADJUSTMENTS			
2. Adjust to guideline rates (net). STIP	9,100	9,100	9,100
TOTAL ADJUSTMENTS TO DEPRECIATION	$ 3,897	$ 3,897	$ 3,897
TAXES OTHER THAN INCOME			
CORRECTIVE ADJUSTMENTS			
1. Adjust to actual property taxes bills.	$ 2,042	$ 2,042	$ 2,042
2. Adjust to reflect indexing.	108	108	108
3. Correct tax allocation.	90	90	90
PRO FORMA ADJUSTMENTS			
4. Reflect taxes on proforma labor increase.	392	0	0
TOTAL ADJUSTMENT TO TAXES OTHER THAN INCOME	$ 2,632	$ 2,240	$ 2,240

POINCIANA UTILITIES, INC
EXPLANATION OF THE ADJUSTMENTS TO
WATER OPERATING STATEMENT NOS. 3-A

DOCKET NO. 881503-WS
SCHEDULE 3-C
PAGE 3 OF 6

ADJUSTMENT	(A) UTILITY	(B) COMMISSION	(C) CITIZENS
INCOME TAXES			
To adjust test year income taxes.	$ 0	$ 0	$ 0
OPERATING REVENUES			
To reflect recommended increase (decrease) to allow a fair rate of return.	$ 124,574	$ 72,259	$ 47,777
TAXES OTHER THAN INCOME			
To reflect regulatory assessment fees on revenue change.	$ 3,114	$ 1,250	$ 788
INCOME TAXES			
To reflect income taxes on revenue change.	$ 31,867	$ 0	$ 0

POINCIANA UTILITIES, INC
EXPLANATION OF THE ADJUSTMENTS TO
SEWER OPERATING STATEMENT NO. 3-B

DOCKET NO. 881503-WS
SCHEDULE 3-C
PAGE 4 OF 6

ADJUSTMENT	(A) UTILITY	(B) COMMISSION	(C) CITIZENS
OPERATING REVENUES			
CORRECTIVE ADJUSTMENTS			
1. Annualize revenue for indexing.	$ 12,272	$ 12,272	$ 12,272
OPERATION AND MAINTENANCE			
CORRECTIVE ADJUSTMENTS			
1. Adjust to actual test year power expense. Audit Exception No. 5. STIP	$ 5,571	$ 5,571	$ 5,571
2. To adjust maintenance expense to actual.	0	(20,098)	(24,168)
3. To adjust abnormal legal expense.	0	(1,480)	(1,480)
4. To adjust claimed rate case expense.	0	0	(8,596)
5. Amount to equal OPC schedules.	0	0	1,125
6. Reduce unusual expenses to benchmark.	0	0	(3,730)
7. Remove abnormal management fee.	0	0	(6,238)
8. Adjust for amortization on monitoring well expense.	0	(3,570)	0
9. Adjust for infiltration.	0	(8,372)	0
PRO FORMA ADJUSTMENTS			
10. Reflect 1988 and 1989 labor increase.	6,731	0	0
11. Reflect taxes on labor increase.	1,125	0	0
12. Reflect net decrease in insurance.	(1,582)	(1,582)	(1,582)
13. Reflect rate case expense.	2,835	(189)	8,406
14. Reflect adjustment to estimated maintenance expenses for the test year.	(19,589)	(19,589)	(19,589)
TOTAL ADJUSTMENT TO OPERATION AND MAINTENANCE	$ (4,909)	$ (49,309)	$ (50,281)

POINCIANA UTILITIES, INC
EXPLANATION OF THE ADJUSTMENTS TO
SEWER OPERATING STATEMENT NOS. 3-B

DOCKET NO. 881503-WS
SCHEDULE 3-C
PAGE 5 OF 6

ADJUSTMENT	(A) UTILITY	(B) COMMISSION	(C) CITIZENS
DEPRECIATION			
CORRECTIVE ADJUSTMENTS			
1. Remove depr on power operated equip. Audit Exception No. 4. STIPULATION	$ (1,153)	$ (1,153)	$ (1,153)
PRO FORMA ADJUSTMENTS			
2. Adjust to guideline rates (net). STIP	13,142	13,142	13,142
TOTAL ADJUSTMENT TO DEPRECIATION	$ 11,989	$ 11,989	$ 11,989
TAXES OTHER THAN INCOME			
CORRECTIVE ADJUSTMENTS			
1. Adjust to actual property taxes bills.	$ 4,365	$ 4,365	$ 4,365
2. Adjust to reflect indexing.	202	202	202
3. Correct tax allocation.	(90)	(90)	(90)
PRO FORMA ADJUSTMENTS			
4. Reflect taxes on proforma labor increase.	517	0	0
TOTAL ADJUSTMENT TO TAXES OTHER THAN INCOME	$ 4,994	$ 4,477	$ 4,477

POINCIANA UTILITIES, INC
EXPLANATION OF THE ADJUSTMENTS TO
SEWER OPERATING STATEMENT NOS. 3-B

DOCKET NO. 881503-WS
SCHEDULE 3-C
PAGE 6 OF 6

ADJUSTMENT	(A) UTILITY	(B) COMMISSION	(C) CITIZENS
INCOME TAXES			
To adjust test year income taxes.	$ 0	$ 0	$ 0
OPERATING REVENUES			
To reflect recommended increase (decrease) to allow a fair rate of return.	$ 218,985	$ 144,226	$ 138,292
TAXES OTHER THAN INCOME			
To reflect regulatory assessment fees on revenue change.	$ 5,474	$ 2,556	$ 2,282
INCOME TAXES			
To reflect income taxes on revenue change.	$ 35,104	$ 0	$ 0

POINCIANA UTILITIES, INC
WATER OPERATION & MAINTENANCE EXPENSES
TEST YEAR ENDED 10/31/88

SCHEDULE NO. 4
DOCKET NO. 881503-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
601	SALARIES AND WAGES - EMPLOYEES	$ 79,996	$ 0	$ 79,996	$ 0	$ 79,996
603	SALARIES AND WAGES - OFFICERS, DIRECTORS, ETC.	0	0	0	0	0
604	EMPLOYEE PENSIONS AND BENEFITS	11,576	0	11,576	0	11,576
610	PURCHASED WATER	0	0	0	0	0
615	PURCHASED POWER	32,461	(1,764)	30,697	0	30,697
619	MAJOR MAINTENANCE	7,662	(5,459)	2,203	0	2,203
618	CHEMICALS	4121	(260)	3,861	0	3,861
620	MATERIALS AND SUPPLIES	15,301	0	15,301	0	15,301
631	CONTRACTUAL SERVICES - ENGINEERING	0	0	0	0	0
632	CONTRACTUAL SERVICES - ACCOUNTING	1,786	0	1,786	0	1,786
633	CONTRACTUAL SERVICES - LEGAL	3,187	(1,199)	1,988	0	1,988
634	CONTRACTUAL SERVICES - MGT FEES	9,838	0	9,838	0	9,838
635	CONTRACTUAL SERVICES - OTHER	29,409	0	29,409	0	29,409
641	RENTAL OF BUILDING/REAL PROPERTY	2,809	0	2,809	0	2,809
642	RENTAL OF EQUIPMENT	2,323	0	2,323	0	2,323
650	TRANSPORTATION EXPENSES	27,232	0	27,232	0	27,232
656	INSURANCE - VEHICLE	2,677	(182)	2,495	0	2,495
657	INSURANCE - GENERAL LIABILITY	9,357	(636)	8,721	0	8,721
658	INSURANCE - WORKMAN'S COMPENSATION	1,509	(103)	1,406	0	1,406
659	INSURANCE - OTHER PROPERTY	3,100	(211)	2,889	0	2,889
660	ADVERTISING EXPENSE	0	0	0	0	0
666	REGULATORY COMMISSION EXPENSES - AMORTIZATION OF RATE CASE EXPENSE	9,221	(189)	9,032	0	9,032
667	REGULATORY COMMISSION EXPENSES - OTHER	399	0	399	0	399
670	BAD DEBT EXPENSE	4,320	0	4,320	0	4,320
675	MISCELLANEOUS EXPENSES	37,017	0	37,017	0	37,017
	TOTAL	$ 295,301	$ (10,003)	$ 285,298	$ 0	$ 285,298

POINCIANA UTILITIES, INC
SEWER OPERATION & MAINTENANCE EXPENSES
TEST YEAR ENDED 10/31/88

SCHEDULE NO. 5
DOCKET NO. 881503-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	$ 109,503	$ 0	$ 109,503	$ 0	$ 109,503
2	703	SALARIES AND WAGES -					
3		OFFICERS, DIRECTORS, ETC.	0	0	0	0	0
4	704	EMPLOYEE PENSIONS AND BENEFITS	16,103	0	16,103	0	16,103
5	710	PURCHASED SEWAGE TREATMENT	0	0	0	0	0
6	711	SLUDGE REMOVAL EXPENSE	0	0	0	0	0
7	715	PURCHASED POWER	68,568	21	68,589	0	68,589
8	719	MAJOR MAINTENANCE	83,508	(39,687)	43,821	0	43,821
9	718	CHEMICALS	3,233	(340)	2,893	0	2,893
10	720	MATERIALS AND SUPPLIES	5,741	0	5,741	0	5,741
11	731	CONTRACTUAL SERVICES - ENGINEERING	0	0	0	0	0
12	732	CONTRACTUAL SERVICES - ACCOUNTING	2,485	0	2,485	0	2,485
13	733	CONTRACTUAL SERVICES - LEGAL	4,292	(1,480)	2,812	0	2,812
14	734	CONTRACTUAL SERVICES - MGT FEES	13,762	0	13,762	0	13,762
15	735	CONTRACTUAL SERVICES - OTHER	38,120	0	38,120	0	38,120
16	741	RENTAL OF BUILDING/REAL PROPERTY	3,619	0	3,619	0	3,619
17	742	RENTAL OF EQUIPMENT	1,006	0	1,006	0	1,006
18	750	TRANSPORTATION EXPENSES	36,904	0	36,904	0	36,904
19	756	INSURANCE - VEHICLE	3,741	(254)	3,487	0	3,487
20	757	INSURANCE - GENERAL LIABILITY	13,020	(885)	12,135	0	12,135
21	758	INSURANCE - WORKMAN'S COMPENSATION	2,188	(149)	2,039	0	2,039
22	759	INSURANCE - OTHER PROPERTY	4,326	(294)	4,032	0	4,032
23	760	ADVERTISING EXPENSE	0	0	0	0	0
24	766	REGULATORY COMMISSION EXPENSES -					
25		AMORTIZATION OF RATE CASE EXPENSE	9,221	(189)	9,032	0	9,032
26	767	REGULATORY COMMISSION EXPENSES - OTHER	523	0	523	0	523
27	770	BAD DEBT EXPENSE	6,383	0	6,383	0	6,383
28	775	MISCELLANEOUS EXPENSES	85,518	(6,052)	79,466	0	79,466
29							
30		TOTAL OPERATION AND MAINTENANCE	$ 511,764	$ (49,309)	$ 462,455	$ 0	$ 462,455
31							

POINCIANA UTILITIES, INC
TAXES OTHER THAN INCOME - WATER
TEST YEAR ENDED 10/31/88

SCHEDULE NO. 6
DOCKET NO. 881503-WS

	DESCRIPTION	(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	PROPERTY TAXES	$ 22,038	$ 2,132	$ 24,170	$	$ 24,170
2	REAL ESTATE TAXES	0		0		0
3	PAYROLL TAXES	6,381		6,381		6,381
4	REGULATORY ASSESSMENT FEES	6,985	108	7,093	1,250	8,343
5	OTHER	0		0		0
6						
7	TOTAL	$ 35,404	$ 2,240	$ 37,644	$ 1,250	$ 38,894
8						

POINCIANA UTILITIES, INC
TAXES OTHER THAN INCOME - SEWER
TEST YEAR ENDED 10/31/88

SCHEDULE NO. 7
DOCKET NO. 881503-WS

	DESCRIPTION	(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	PROPERTY TAXES	$ 50,670	$ 4,275	$ 54,945	$	$ 54,945
2	REAL ESTATE TAXES	0		0		0
3	PAYROLL TAXES	8,416		8,416		8,416
4	REGULATORY ASSESSMENT FEES	9,917	202	10,119	2,556	12,675
5	OTHER	0		0		0
6						
7	TOTAL	$ 69,003	$ 4,477	$ 73,480	$ 2,556	$ 76,036
8						

SCHEDULE NO. 8

SCHEDULE OF RATES

WATER

RESIDENTIAL & GENERAL SERVICE

METER SIZE	UTILITY PRESENT RATES	UTILITY PROPOSED RATES	COMMISSION APPROVED RATES
5/8" x 3/4"	$ 4.38	$ 6.19	$ 5.01
3/4"	6.58	9.28	7.53
1"	10.97	15.47	12.55
1-1/2"	21.91	30.95	25.07
2"	35.07	49.52	40.12
3"	70.14	92.85	80.24
4"	109.59	154.75	125.37
6"	219.17	309.50	250.73
8"	350.68	495.20	401.18
Gallonage Charge Per 1,000 Gallons	$ .87	$ 1.09	$ 1.00

PRIVATE FIRE PROTECTION

LINE SIZE	UTILITY PRESENT RATES	UTILITY PROPOSED RATES	COMMISSION APPROVED RATES
1"	$ 3.66	$ 9.58	$ 4.18
1-1/2"	7.30	15.34	8.36
2"	11.69	30.67	13.37
3"	23.38	47.94	26.75
4"	36.54	95.85	41.79
6"	73.06	153.37	83.58
8"	116.90	220.47	133.73
10"	168.04	------	192.08
12"	314.15	412.16	359.10

SCHEDULE NO. 9

SCHEDULE OF RATES

SEWER

RESIDENTIAL

METER SIZE	UTILITY PRESENT RATES	UTILITY PROPOSED RATES	COMMISSION APPROVED RATES
ALL SIZES (FLAT RATE)	$ 16.16	$ 23.32	$ 20.70

GENERAL SERVICE

METER SIZE	UTILITY PRESENT RATES	UTILITY PROPOSED RATES	COMMISSION APPROVED RATES
5/8" x 3/4"	$ 10.30	$ 14.88	$ 13.19
1"	25.79	37.27	33.04
1-1/2"	51.57	74.52	66.06
2"	82.51	119.23	105.70
3"	165.01	238.44	211.38
4"	257.84	372.49	330.29
6"	515.66	744.95	660.56
8"	825.06	1191.93	1056.90
10"	1186.03	1713.41	1519.30
Gallonage Charge Per 1,000 Gallons	$ 1.40	$ 2.02	$ 1.79

SCHEDULE NO. 10

SCHEDULE OF MAINTENANCE FEES

DESCRIPTION	UTILITY PRESENT CHARGE	UTILITY PROPOSED CHARGE	STAFF RECOMMENDED CHARGE
Water (Per Lot)	$ 3.67	$ 5.19	$ 5.86
Sewer (Per Lot)	$ 9.61	$ 9.70	$ 10.24

NOTE (1): Charges are applicable to vacant lots within the service area where service is available.

NOTE (2): For a detailed calculation of the maintenance charges, see Schedule No. 16.