

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for transfer ) DOCKET NO. 941151-WS  
of facilities from ) ORDER NO. PSC-95-1325-FOF-WS  
ORANGE/OSCEOLA UTILITIES, INC. ) ISSUED: October 31, 1995  
to SOUTHERN STATES UTILITIES, )  
INC. in Osceola County, )  
including transfer of )  
Certificate No. 289-S, amendment )  
of Certificate No. 066-W for )  
additional territory, and )  
cancellation of Certificate No. )  
335-W. )

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman  
J. TERRY DEASON  
JOE GARCIA  
JULIA L. JOHNSON  
DIANE K. KIESLING

ORDER APPROVING TRANSFER OF ORANGE-OSCEOLA  
UTILITIES, INC. TO SOUTHERN STATES UTILITIES  
INC., AND CANCELLING CERTIFICATE

AND

NOTICE OF PROPOSED AGENCY ACTION ORDER  
ADJUSTING CAPITALIZED INTEREST, DECLINING TO  
MAKE ACQUISITION ADJUSTMENT, AND APPROVING  
ELIMINATION OF CERTAIN UTILITY CHARGES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein, except for the approval of the transfer of the utility and the provision that Southern States Utilities, Inc. is authorized to continue charging Orange-Osceola Utilities, Inc.'s current rates and charges, only to the extent that this order does not propose to change said rates and charges, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

DOCUMENT FILED DATE

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FPSC-RECORDS/REPORTING

BACKGROUND

Orange-Osceola Utilities, Inc. (OOU or utility) is a Class A utility which provides water and wastewater service to customers in the Buenaventura Lakes development in Osceola County. According to the utility's 1994 annual report, the utility serves 8,740 water customers and 7,010 wastewater customers. In 1994, the utility had annual operating revenues of \$1,166,244 for water and \$2,563,684 for wastewater. Additionally, the utility had net operating income of \$279,913 for water and \$593,738 for wastewater.

Southern States Utilities, Inc. (SSU or utility) is a Class A utility which provides water and wastewater service to 73,399 water customers and 34,662 wastewater customers in Florida. According to SSU's 1994 annual report, the utility had annual operating revenues of \$23,833,363 for water and \$16,757,514 for wastewater. The utility had a net operating income of \$3,209,786 for water and \$2,360,462 for wastewater.

On October 27, 1994, SSU filed an application for transfer of facilities from OOU to SSU. OOU's facilities consists of one water treatment plant, one wastewater treatment plant, one water transmission and distribution system, and one wastewater collection system. The application states that OOU foresees that environmental compliance will become even more complex and expensive in the future, thereby heightening further the already intense financial pressures of running a water and wastewater utility business. After careful consideration of these and other factors, OOU decided to sell its water and wastewater utility operations to SSU. The application further states that the public interest will be well served by the transfer of OOU's facilities to SSU because SSU has the requisite technical and financial ability to own and operate these systems.

SSU currently holds a certificate of authorization for water service in Osceola County. Therefore, SSU is requesting that its existing water certificate be amended to include the territories served by the OOU water system, and that OOU's water certificate be cancelled. SSU does not currently hold a wastewater certificate in Osceola County; therefore, SSU is requesting that OOU's wastewater certificate be transferred to SSU. The application contains a copy of the Asset Purchase Agreement (Agreement), which indicates that the closing on the sale will not take place until approval of the transfer is received from the Florida Public Service Commission.

APPLICATION

The application is in compliance with the governing statute, Section 367.071, Florida Statutes, and Rule 25-30.037, Florida Administrative Code. The application contains a check in the amount of \$6,000, which is the correct filing fee pursuant to Rule 25-30.020, Florida Administrative Code.

The applicant has not provided evidence that the utility owns the land upon which the utility's facilities are located as required by Rule 25-30.037(1)(o), Florida Administrative Code. The application states that an executed warranty deed cannot be produced at this time, as Chapter 367, Florida Statutes, prohibits SSU from closing the transaction until the Commission has granted its approval of the transfer. The application contains a copy of the Agreement. The Agreement states that the closing of this transaction is scheduled to take place on the first business day of the calendar month occurring not less than ten business days after receipt of the approval of the transfer. Pursuant to the Agreement, OOU will provide a warranty deed in recordable form to SSU at the closing.

The application includes copies of the executed warranty deeds which show that OOU owns the land upon which the utility's facilities are located. An audit of the books and records of OOU was conducted to determine the utility's rate base. During our audit, it was verified that the land was in the name of the utility owner.

The application contains proof of compliance with the noticing provisions set forth in Rule 25-30.030, Florida Administrative Code, including notice to the customers of the system to be transferred. We received two objections to the notice of application. Ms. Ruth Santiago and Mr. Freddie Roman each filed objections to SSU's transfer request. Ms. Santiago subsequently withdrew her objection, and Mr. Roman has not contacted us to pursue an administrative hearing. Mr. Roman was notified by letter and telephone to contact us if he wished to pursue an administrative hearing. He was further advised that if we did not hear from him, we would assume that he did not wish to pursue his objection to this application. To date, Mr. Roman has not contacted us to pursue an administrative hearing. We believe that Mr. Roman has had sufficient notice and time to pursue a hearing if he so desired. Accordingly, Mr. Roman's objection to this application is hereby dismissed and the withdrawal of Ms. Santiago's objection is acknowledged. A description of the territory served by the utility is appended to this order as Attachment A, which is incorporated herein by reference.



Regarding SSU's technical and financial ability to operate the system, SSU submits that it has the technical experience and financial size and strength to own and operate OOU's facilities. The application states that SSU has been regulated by the Commission since 1964. SSU owns and operates water and wastewater facilities under Commission regulation in 134 service areas throughout Florida. At year-end 1993, SSU's capital structure consisted of \$186.9 million in total capital including \$77.5 million in equity capital and \$109.4 million in long-term debt. SSU states that the Commission has acknowledged SSU's technical and financial ability in previous proceedings, including transfers.

The application contains a copy of the Agreement which includes the purchase price, terms of payment, and a list of the assets purchased and the liabilities assumed. SSU provided a statement in its application that it will fulfill OOU's commitments, obligations and representations regarding water and wastewater service to the extent set forth in the application and the Agreement.

According to the Agreement, SSU will assume such liabilities as all current trade accounts payable, all amounts becoming due and payable under OOU's Series 1992 First Mortgage Revenue Bonds and OOU's installment loan obligations, all obligations and liabilities for outstanding and unfilled purchase orders or other unfilled contracts for materials, supplies and services, and all employee benefits. Additionally, SSU will assume all obligations and liabilities for customer deposits and other obligations and liabilities for which OOU maintains cash reserves, except for the contributions-in-aid-of-construction (CIAC) gross-up accounts. At closing, OOU will transfer its customer deposits to SSU. The Agreement also states that SSU assumes all of OOU's contractual obligations and liabilities, including contracts to provide utility services.

The Agreement states that SSU does not assume OOU's obligations and liabilities for which OOU maintains CIAC gross-up accounts. OOU will remain liable for outstanding fees, fines, or refunds subject to Commission regulation. We are currently reviewing OOU's CIAC gross-up refunds in Docket No. 950317-WS; therefore, we believe the CIAC gross-up liability warrants further discussion in this order.

Order No. 23541, issued October 1, 1990, requires that all gross-up amounts in excess of a utility's actual tax liability resulting from its collection of CIAC be refunded on a pro rata basis to those persons who contributed the taxes. As of March 14, 1995, OOU had refunded \$3,787,841 in total. OOU requested



permission to refund the full amount of tax collected on CIAC, including interest earned on the gross-up for 1987. The Commission approved a \$317,526 refund for 1987, pursuant to Order No. 21059, issued April 17, 1989.

The utility refunded \$3,446,989 for the years 1988 through 1994 without the Commission's approval. According to OOU, its obligation to refund CIAC gross-up has been fulfilled. However, the utility has not provided canceled checks or other evidence that the refunds were made. Further, at this time, we cannot agree that this is the appropriate refund for the proposed years.

Our review indicates that the utility's refund calculation is consistent with Order No. PSC 92-0961-FOF-WS, issued September 9, 1992, and our decisions in other gross-up refund cases. However, the utility made the refunds without Commission approval. The utility included subsequent years' depreciation above-the-line in its refund calculation. At issue is the appropriate accounting treatment of subsequent years' depreciation in the refund calculation. The gross-up refund calculation is presently being reviewed in a Commission workshop to determine the appropriate treatment for subsequent years' depreciation. Revisions to the refund calculation for depreciation could prove the utility's refunds to be inadequate and additional refunds may be required. However, final determination of the appropriate refund amount has been postponed pending completion of our workshop.

In a letter dated September 1, 1995, SSU confirmed that OOU will remain liable for all CIAC gross-up refunds after closing. Because the excess funds were collected prior to the sale of OOU to SSU, OOU remains subject to our jurisdiction until the refunds have been verified. The refund issue will be addressed further in Docket No. 950317-WS. Therefore, we do not believe the pending issue of CIAC gross-up refunds is sufficient cause to deny the utility's transfer request.

The application states that SSU anticipates paying the cash portion of the purchase price through existing lines of credit and/or accumulated operating fund reserves available at closing. SSU will be assuming debt in the form of 1992 Series OOU First Mortgage Bonds, having a projected principal balance of \$9,345,000 at closing. The application states that SSU's existing credit line is a combined commitment from Sun Bank, N.A., and SouthTrust Bank of Alabama, N.A., for advances and/or letters of credit not to exceed \$28 million. As of the date of the transfer application, no letters of credit or advances were outstanding against that commitment.

SSU asserts that after reasonable investigation, OOU's water and wastewater facilities are in satisfactory condition and are in substantial compliance with all applicable Department of Environmental Protection (DEP) standards. The application states that neither the water nor wastewater facilities are in need of material improvements, except that the lime stabilization equipment, which was under construction at the time the application was submitted, was needed at the wastewater treatment plant to comply with 40 C.F.R. Part 503 by February 1995.

We have contacted DEP, which has represented to us that OOU's water and wastewater facilities are in satisfactory condition. Further, there are no outstanding violations, and the utility has completed the construction of the lime stabilization equipment discussed above. Additionally, we have learned that the utility has requested permits to expand its wastewater infiltration system and possibly provide effluent to a baseball field.

Based on the above, we find that the transfer of facilities in Osceola County from Orange-Osceola Utilities, Inc. to Southern States Utilities, Inc. is in the public interest; accordingly, it is hereby approved. Certificate No. 335-W, held by Orange-Osceola Utilities, Inc., is hereby cancelled, and Certificate No. 066-W, held by Southern States Utilities, Inc., shall be amended to include the appropriate territory. Also, Certificate No. 289-S, held by Orange-Osceola Utilities, Inc., is hereby transferred to Southern States Utilities, Inc. SSU shall file an executed and recorded copy of the warranty deeds within thirty days of the issuance date of the Order granting the certificate.

#### ADJUSTMENT TO CAPITALIZED INTEREST

Rate base was last established for OOU as of June 30, 1987, in Docket No. 871134-WS. Accordingly, our auditors started their review for the transfer audit as of July 1, 1987. Upon review of OOU's plant accounts, our auditors determined that the utility was recording capitalized interest on construction work in progress. These accruals were not made in compliance with the accounting instructions of the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA), required by Rule 25-30.115, Florida Administrative Code. Further, the accruals were not in compliance with Rule 25-30.116, Florida Administrative Code, regarding allowance for funds used during construction (AFUDC). Our auditors could not establish that the utility had ever received an approved AFUDC charge. Our audit report stated that all AFUDC accrued from the last test year forward (July 1, 1987 to December 31, 1994) should be disallowed.

In its response to the audit report, the utility disagreed with this audit exception. The utility asserts that the Commission recognized and included capitalized interest in OOU's rate base as part of OOU's two previous rate cases. The utility stated that OOU believed that the Commission's approval of the capitalization of interest which OOU booked was effective approval of same as an AFUDC allowance. The utility stated that its methodology for capitalizing interest has been consistently applied for the period from June 30, 1987 through December 31, 1994. During that time, OOU made a substantial investment in plant (over \$10,000,000) and it reasonably relied on what it believed to be Commission approval for capitalizing interest.

#### Capitalized Interest and AFUDC

Financial Accounting Standard (FAS) No. 34 states that interest should be capitalized on certain construction projects to recognize the total cost of the asset and to match those interest costs with revenues in future periods. In short, the interest component associated with construction should be capitalized and depreciated over the life of the asset instead of expensed in the year incurred. The only relevant distinction with AFUDC is that a rate representing all sources of capital should be capitalized, not just the debt component. The underlying rationale for this policy is that sources of funds cannot be traced. A utility uses a portion of all of its capital in constructing plant, not just debt. Once the funds are placed in a bank account, it is impossible to determine exactly from what source the funds were derived.

The NARUC accounting instructions for Class A Water Utilities USOA (revised in 1984) detail the specific components allowed to be included in the cost of plant construction. The only instruction relating to the accrual of appropriate capital costs on construction relate to AFUDC, not capitalized interest. Instruction 17 regarding AFUDC is as follows:

"Allowance for funds used during construction" includes the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used.

#### Regulatory Requirements for AFUDC Accrual

Pursuant to Rule 25-30.115(5), Florida Administrative Code, "No utility may charge or change its AFUDC rate without prior Commission approval. The new AFUDC rate shall be effective the month following the end of the 12-month period used to establish that rate and may not be retroactively applied to a previous year



unless authorized by the Commission." The effective date of the rule is August 11, 1986.

For regulated utilities, generally accepted accounting principles (GAAP) require that if the regulator requires AFUDC, the utility should record AFUDC instead of capitalized interest. FAS No. 71, in paragraph 15 states in part:

15. In some cases, a regulator requires an enterprise subject to its authority to capitalize, as part of the cost of plant and equipment, the cost of financing construction as partially by borrowings and partially by equity. A computed interest cost and a designated cost of equity funds are capitalized ... After the construction is completed, the resulting capitalized cost is the basis for depreciation and unrecovered investment for rate-making purposes. In such cases, the amounts capitalized for rate-making purposes as part of the cost of acquiring the assets shall be capitalized for financial reporting purposes instead of the amount of interest that would be capitalized in accordance with FASB Statement No. 34, Capitalization of Interest Cost...

Thus, not only does the Commission require capitalization of AFUDC instead of capitalized interest, GAAP also requires this of regulated utilities if so required by the regulator.

In Docket No. 871134-WS, we did not specifically address approval of capitalized interest or AFUDC. Order No. 20434, issued on December 8, 1988, did however, mention that capitalized interest was included in the cost of effluent disposal plant, to which a non-used and useful adjustment was applied. As such, it appears that the Commission did not specifically approve, but did not take exception to, the utility's accrual of capitalized interest.

#### The History of the Commission's AFUDC Rule

AFUDC has been required of telephone, electric and gas utilities for many years, but advanced approval was not required when AFUDC was initially established. In the early 1980's, when interest rates increased dramatically, we became concerned about high AFUDC rates as well. As a result, we adopted a similar rule for all industries regarding AFUDC. The rule addressed which projects were eligible, how the rate was calculated, and the requirement for advanced approval of the rate. The rule also stated that we could, on our own motion, initiate a proceeding to change a utility's AFUDC rate. We adopted the AFUDC rules on August 8, 1986, for all industries under our jurisdiction.

At the time the rule was adopted, most, if not all, water and wastewater utilities under our jurisdiction were capitalizing interest instead of AFUDC. As change is slow, it took some years for the Commission to enforce utilities to implement this new rule. In late 1988, we expressed our concern regarding the continued issue of retroactive approval of AFUDC for water and wastewater utilities. To address our concern and several inquiries made by water and wastewater utilities regarding the AFUDC rule, a Staff Advisory Bulletin (SAB) on AFUDC was sent to all utilities in January, 1989. SAB No. 31, issued January 27, 1989, states:

If a utility has not received an approved AFUDC rate from this Commission, the utility may petition the Commission to establish a rate and for authority to apply the rate retroactively to previous years. If the Commission declines to grant the petition for retroactive application, any AFUDC charged between August 11, 1986, and the effective date of a utility's approved AFUDC rate established by order of this Commission would not be allowed in determining the appropriate rates and charges of the utility.

The utility indicated in its response to the audit that it does not believe SAB No. 31 should be applied in this case because the Commission approved the utility's rate base including the capitalized interest after the effective date of the AFUDC rule. The utility stated that it reasonably relied on this action by the Commission as an approval made in accordance with the AFUDC rule. Further, in the event we remove the accrued AFUDC, the utility plans to file an application for a retroactive rate equivalent to the rate OOU has utilized for capitalizing interest.

Although not legally binding, the SAB served to communicate our position regarding the implementation of the AFUDC rule. Rule 25-30.115, Florida Administrative Code, speaks for itself. Utilities are charged with knowledge of the Commission's rules and statutes. Ignorance of a rule is not acceptable grounds for non-compliance. "[I]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Through SAB No. 31, our staff was attempting to provide additional notice for utilities to file for AFUDC approval to avoid the risk of losing unapproved AFUDC or denial of retroactive application.

Whether a given utility subject to our jurisdiction at that time was notified by the SAB cannot be proven and is not controlling. However, we notify all water and wastewater utilities when a rule revision is proposed and/or implemented. Prudence

dictates that a large class A utility such as OOU should be aware and knowledgeable of any rule that might affect allowance of future investment levels of its utility. The same rationale applies to compliance with the accounting instructions in the USOA. The fact that a utility was acting in conflict with a rule or the USOA, and we did not act on that conflict, does not mean that we are forever precluded from taking future action on the conflict. The rule itself is a warning that future disallowance may occur.

Commission Practice Regarding Unapproved AFUDC

The utility notes that we previously allowed a retroactive application of AFUDC for Mid-County Services, Inc. (Mid-County) by Order No. PSC-93-1713-FOF-WS, issued November 30, 1993, in Docket No. 921293-SU. The utility is correct on this point; however, we believe it warrants further discussion. Mid-County is a wholly-owned subsidiary of Utilities, Inc. In Mid-County's last rate case, Docket No. 921293-SU, the utility accrued AFUDC charges without the Commission's prior approval. Our staff recommended that since the utility did not have a prior approved AFUDC rate, the charges should be removed. However, we voted to allow the accrued charges to remain in rate base. In Order No. PSC-93-1713-FOF-SU, issued November, 30, 1993, we approved the retroactive treatment of the AFUDC charges. The order states:

In this instance, we find it appropriate to retroactively approve the AFUDC rate for this utility. Since the acquisition of this utility in 1991, Utilities, Inc., has made substantial plant upgrades to bring this utility into compliance with the current DEP standards. Upon consideration, this rate shall be applied retroactively with an effective date beginning May 1, 1991.

However, we subsequently ordered Utilities, Inc. in another rate case to remove accrued AFUDC charges from its rate base by Order No. PSC-95-0574-FOF-WS, issued May 9, 1995, in Docket No. 940917-WS. The order states:

By the actions in the Mid-County case, we find that the utility was specifically noticed of the Commission's past history of denying retroactive application of an AFUDC rate. We further believe, that if this utility was truly concerned about this issue, it would have filed an AFUDC application soon after the order was issued in the Mid-County rate case. However, we do note that after the staff audit report was issued, which recommended removal of the accrued AFUDC charges, Utilities, Inc. filed a petition for approval of AFUDC rates for all of its



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systems, under our jurisdiction, that do not have approved AFUDC rates. Based on the above, we find it appropriate to remove the accrued AFUDC charges.

Additionally, by Order No. 22150, issued November 6, 1989, in Docket No. 890233-WS, we denied SSU retroactive approval of AFUDC in a transfer case. The order states:

We note that our Staff recommended that SSUI be allowed to retroactively book AFUDC associated with the cost of construction from 1985 to 1988. Point O' Woods did not have an approved AFUDC rate; however, its books reflected capitalized interest associated with the construction costs. We believe that it would be inappropriate to allow SSUI to record AFUDC. This was an expense incurred by Point O' Woods and Point O' Woods did not request it prior to or at the time of construction.

Although we have previously allowed the retroactive application of AFUDC charges, in the majority of cases, we have denied the retroactive application of AFUDC charges and ordered the removal of accrued AFUDC from rate base. We recognize that an overall conflict exists. On one hand GAAP requires that utilities capitalize AFUDC instead of expensing it in the year incurred. However, our rule states that it has to be approved in advance.

Accordingly, the AFUDC which was included in plant in service from July 1, 1987 to December 31, 1994 shall be removed from the utility's rate base. This results in a decrease to water and wastewater plant of \$28,684 and \$364,152, respectively. Corresponding adjustments to decrease accumulated depreciation by \$3,636 for water and \$61,348 for wastewater shall also be made.

#### RATE BASE

According to the application, the net book value of the system being transferred as of December 31, 1993 is \$2,438,227 for water and \$8,049,075 for wastewater. We previously established rate base in Docket No. 871134-WS. According to Order No. 20434, issued December 8, 1988, rate base was \$592,147 for water and \$3,010,644 for wastewater as of June 30, 1987. SSU has provided adjustments to update these rate bases to reflect the proper net book value as of December 31, 1993.

Our Division of Auditing and Financial Analysis conducted an audit of OOU's books and records to determine the rate base (net book value) as of December 31, 1994. Because 1994 data was available at the time of the audit, our field audit staff applied

the audit procedures to OOU's books and records rather than the proposed 1993 rate bases included in the application. We determined that OOU's books and records are maintained in substantial compliance with Commission directives.

The audit report cited fourteen audit exceptions. The utility filed a response to the audit report on May 8, 1995. On June 29, 1995, the utility filed a revised response to audit exception number 14. The utility's comments will be discussed in more detail below. We made the following adjustments as a result of the rate base audit. Our calculation of rate base is shown on Schedules Nos. 1 and 3, for the water and wastewater systems, respectively. Adjustments to rate base are itemized on Schedules Nos. 2 and 4 for the water and wastewater systems, respectively.

#### Utility Plant In Service - Water

We find it appropriate to make six adjustments totaling \$31,494 to the water system's utility plant in service. The adjustments are reflected on Schedule No. 2 attached hereto. As stated above, the utility's proposed rate bases were calculated as of December 31, 1993. However, we have calculated the utility's rate bases using December 31, 1994 figures as the starting point. Adjustment A reflects the difference between the utility's proposed December 31, 1993 utility plant in service and the auditor's December 31, 1994 utility plant in service.

Adjustment B reflects the removal of AFUDC which was included in plant in service from July 1, 1987 to December 31, 1994, as discussed above. Adjustment C reflects the removal of capitalized major expenses. Pursuant to Rule 25-30.433(8), Florida Administrative Code, "Non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified." Our audit indicates that the expenditures in question were mainly for repairs to electric motors, water and wastewater pumps, and motor vehicles. Our policy has been to record such expenses in Account No. 186 as a deferred debit and amortize the balance over five years or another time period as determined by our engineers. In its response to the audit report, the utility agreed with this adjustment.

Adjustment D reflects the removal of capitalized repair and maintenance expenses. Our audit indicates that the utility had capitalized certain expenditures relating to professional services, general repairs, vehicle repairs, and emergency services procured by the utility. The audit report states that the utility should have expended those items as a repair and maintenance expense in

the period they were incurred. In its response to the audit report, the utility agreed with this adjustment.

Adjustment E reflects the removal of unsupported plant additions. Pursuant to NARUC, Accounting Instructions, 2. General - Records A., "Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of accounts so as to be able to furnish readily full information as to any item included in any account." The audit report indicates that the utility was in violation of this NARUC rule for certain expenditures, and that those items should be removed from plant in service. In its response, the utility agreed with this adjustment.

Adjustment F reflects the adjustment to plant for several vehicle retirements and reclassification of a tractor. The utility traded in several vehicles during the audit period from June 30, 1987 through December 31, 1994, but did not retire the vehicles when they were traded. Additionally, the utility purchased a tractor/backhoe/loader in 1991 which was divided between water and wastewater. The audit report indicates that the tractor was recorded to Accounts 341502 and 391503. However, the appropriate accounts are 345003 for water and 395003 for wastewater. Therefore, the audit report indicates that the traded vehicles should be retired and the tractor should be reclassified to the appropriate accounts. In its response to the audit report, the utility agreed with this adjustment.

Although they are not included on the attached schedules, we believe that there are two other adjustments which warrant further discussion. The audit report indicates that the utility had misclassified several additions to plant in service. In its response to the audit report, the utility agreed with the report's recommended reclassifications. Because the utility has agreed to make the necessary adjustments and the reclassifications do not result in a change in the value of plant in service, we are not including the adjustments on the attached rate base schedules. However, the utility shall make the appropriate adjustments as shown in the audit report.

Finally, the audit report indicates that a (\$19,477) adjustment should be made to retire leasehold improvements. The Agreement between OOU and SSU states that "The office lease shall have been amended, effective as of the closing date, to provide that, (i)..., (ii) SSU may terminate said lease upon 30 days written notice without any liability to utility or SSU and (iii) if not sooner terminated by SSU as aforesaid, the office lease shall terminate and expire at 5:00 pm on the day preceding the



anniversary of the closing date unless extended in writing." The audit report stated that these terms indicate that the office lease is a short-term arrangement to facilitate a smooth transfer of operations among OOU and SSU. Therefore, the audit report indicates that the leasehold improvements should not be included in rate base as a long-term capital item.

In its response to the audit report, the utility disagreed with this adjustment. The utility asserts that the Agreement was amended to allow SSU the opportunity to terminate the lease earlier than OOU, but does not require it. The utility believes that retiring the leasehold improvements now is premature. The utility believes that the leasehold improvements should remain in rate base until such time as the leased office space is no longer used, at which time SSU will retire the improvements on its books. In consideration of the fact that the Agreement only allows, but does not require an early termination of the lease, we agree with the utility that this adjustment should not be made at this time.

#### Utility Plant in Service - Wastewater

We find it appropriate to make nine adjustments totaling (\$284,536) to the wastewater system's utility plant in service. The adjustments are reflected on Schedule No. 4 attached hereto. Adjustment A reflects the difference between the utility's proposed December 31, 1993 utility plant in service and the auditor's December 31, 1994 utility plant in service.

Adjustments B, C, D and E reflect the wastewater portion of Adjustments B, C, D, and E discussed above for water plant in service. Adjustment B reflects the removal of AFUDC which was included in plant in service from July 1, 1987 to December 31, 1994, as discussed above.

Adjustment C reflects the removal of capitalized major expenses. In its response to the audit report, the utility agreed with this adjustment with the exception of a portion of the wastewater repairs. The utility stated that these repairs were for the overhaul and upgrade of three lift station pumps and would last until the end of each lift station's useful life. We agree that this portion of the adjustment should not be removed from plant in service. Adjustment D reflects the removal of capitalized repair and maintenance expenses. In its response to the audit report, the utility agreed with this adjustment.

Adjustment E reflects the removal of unsupported plant additions. In its response, the utility agreed with this adjustment except for a portion relating to golf course repairs and

double payment on an invoice. The audit indicates that the golf course repairs should be removed because they are a non-utility item. The utility asserts that the golf course is an integral part of OOU's method of effluent disposal. The utility stated that OOU has retained responsibility for the pump where the control panel is located and the reclaimed water holding pond in order to ensure proper disposal of effluent to the golf course. Further, the pump and holding pond are on property owned by OOU. The land and facilities will be conveyed to SSU at closing, and SSU will retain responsibility for the pump and holding pond. The invoices in question were for engineering and a new control panel for the pump that supplies reclaimed water for the golf course, rather than repairs as stated in the audit report. We agree with the utility that this portion of the adjustment should not be made.

The audit report indicates that the utility made two full payments on the same invoice, and that the portion of plant in service associated with the second payment should be removed. In its response, the utility disagreed with this adjustment. The utility stated that it has received a check for the double payment and believes it should be classified as an account receivable. The utility attached a copy of the check to the audit response. We do not believe that the utility's proposed adjustment corrects the original problem. We find it appropriate to remove the value of the second payment from plant in service.

Adjustment F reflects an adjustment to comply with Order No. 20434, issued December 8, 1988. The audit report indicates that the utility had not made several adjustments that were required by Order No. 20434. In its response, the utility agreed with this adjustment. Accordingly, adjustments made for compliance with Order No. 20434 shall be made.

Adjustment G reflects the reclassification and retirement of a tractor. The audit report indicates that the utility had purchased a tractor in 1987, traded it in on another tractor in 1992, and then retired it. However, both tractors were recorded to Account No. 393503, Tools, Shop and Garage Equipment and depreciated over a five-year life. The tractors should have been recorded to Account No. 395003, Power Operated Equipment, which carries a 12-year life. Additionally, the utility received a \$10,000 trade-in allowance/salvage for the 1987 tractor. The utility recorded this to Account No. 393503; it should have been recorded to Account No. 108001, Accumulated Depreciation. In its response, the utility agreed with this adjustment.

Adjustment H reflects the adjustment to plant for several vehicle retirements and reclassification of a tractor. This is the

wastewater portion of Adjustment F discussed above for water plant in service. In its response to the audit report, the utility agreed with this adjustment.

Adjustment I reflects a correction for misclassified additions to plant in service. As discussed above, our audit staff determined that the utility had misclassified several additions to plant in service. We did not include the water adjustments on the attached schedules because they do not change the value of plant in service. However, it is necessary to include one of the auditor's recommended wastewater reclassifications. The utility booked professional fees related to wastewater plant additions to Account No. 353 Land and Land Rights. The utility should have booked these fees to Account No. 354 Structures and Improvements. In its response, the utility agreed with this adjustment and the auditor's other recommended reclassifications. Because the utility has agreed to make the necessary adjustments and the remaining reclassifications do not result in a change in the value of plant in service, we are not including the remaining adjustments on the attached rate base schedules. However, the utility shall make the appropriate adjustments as shown in the audit report.

The audit report indicates that several other adjustments are appropriate. Although we do not believe the adjustments should be made at this time, they do warrant further discussion. The audit report indicates that a (\$19,477) adjustment should be made to water plant in service to retire leasehold improvements. The report further indicated that the same adjustment should be made to wastewater plant in service. The utility disagreed with this adjustment, and we agree with the utility that this adjustment should not be made at this time.

Additionally, the audit report indicates that a (\$326,882) adjustment should be made to remove capitalized repair costs for repairs made to a portion of the utility's wastewater treatment facilities, known as a ground water infiltration berm, which failed. GAAP requires that expenditures such as these, to be afforded capital treatment, must improve the quality, quantity, or life of an asset in order to be considered as an improvement or betterment. The audit report indicates that the cost of the repairs should be removed from rate base.

In its response, the utility disagreed with this adjustment. The utility asserts that the adjustment in question does not represent the cost of repairs to the berm that failed, but rather represents improvements to all three berms. After a portion of one of the filtration dikes collapsed, the utility determined that the groundwater infiltration facility would not work properly at the



permitted capacity. Consequently, all three filtration dikes had to be improved for the facility to operate at its permitted capacity. The improvements to the filtration dikes consisted of enlargement of the toe drain and addition of sandy sod to the filtration dikes. This increased the size of the dikes and reduced the slope on the outboard side of the dikes. The utility completed the improvements in April of 1990, and the groundwater infiltration facility has worked properly since that time.

The utility received \$100,000 in cash from Ardaman & Associates, Inc., as well as engineering services from that firm at no cost for the design of the improvements to all three filtration dikes, as compensation for the repair of the damaged filtration dike. The utility stated that the value of the engineering services and the \$100,000 are approximately equal to the cost of repairing the damaged filtration dike. The net amount capitalized for the improvements to the filtration dikes was \$226,882 (\$326,882 less \$100,000).

Our engineer has reviewed the utility's design plans and determined that the filtration dikes were in fact upgraded and improved. Attachment B illustrates the original design of the filtration dike. Attachment C illustrates the current design of the filtration dikes following the improvements. We believe these expenditures do represent improvements, and as such, shall be capitalized. Also, we agree that the engineering services and \$100,000 settlement are sufficient to cover the portion of the total cost that represented the repair to the berm that failed. Therefore, we agree with the utility that this adjustment should not be made.

#### Land

We find it appropriate to make one adjustment totaling (\$538) to the wastewater system's land. As discussed above under Adjustment I to wastewater plant in service, the utility misclassified several additions to plant in service. Adjustment A reflects the corresponding adjustment to reclassify the professional fees related to wastewater plant additions from Account No. 353 Land and Land Rights to Account No. 354 Structures and Improvements. In its response, the utility agreed with this adjustment.

#### Accumulated Depreciation

We find it appropriate to make three adjustments totaling (\$290,368) to the water system's accumulated depreciation. As discussed above, the utility and our auditor used data from

different years in the rate base calculations. Adjustment A reflects the difference between the utility's proposed December 31, 1993 accumulated depreciation and our auditor's December 31, 1994 accumulated depreciation. Adjustment B reflects the removal of the accumulated depreciation associated with the AFUDC which we removed from utility plant in service. Adjustment C reflects the total adjustment to accumulated depreciation which is necessary to comply with prior Orders Nos. 17366 and 20434, and to correspond with the remaining adjustments made to plant in service as discussed above.

Orders Nos. 17366 and 20434 required the utility to adjust its accumulated depreciation accounts because they did not fully comply with Rule 25-30.140, Florida Administrative Code. In its response, the utility agreed that depreciation had been calculated using incorrect depreciation rates. The utility agrees with this adjustment with the exception of the portion which represents the removal of the accumulated depreciation associated with the AFUDC which we removed from plant in service.

We find it appropriate to make three adjustments totaling (\$605,930) to the wastewater system's accumulated depreciation. As discussed above, Adjustment A reflects the difference between the utility's proposed December 31, 1993 accumulated depreciation and our auditor's December 31, 1994 accumulated depreciation. Adjustment B reflects the removal of the accumulated depreciation associated with the AFUDC which we removed from utility plant in service. Adjustment C reflects the total adjustment to accumulated depreciation which is necessary to comply with prior Orders Nos. 17366 and 20434, and to correspond with the remaining adjustments made to plant in service as discussed above.

In its response, the utility agreed with this adjustment. However, the utility discovered that all of OOU's wastewater collection lines were classified as force mains prior to December 31, 1987. This was incorrect since a portion of those lines were gravity lines rather than force mains. Upon investigation, it was determined that this practice had evolved when OOU was a Class C utility and its annual report was prepared by outside auditors. The utility stated that this practice was changed in 1988, as can be seen from a review of OOU's annual reports from 1988 to 1994; however, no changes were made to correct the prior balances.

The utility estimates that it would take 1.5 persons approximately four weeks to locate, record, copy and tabulate all available wastewater collection line invoices and documentation accumulated during the period of 1977 through 1987. Therefore, the utility has requested that it be allowed to reclassify the collection lines based upon the number of feet of each type of

collection line (gravity and force) and the estimated cost per foot of each. The utility stated that the Commission has accepted such methods in prior cases. Specifically, by Order No. PSC-93-1675-FOF-WS, issued November 18, 1993, in Docket No. 920148-WS, we allowed Jasmine Lakes Utilities Corporation to retire its water supply mains based on footage calculation and per foot cost estimates.

We have reviewed the utility's proposed reclassification and believe that it is appropriate. Since the reclassification affects the utility's accumulated depreciation, the utility has submitted a revised calculation of accumulated depreciation which incorporates the line reclassification. We have reviewed the utility's calculation and found that it is correct.

The utility agrees with these adjustments with the exception of three items. The utility disagrees with the AFUDC adjustment discussed above, and therefore, disagrees with the corresponding accumulated depreciation adjustment. As discussed above, a portion of Adjustment E to wastewater plant in service represents removal of a double payment on an invoice. The utility disagrees with the removal of the accumulated depreciation associated with the double payment. We find it appropriate to remove the accumulated depreciation associated with the double payment. Finally, in its response, the utility agreed with audit exception number 11. However, the utility's proposed recalculation of accumulated depreciation did not appear to correspond with our auditor's recommended adjustments. Therefore, we find it appropriate to adjust accumulated depreciation to reflect our auditor's recommended adjustment for audit exception number 11.

#### Contributions-In-Aid-Of-Construction

We find it appropriate to make one adjustment totaling (\$126,635) to the water system's CIAC. As discussed above, the utility and our auditor used data from different years in the rate base calculations. Adjustment A reflects the difference between the utility's proposed December 31, 1993 CIAC and our auditor's December 31, 1994 CIAC.

We find it appropriate to make one adjustment totaling (\$285,489) to the wastewater system's CIAC. Again, Adjustment A reflects the difference between the utility's proposed December 31, 1993 CIAC and our auditor's December 31, 1994 CIAC.



#### Amortization Of CIAC

We find it appropriate to make two adjustments totaling \$87,319 to the water system's amortization of CIAC. Adjustment A reflects the difference between the utility's proposed December 31, 1993 amortization of CIAC and our auditor's December 31, 1994 amortization of CIAC. Adjustment B reflects the reduction of CIAC amortization to comply with Order No. 20434. According to the audit report, the utility used amortization rates of 3.33% for water and 2.5% for wastewater to amortize its CIAC. Pursuant to Order No. 20434, the proper amortization rates were established at 2.9% for water and 3.37% for wastewater. The audit report indicates that the utility's water and wastewater CIAC amortization should be adjusted to comply with the amortization rates authorized by Order No. 20434. In its response to the audit report, the utility agreed with this adjustment.

We find it appropriate to make two adjustments totaling \$245,723 to the wastewater system's amortization of CIAC. As discussed above, Adjustment A reflects the difference between the utility's proposed December 31, 1993 amortization of CIAC and our auditor's December 31, 1994 amortization of CIAC. Adjustment B reflects the increase in CIAC amortization to comply with Order No. 20434 as discussed above.

Based on the adjustments set forth herein, we find that the appropriate rate base for Orange-Osceola Utilities, Inc. is \$2,140,037 for the water system and \$7,118,305 for the wastewater system as of December 31, 1994. This rate base calculation is used purely to establish the net book value of the property being transferred and does not include the normal evolved adjustments of working capital calculations and used and useful adjustments.

#### ACQUISITION ADJUSTMENT

An acquisition adjustment results when the purchase price differs from the original cost calculation. The Agreement states that the purchase price is \$3,650,000 plus the amount of assumed liabilities. The Agreement discusses the liabilities that SSU will assume, but does not provide the amount of the liabilities. A representative of SSU informed our staff that the purchase price will be based upon the amount of the assumed liabilities on the closing date. Although this amount is subject to change, SSU has provided an estimate of the assumed liabilities.

In a letter dated September 1, 1995, SSU stated that assuming SSU and OOU close prior to January 1, 1996, the outstanding principal balance on the first mortgage bonds will be \$9,345,000.

An interest payment of \$414,451 and a principal payment of \$260,000 are due on January 1, 1996. Excluding bond principal and accrued interest, and excluding CIAC gross-up liabilities, OOU's other liabilities totaled \$509,806 at the end of June 1995. Assuming this amount stays relatively constant from June to closing, SSU's assumed liabilities other than the bonds will be approximately \$509,806. Therefore, the estimated purchase price based upon the cash payment and assumed liabilities equals \$13,504,806.

Additionally, the Agreement contains a provision allowing for a purchase price adjustment. The Agreement states if OOU's final adjusted net worth is determined to be less than \$3,398,330, the purchase price shall be reduced dollar for dollar by the amount by which OOU's final adjusted net worth is less than \$3,398,330. Likewise, if the final adjusted net worth is determined to be more than \$3,398,330, the purchase price will be increased dollar for dollar by the amount by which OOU's final adjusted net worth is more than \$3,398,330. The final adjusted net worth will be determined by Price Waterhouse within 45 days after the closing date.

Due to the unknown value of the assumed liabilities and final adjusted net worth, the exact purchase price cannot be determined at this time. However, based upon the utility's estimate as of June 1995, we have calculated an estimated acquisition adjustment. Based upon the utility's estimated purchase price of \$13,504,806, the acquisition adjustment resulting from the transfer of Orange-Osceola Utilities, Inc. would be calculated as follows:

Purchase Price:	\$13,504,806
Commission Calculated Rate Base:	<u>\$ 9,258,342</u>
Positive Acquisition Adjustment:	<u>\$ 4,246,464</u>

In the application, SSU estimated that the total rate base as of December 31, 1993 was \$10,487,302. Compared to the estimated purchase price of \$13,504,806, this would have resulted in a positive acquisition adjustment of \$3,017,504. As discussed above, we are making a number of adjustments to rate base. These adjustments have resulted in a decrease to the rate base estimated in the utility's application. Consequently, the amount of a potential positive acquisition adjustment is higher than originally anticipated in the filing. The application states that no acquisition adjustment is being requested. Further, in its September 1, 1995 letter, SSU requested that we not make an acquisition adjustment at this time.

In the absence of extraordinary circumstances it has been our policy that a subsequent purchase of a utility system at a premium or discount shall not affect the rate base calculation. Although the potential acquisition adjustment appears to be quite significant, the circumstances in this exchange do not appear to be extraordinary. Accordingly, a positive acquisition adjustment shall not be included in the calculation of rate base.

#### RATES AND CHARGES

The utility's approved rates were effective June 12, 1995, pursuant to an administratively approved 1995 price index. The customer deposits became effective on March 8, 1984 for water service and on January 12, 1981 for wastewater service. The service availability charges became effective on February 25, 1986, in Docket No. 850923-WS. The current miscellaneous service charges became effective on December 14, 1988, pursuant to Order No. 20434, in Docket No. 871134-WS. The service problem identification call charge became effective on August 9, 1990, pursuant to Order No. 23281, issued July 31, 1990, in Docket No. 900219-WS.

Additionally, on March 15, 1990, OOU entered into an agreement with Nico Investments, Inc. (Nico) to dispose of its effluent on Nico owned property. The agreement states that OOU will not charge Nico for the effluent service and Nico will not charge OOU for the right to dispose of the effluent on its land. Further, in the event OOU begins charging for this service, Nico may assess OOU an annual charge for the use of its land for the purpose of the effluent disposal.

Rule 25-9.044(1), Florida Administrative Code, provides that:

In case of change of ownership or control of a utility which places the operation under a different or new utility...the company which will thereafter operate the utility business must adopt and use the rates, classification and regulations of the former operating company (unless authorized to change by the Commission)...

SSU has not requested a change in the rates and charges of the utility and we see no reason to change them at this time. However, SSU has requested that all other provisions of SSU's water and wastewater tariffs be applied to the OOU water and wastewater service areas. This would result in the elimination of the following OOU charges: the CIAC gross-up charge, the after-hours



miscellaneous service charges, and the service problem identification charge.

Although it is customary to maintain the utility's current rates, charges and policies, the matter deserves further consideration in this case due to SSU's current uniform rate structure and consolidated tariff. OOU's current rates and charges are shown on Schedule No. 5 attached hereto. The schedule includes SSU's rates along with a bill comparison of the typical residential bills using OOU's and SSU's monthly rates.

The bill comparison indicates that the difference in the customer bills using the OOU rates and SSU rates is small. Additionally, SSU has requested a rate increase for the OOU system in its current rate case, Docket No. 950495-WS. In consideration of the small difference between the rates and forthcoming possible rate increase in Docket No. 950495-WS, we believe it is appropriate to allow SSU to maintain OOU's current rates and charges pending completion of the rate case.

Regarding SSU's request to implement the rules and classifications included in its consolidated tariff, our policy requires utilities to update their tariff to reflect the model tariff in conjunction with rate case proceedings. SSU's consolidated tariff and OOU's current tariff both reflect our model tariff. Therefore, the only changes which will result from implementation of SSU's tariff are the elimination of the CIAC gross-up charge, the after-hours miscellaneous service charges, and the service problem identification charge. SSU does not have authority to charge CIAC gross-up charges; therefore, we believe it is appropriate to eliminate this charge at this time. Also, SSU does not charge after-hours miscellaneous service charges or a service problem identification charge; therefore, we believe it is equitable to eliminate these charges for OOU customers.

As discussed above, OOU has a contract with Nico to dispose of its effluent on Nico owned property. Additionally, we have been informed that the utility is considering making arrangements to dispose of its effluent on a baseball field in the future. The issue of whether or not the utility should be charging for this service is beyond the scope of this application. However, we believe that it does qualify as reclaimed water service; as such, it shall be included in the utility's tariff.

We do not believe that it is appropriate to initiate show cause proceedings against the utility for violating its tariff in this instance. The utility has not assessed any unauthorized charges for the service and in fact may have avoided additional

effluent disposal costs through this type of arrangement. However, in view of the increasing attention to conservation, we believe it is important to recognize this service as a class of service in the utility's tariff. Therefore, the utility shall continue providing the reclaimed water service at no charge. The utility shall file a tariff sheet reflecting the reclaimed water class of service. Our staff will approve the tariff filing effective for services provided or connections made on or after the stamped approval date.

Accordingly, SSU is authorized to continue charging OOU's current rates and charges. Additionally, SSU is authorized to implement its consolidated tariff and eliminate the CIAC gross-up charge, after-hours miscellaneous service charges, and service problem identification charge. The utility has filed a tariff reflecting the transfer of ownership.

Upon expiration of the protest period, if there are no timely protests filed by a person whose interests are substantially affected, to our actions herein, except for the approval of the transfer of the utility and the provision that Southern States Utilities, Inc. is authorized to continue charging Orange-Osceola Utilities, Inc.'s current rates and charges, only to the extent that this order does not propose to change said rates and charges, this docket shall be closed.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that the transfer of Orange-Osceola Utilities, Inc., 2507 Boggy Creek Road, Suite D, Kissimmee, Florida 34744, to Southern States Utilities, Inc., 1000 Color Place, Apopka, Florida 32703 is hereby approved. It is further

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

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

ORDERED that all of the provisions of this Order, except for the approval of the transfer of the utility and the provision that Southern States Utilities, Inc. is authorized to continue charging Orange-Osceola Utilities, Inc.'s current rates and charges, only to the extent that this order does not propose to change said rates and charges, are issued as proposed agency action and shall become final, unless an appropriate petition in the form provided by Rule 25-22.029, Florida Administrative Code, is received by the Director

of Records and Reporting at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the date set forth in the Notice of Further Proceedings below. It is further

ORDERED that Certificate No. 335-W, held by Orange-Osceola Utilities, Inc., is hereby canceled. It is further

ORDERED that Certificate No. 066-W, held by Southern States Utilities, Inc., shall be amended to include the territory reflected on Attachment A of this order. It is further

ORDERED that Certificate No. 289-S, held by Orange-Osceola Utilities, Inc., is hereby transferred to Southern States Utilities, Inc. It is further

ORDERED that Southern States Utilities, Inc. shall file with this Commission an executed and recorded copy of the warranty deeds reflecting its ownership of the utility facilities and land upon which they are located within thirty days of the effective date of this order. It is further

ORDERED that the Allowance for Funds Used During Construction which was included in plant in service from July 1, 1987 to December 31, 1994 shall be removed from the utility's rate base. Corresponding adjustments to decrease accumulated depreciation shall also be made as set forth in the body of this order. It is further

ORDERED that the rate base for purposes of this transfer is \$2,140,037 for the water system and \$7,118,305 for the wastewater system. This rate base calculation is used purely to establish the net book value of the property being transferred and does not include the normal evolved adjustments of working capital calculations and used and useful adjustments. It is further

ORDERED that a positive acquisition adjustment shall not be included in the calculation of rate base. It is further

ORDERED that Southern States Utilities, Inc. shall continue to charge the rates and charges approved in Orange-Osceola Utilities, Inc.'s tariff until authorized to change by this Commission in a subsequent proceeding. Southern States Utilities, Inc. may implement its consolidated tariff for the territory acquired through this transfer. Further, Southern States Utilities, Inc. may eliminate the contributions-in-aid-of-construction gross-up charge, after-hours miscellaneous service charges, and service problem identification charge formerly charged by Orange-Osceola Utilities, Inc. The rates and charges shall be effective for



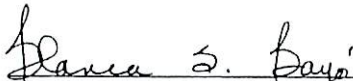
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service rendered or connections made on or after the stamped approval date on the tariff sheets. It is further

ORDERED that Southern States Utilities, Inc. may continue Orange-Osceola Utilities, Inc.'s agreement with Nico Investments, Inc. to dispose of the utility's effluent. As this agreement qualifies as reclaimed water service, Southern States Utilities, Inc. shall file a tariff sheet reflecting the reclaimed water class of service. Upon our staff's finding that the tariff sheet filed is consistent with the provisions set forth in this order, the tariff shall be approved and become effective for services provided or connections made on or after the stamped approval date. It is further

ORDERED that upon expiration of the protest period, if there are no timely protests filed to our actions herein, except for the approval of the transfer of the utility and the provision that Southern States Utilities, Inc. is authorized to continue charging Orange-Osceola Utilities, Inc.'s current rates and charges, only to the extent that this order does not propose to change said rates and charges, by a person whose interests are substantially affected, this docket shall be closed.

By ORDER of the Florida Public Service Commission, this 31st day of October, 1995.



BLANCA S. BAYÓ, Director  
Division of Records and Reporting

( S E A L )

SKE

Commissioner Diane K. Kiesling dissented on the issue of making an adjustment to remove capitalized interest recorded without advanced approval by the Commission.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our action discussed herein, except for the approval of the transfer of the utility and the provision that Southern States Utilities, Inc. is authorized to continue charging Orange-Osceola Utilities, Inc.'s current rates and charges, only to the extent that this order does not propose to change said rates and charges, is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on November 21, 1995. In the absence of such a petition, this order shall become effective on the date subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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

If the relevant portion of this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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



**ATTACHMENT A**

**Southern States Utilities, Inc.**

**Osceola County**

**Serving the Orange-Osceola Utilities System**

**TERRITORY DESCRIPTION**

**BUENAVENTURA LAKES**

The following described lands located in all or part of Sections 1, 2 and 12, Township 25 South, Range 29 East, Osceola County, Florida, and all or part of Sections 6, 7, 8, 17, and 18, Township 25 South, Range 30 East, Osceola County, Florida.

The above areas being more particularly described as follows:

Begin at the Northeast corner of aforementioned Section 7, Township 25 South, Range 30 East, thence South 00° 07' 52" West along the Easterly line of said Section 7 a distance of 2,647.60 feet; thence South 89° 51' 51" East departing said line a distance of 2,660.41 feet; thence South 00° 21' 11" West a distance of 1.95 feet to a point on the Northwesterly right-of-way line of State Road 530; thence South 33° 50' 37" West following said right-of-way line a distance of 3,741.53 feet; thence North 69° 29' 40" West departing said right-of-way line a distance of 1,348.81 feet; thence South 89° 43' 20" West a distance of 1,930.30 feet; thence South 89° 59' 31" West a distance of 2,616.73 feet; thence South 89° 49' 33" West a distance of 2,529.26 feet; thence South 89° 47' 45" West a distance of 1,260.21 feet to a point on the North-easterly right-of-way line of Florida's Sunshine State Parkway; thence North 19° 32' 18" West along said right-of-way line a distance of 4,224.37 feet; thence North 89° 55' 22" East departing said right-of-way line a distance of 22.29 feet; thence North 00° 11' 04" East along the Westerly line of Section 12 a distance of 1,379.83 feet; thence North 89° 47' 38" West a distance of 494.73 feet to a point on the aforementioned right-of-way of the Sunshine State Parkway; thence North 19° 32' 18" West along said right-of-way line a distance of 5,622.16 feet; thence North 89° 58' 17" East departing said right-of-way line a distance of 2,372.93 feet; thence North 89° 50' 55" East a distance of 5,122.77 feet; thence North 89° 53' 57" East a distance of 664.51 feet; thence South 00° 13' 33" East a distance of 1,326.93 feet; thence North 89° 52' 55" East a distance of

662.62 feet; thence South 00° 08' 37" East a distance of 2,321.63 feet; thence North 89° 51' 10" East a distance of 2,640.73 feet; thence South 00° 05' 34" West a distance of 1,657.21 feet; thence North 89° 49' 55" East along the North line of aforementioned Section 7, a distance of 1,322.08 feet to the Point of Beginning.

And

The South half of the Southwest quarter of the Northeast quarter; the South half of the Southeast quarter of the Northwest quarter; the North three-quarters of the Northwest quarter of the Southeast quarter; the North three-quarters of the Northeast quarter of the Southwest quarter; the South half of the Southeast quarter of the Northeast quarter; and the North three-quarters of the Northeast quarter of the Southeast quarter; all in Section 6, Township 25 South, Range 30 East, Osceola, Florida.

Subject to easement for ingress and egress over and across the Easterly 30 feet of the lands described as: the North three-quarters of the Northeast quarter of the Southeast quarter, and the Easterly 30 feet of the Southerly 30 feet of the Northeast quarter, all in Section 6, Township 25 South, Range 30 East, Osceola County, Florida.

And

The Southeast quarter of the Southeast quarter and the South quarter of the Northeast quarter of the Southeast quarter, all in Section 6, Township 25 South, Range 30 East, Osceola County, Florida.

And

Approximately 200 acres of improved land located in Osceola County, Florida, described as follows:

The North half of the Northeast quarter; the North half of the South half of the Northeast quarter; the Northeast quarter of the Northwest quarter; the North half of the Southeast quarter of the Northwest quarter; and the East half of the Northwest quarter of the Northwest quarter, all lying in Section 6, Township 25 South, Range 30 East, Osceola County, Florida, and containing 191.44 acres more or less.

A portion of the Northwest quarter of Section 5, Township 25 South, Range 30 East, Osceola County, Florida, described as follows:

Begin at the Northwest corner of the Northwest quarter of said Section 5; thence South 16° 52' 33" East a distance of 532.16 feet; thence South 28° 09' 15" East a distance of 240.00 feet; thence North 89° 49' 09" West a distance of 270.00 feet to a point on the West line of the Northwest quarter of said Section 5; thence North 00° 10' 51" East, along said West line of the Northwest quarter of said Section 5, a distance of 720.00 feet to the Point of Beginning. This portion contains 1.55 acres more or less.

A portion of the Northwest quarter of Section 5, Township 25 South, Range 30 East, Osceola County, Florida, described as follows:

Commence at the Northwest corner of the Northwest quarter of said Section 5; thence South 00° 10' 51" West, along the West line thereof for a distance of 1,321.09 feet from the Point of Beginning; thence South 50° 35' 41" East a distance of 370.00 feet; thence South 27° 13' 52" East a distance of 419.84 feet to a point on the North line of the South 720 feet of the Southwest quarter of the Northwest quarter of said Section 5; thence South 89° 48' 01" West, along said North line, a distance of 479.93 feet to a point on the West line of the Northwest quarter of said Section 5; thence North 00° 10' 51" East, along said West line, a distance of 609.86 feet to the Point of Beginning. This portion contains 4.06 acres more or less.

And

A portion of Section 5, Township 25 South, Range 30 East, Osceola County, Florida, described as follows:

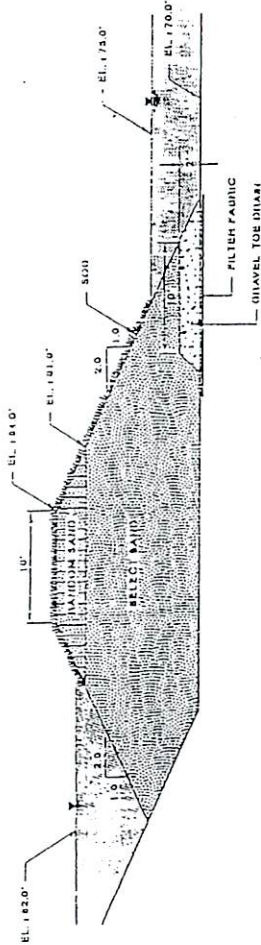
Beginning at the Northwest corner of said Section 5, run North 89° 54' 00" East along the North line of Section 5 a distance of 2,661.37 feet to the Northeast corner of the Northwest quarter of said Section 5; thence North 89° 59' 55" East a distance of 1,329.50 feet to the Northeast corner of the Northwest quarter of the Northeast quarter of said Section 5; thence South 00° 02' 00" West along the East line of the West half of said Northeast quarter of Section 5, a distance of 1,453.31 feet to the Southerly right-of-way line of Osceola Parkway; said right-of-way line being a curve concave to the Southwest having a radius of 5,649.85 feet, run thence Northwesterly along said curve and Southerly right-of-way line, through a central angle of 09° 15' 00" a distance of 912.29 feet to the point of tangency, said curve having a chord of 911.30 feet bearing in North 67° 29' 21" West; run thence North 72° 06' 54" West along said Southerly right-of-way line a distance of 398.57 feet; thence South 17° 53' 06" West a distance of 358.00 feet to the Southeast corner of the Northeast quarter of the Northwest quarter of said Section 5; thence South 89°, 51', 37"



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West a distance of 1,331.80 feet to the Southwest corner of said Northeast quarter of the Northwest quarter of Section 5; thence South  $00^{\circ} 09' 16''$  West, along the East line of the Southwest quarter of the Northwest quarter of said Section 5, a distance of 604.81 feet to the North line of the South 720 feet of the Southwest quarter of the Northwest quarter of said Section 5; thence South  $89^{\circ} 46' 52''$  West, along said North line, a distance of 851.19 feet; thence North  $27^{\circ} 14' 36''$  West, a distance of 419.92 feet; thence North  $50^{\circ} 35' 27''$  West a distance of 370.02 feet to the West line of the Northwest quarter of said Section 5; thence North  $00^{\circ} 09' 56''$  East a distance of 601.09 feet; thence South  $89^{\circ} 50' 17''$  East a distance of 270.00 feet; thence North  $28^{\circ} 11' 39''$  West a distance of 240.00 feet; thence North  $16^{\circ} 52' 49''$  West a distance of 92.18 feet to the Southerly right-of-way of Osceola Parkway; thence North  $16^{\circ} 52' 49''$  West a distance of 439.98 feet to the Point of Beginning.

ATTACHMENT B



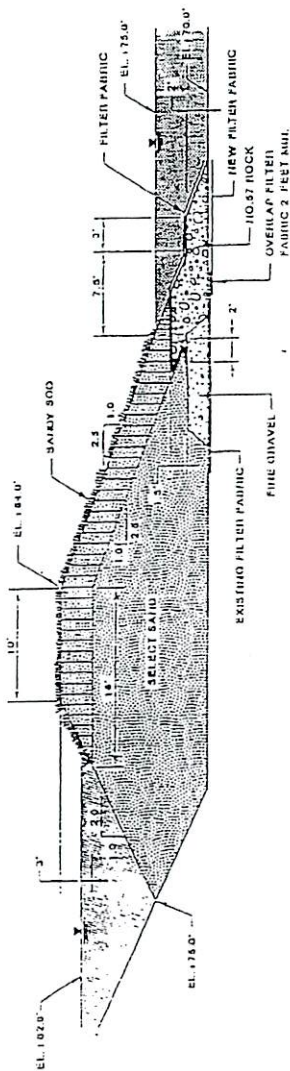
ORIGINAL DESIGN OF FILTRATION DIKE

Argonne & Associates, VEC  
Consulting Engineers in Soil Mechanics,  
Foundation, and Retention Systems

GROESBECKER INFILTRATION BASIN  
ORANGE CROSSLA UTILITIES  
ORANGE COUNTY, FLORIDA

Scale: 1" = 10' (Vertical) 1" = 100' (Horizontal)  
Date: 11/2/88  
96-0026

ATTACHMENT C



PROPOSED DESIGN FOR RECONSTRUCTION OF  
 FILTRATION DIKE

**Ardaman & Associates, Inc.**  
 Consulting Engineers in Soil Mechanics,  
 Foundations, and Marine/Terrace

GROUNDWATER INFILTRATION BASIN  
 ORANGE OSCEOLA UTILITIES  
 OSCEOLA COUNTY, FLORIDA

PROJECT NO. 95-1325-FOF-WS DATE: 03/19/90  
 DRAWN BY: [Signature] CHECKED BY: [Signature]  
 SCALE: 1" = 10'-0"



SCHEDULE NO. 1

ORANGE-OSCEOLA UTILITIES, INC.

SCHEDULE OF WATER RATE BASE

As of December 31, 1994

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>COMMISSION ADJUSTMENTS</u>	<u>BALANCE PER COMMISSION</u>
Utility Plant in Service	\$6,445,889	\$ 31,494 (1)	\$6,477,383
Land	\$ 16,838	\$ 0	\$ 16,838
Accumulated Depreciation	(\$1,400,297)	(\$290,368) (2)	(\$1,690,665)
Contributions- in-aid-of- Construction	(\$3,310,663)	(\$126,635) (3)	(\$3,437,298)
CIAC Amortization	<u>\$ 686,460</u>	<u>\$ 87,319</u> (4)	<u>\$ 773,779</u>
 TOTAL	 <u>\$2,438,227</u>	 <u>(\$298,190)</u>	 <u>\$2,140,037</u>

ORANGE-OSCEOLA UTILITIES, INC.

SCHEDULE OF WATER RATE BASE ADJUSTMENTS

<u>EXPLANATION</u>	<u>ADJUSTMENT</u>
<b>Utility Plant in Service</b>	
A. To adjust utility's December 31, 1993 figures as shown in the application to reflect the audit staff's December 31, 1994 starting figures	\$ 98,156
B. To remove accrued AFUDC	(\$ 28,684)
C. To remove capitalized major expenses	(\$ 10,213)
D. To remove capitalized repair and maintenance expenses	(\$ 5,031)
E. To remove unsupported plant additions	(\$ 4,515)
F. To adjust for vehicle retirements and tractor reclassification	<u>(\$ 18,219)</u>
TOTAL (1)	<u>\$ 31,494</u>
<b>Accumulated Depreciation</b>	
A. To adjust utility's December 31, 1993 figures as shown in the application to reflect the audit staff's December 31, 1994 starting figures	(\$373,115)
B. To remove the accumulated depreciation associated with the AFUDC removed from utility plant in service	\$ 3,636
C. To adjust balance to comply with Orders Nos. 17366 and 20434, and to correspond with remaining audit adjustments to utility plant in service	<u>\$ 79,111</u>
TOTAL (2)	<u>(\$290,368)</u>

ORANGE-OSCEOLA UTILITIES, INC.

SCHEDULE OF WATER RATE BASE ADJUSTMENTS (Continued)

<u>EXPLANATION</u>	<u>ADJUSTMENT</u>
Contributions-in-aid- of-Construction	
A. To adjust utility's December 31, 1993 figures as shown in the application to reflect the audit staff's December 31, 1994 starting figures (3)	<u>(\$126,635)</u>
CIAC Amortization	
A. To adjust utility's December 31, 1993 figures as shown in the application to reflect the audit staff's December 31, 1994 starting figures	\$177,817
B. To reduce balance to comply with Order No. 20434	<u>(\$ 90,498)</u>
TOTAL (4)	<u>\$ 87,319</u>



SCHEDULE NO. 3

ORANGE-OSCEOLA UTILITIES, INC.

SCHEDULE OF WASTEWATER RATE BASE

As of December 31, 1994

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>COMMISSION ADJUSTMENTS</u>	<u>BALANCE PER COMMISSION</u>
Utility Plant in Service	\$16,091,554	(\$284,536) (1)	\$15,807,018
Construction Work In Progress	\$ 315,687	\$ 0	\$ 315,687
Land	\$ 973,149	(\$ 538) (2)	\$ 972,611
Accumulated Depreciation	(\$ 4,112,653)	(\$605,930) (3)	(\$ 4,718,583)
Contributions-in-aid-of-Construction	(\$ 6,388,912)	(\$285,489) (4)	(\$ 6,674,401)
CIAC Amortization	<u>\$ 1,170,250</u>	<u>\$245,723</u> (5)	<u>\$ 1,415,973</u>
TOTAL	<u>\$ 8,049,075</u>	<u>(\$930,770)</u>	<u>\$ 7,118,305</u>

ORANGE-OSCEOLA UTILITIES, INC.

SCHEDULE OF WASTEWATER RATE BASE ADJUSTMENTS

<u>EXPLANATION</u>		<u>ADJUSTMENT</u>
<b>Utility Plant in Service</b>		
A. To adjust utility's December 31, 1993 figures as shown in the application to reflect the audit staff's December 31, 1994 starting figures		\$244,514
B. To remove accrued AFUDC		(\$364,152)
C. To remove capitalized major expenses		(\$ 63,217)
D. To remove capitalized repair and maintenance expenses		(\$ 25,003)
E. To remove unsupported plant additions		(\$ 25,745)
F. To adjust balance to comply with Order No. 20434		(\$ 11,833)
G. To adjust for tractor reclassification and retirement		\$ 8,401
H. To adjust for vehicle retirements and tractor reclassification		(\$ 48,039)
I. To adjust for misclassified additions to plant in service		<u>\$ 538</u>
	TOTAL	(1) <u>(\$284,536)</u>
<b>Land</b>		
A. To adjust for misclassified additions to plant in service		(2) <u>(\$ 538)</u>

ORANGE-OSCEOLA UTILITIES, INC.

SCHEDULE OF WASTEWATER RATE BASE ADJUSTMENTS (Continued)

<u>EXPLANATION</u>		<u>ADJUSTMENT</u>
<b>Accumulated Depreciation</b>		
A. To adjust utility's December 31, 1993 figures as shown in the application to reflect the audit staff's December 31, 1994 starting figures		\$ 20,586
B. To remove the accumulated depreciation associated with the AFUDC removed from utility plant in service		\$ 61,348
C. To adjust balance to comply with Orders Nos. 17366 and 20434, and to correspond with remaining audit adjustments to utility plant in service		<u>(\$687,864)</u>
	TOTAL	(3) <u>(\$605,930)</u>
<b>Contributions-in-aid-of-Construction</b>		
A. To adjust utility's December 31, 1993 figures as shown in the application to reflect the audit staff's December 31, 1994 starting figures	(4)	<u>(\$285,489)</u>
<b>CIAC Amortization</b>		
A. To adjust utility's December 31, 1993 figures as shown in the application to reflect the audit staff's December 31, 1994 starting figures		(\$ 84,005)
B. To increase balance to comply with Order No. 20434		<u>\$329,728</u>
	TOTAL	(5) <u>\$245,723</u>



MONTHLY RATES AND CHARGES OF  
ORANGE-OSCEOLA UTILITIES, INC.

Monthly Service Rates

WATER

	<u>OOU</u>	<u>SSU</u>
<u>Residential and General Service</u>		
<u>Base Facility Charge</u>		
<u>Meter Size:</u>		
5/8" x 3/4"	\$ 4.55	\$ 5.13
3/4"	6.81	7.70
1"	11.37	12.83
1-1/2"	22.71	25.66
2"	36.32	41.05
3"	72.68	82.10
4"	113.56	128.29
6"	227.12	256.57
Gallage Charge per 1,000 gallons:	\$ 1.24	\$ 1.23

Typical Residential Bills

<u>5/8" x 3/4" meter:</u>		
3 M	\$ 8.27	\$ 8.82
5 M	\$ 10.75	\$ 11.28
10 M	\$ 16.95	\$ 17.43

WASTEWATER

	<u>OOU</u>	<u>SSU</u>
<u>Residential Service</u>		
<u>Base Facility Charge</u>		
<u>All Meter Sizes:</u>	\$ 8.57	\$ 12.67
Gallage Charge per 1,000 gallons up to 10,000 gallons:	\$ 4.50	\$ ---
Gallage Charge per 1,000 gallons up to 6,000 gallons:	\$ ---	\$ 3.66

Monthly Service Rates (Continued)

WASTEWATER (Continued)

Typical Residential Bills

5/8" x 3/4" meter:

3 M	\$ 22.07	\$ 23.65
5 M	\$ 31.07	\$ 30.97
6 M	\$ 35.57	\$ 34.63
10 M	\$ 53.57	\$ 34.63

Residential Wastewater Only Service

Flat Rate \$ 29.22 ---

General Service

Base Facility Charge

Meter Size:

5/8" x 3/4"	\$ 8.57	\$ 12.67
3/4"	12.86	19.01
1"	21.42	31.68
1-1/2"	42.83	63.37
2"	68.52	101.39
3"	137.08	202.77
4"	214.16	316.83
6"	428.35	633.66

Gallage Charge

per 1,000 gallons: \$ 5.39 \$ 4.39

CUSTOMER DEPOSITS, MISCELLANEOUS SERVICE CHARGES,  
AND SERVICE AVAILABILITY CHARGES

Customer Deposits

Water:

Residential \$ 35.00  
General Service 35.00

Wastewater:

Residential 15.00  
General Service ---

CUSTOMER DEPOSITS, MISCELLANEOUS SERVICE CHARGES,  
AND SERVICE AVAILABILITY CHARGES (Continued)

Miscellaneous Service Charges

Initial Connection	\$ 15.00
Normal Reconnection	15.00
Violation Reconnection:	
Water	15.00
Wastewater	Actual Cost
Premises Visit (in lieu of disconnection)	10.00
Service Problem Identification Call:	
During regular working hours	10.00
After regular working hours	20.00

Service Availability Charges

**System Capacity Charge**

Water:

Residential - per ERC (350 GPD)	\$ 450.00
All others - per gallon	1.29

Wastewater:

Residential - per ERC (235 GPD)	\$1,350.00
All others - per gallon	5.74

**Meter Installation Fee**

5/8" x 3/4"	\$ 85.00
1"	140.00
1-1/2"	260.00
2"	400.00
Over 2"	Actual Cost

**CIAC Tax Impact Charge**

Actual Cost