

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a staff-)	DOCKET NO. 900293-SU
assisted rate case in Pasco County)	ORDER NO. 23810
by HUDSON UTILITIES, INC.)	ISSUED: 11-27-90
_____)		

The following Commissioners participated in the disposition of this matter:

MICHAEL MCK. WILSON, Chairman
 THOMAS M. BEARD
 BETTY EASLEY
 GERALD L. GUNTER
 FRANK S. MESSERSMITH

FINAL ORDER GRANTING TEMPORARY RATES AND SERVICE
 AVAILABILITY CHARGES IN THE EVENT OF PROTEST

AND

NOTICE OF PROPOSED AGENCY ACTION
 ORDER APPROVING INCREASED RATES AND CHARGES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the actions discussed herein, except the granting of increased rates and charges on a temporary basis in the event of a protest, are preliminary in nature, and as such, 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.

CASE BACKGROUND

Hudson Utilities, Inc., (Hudson or utility) is a wastewater utility located in Pasco County, Florida. On April 17, 1990, Hudson applied for the instant staff-assisted rate case. Due to imminent projected extraordinary growth in customers, contributions-in-aid-of-construction (CIAC), and utility assets, we have selected a projected twelve-month period ending December 31, 1990, adjusted for annualization of expenses and projections where appropriate, as the test year for setting rates.

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Hudson is currently pursuing an aggressive expansion plan by which it is projected to add approximately 5,000 customers within the next seven years. A portion of the projected customer growth will come from persons who reside within the service area and currently use septic tanks. By the end of this year, the utility will be providing service to its existing 282 residential and 47 general service connections as well as approximately 405 additional connections. Hudson will acquire the nearby Viva Villas system and amend its certificate of authorization accordingly. Hudson will also amend its certificate of authorization to include the Club Wildwood Mobile Home Park. Club Wildwood and Viva Villas are not yet in Hudson's approved certificated territory. However, at the October 23, 1990, Agenda Conference, this Commission gave Hudson authorization to interconnect Viva Villas on an interim emergency basis because of the deterioration of the Viva Villas plant. The Club Wildwood Mobile Home Park amendment, processed under Docket No. 900020-SU, was approved at the November 20, 1990, Agenda Conference. Club Wildwood's flows will be measured by a master meter and will be treated as one general service customer, although approximately 478 lots will be served.

Phase I construction costs of the expansion are estimated to be \$3,358,860; Phase II construction costs are estimated to be \$3,760,428. The utility has already proceeded with the initial sections of Phase I. Hudson expects to receive some \$3.5 million in taxable bond proceeds for the completion of Phase I from William R. Hough & Co. of St. Petersburg.

A customer meeting was held on September 20, 1990, in the utility's service area to allow customers the opportunity to provide quality of service testimony and ask questions about the rate case generally. The concerns raised by the customers are addressed in the body of this Order.

QUALITY OF SERVICE

Since Hudson provides wastewater collection service only, the Department of Environmental Regulation (DER) has limited jurisdiction over the utility's operation. Nonetheless, DER has no outstanding citations or corrective orders against this utility.

While in the service area, our engineer spoke with several customers to determine their satisfaction with the utility's

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quality of service. The customers who responded had no problems with the service. The engineer also telephoned several customers who had experienced problems with their service in the past. These customers indicated that the utility's response had been prompt and to their satisfaction. During the field investigation, the engineer observed that the system's lift stations were operating satisfactorily and appeared to be adequately serviced and well maintained.

On September 20, 1990, the Commission Staff held a customer meeting in Hudson's service area to obtain first-hand information about the utility's quality of service and to discuss any other concerns of the customers. During this meeting, no quality of service complaints were brought up by the customers. The customers were concerned with the cost of service, service availability fees, and the use of "Hudson Bay" as the name of the utility. We will address these concerns elsewhere in the body of this Order.

In consideration of the above, we find that the utility's quality of service is satisfactory.

RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is depicted on Schedule No. 1, and our adjustments are itemized on Schedule No. 1-A. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Used and Useful

Hudson's existing collection system consists of approximately 8,450 feet of four-inch force main, 19,000 feet of six-inch force main, 1,400 feet of eight-inch force main, 15,070 feet of eight-inch gravity main, eight lift stations, 45 manholes, and 370 service laterals. The system was providing service to approximately 319 connections as of December 31, 1989.

Although approximately 80 percent of the existing connections to the collection system are receiving service, we find the system to be currently 100 percent used and useful due to the even

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distribution of the customers throughout the collection system and the constant demand for service.

In the future, the utility will be installing lines in areas with an immediate demand, similar to what exists currently. Thus, on a prospective basis, we find that the system will remain 100 percent used and useful for the projected test year.

Plant-In-Service

Plant-in-service was last established in Commission Order No. 16893 to be \$219,102 as of December 31, 1985. During 1986, the utility expended \$31,019.77 for plant additions and retired a \$3,392.04 flow meter; during 1987, it expended \$172,482 for plant additions; during 1988, it expended \$232,590; during 1989, it expended \$46,592; and during the first six months of 1990, it expended \$73,311. The historical expenditures were related primarily to the installation of mains and lift stations. Plant-in-service as of June 30, 1990, was, therefore, \$771,706.

As stated earlier, Hudson will be hooking-up the Viva Villas system and the Club Wildwood Mobile Home Park. Our inclusion of the plant, CIAC, customers, and serving costs of Viva Villas and Club Wildwood do not cause any cross-subsidization by the current Hudson ratepayers. If anything, the current ratepayers are benefitted because fixed costs are spread across a larger customer base.

Plant costs associated with the projected growth, excluding Viva Villas, amount to \$304,912.00, \$92,838.50 of which is attributable to Club Wildwood. Viva Villas will be "connected" to Hudson through a new main. Viva Villas' flows will be measured by its own flow meter. Also, because Viva Villas' collection system is in a deteriorated state, excess infiltration exists. Hudson has said that it will have a video survey done and make repairs where needed. The estimated costs associated with dismantling the Viva Villas package plant and interconnecting its customers to Hudson's collection system are as follows: \$49,000 to dismantle and remove the package plant and refill the percolation pond, \$13,000 to rebuild the lift station, \$14,000 to pay for master bulk flow meter, \$3,000 to pay for force main, and \$30,000 to conduct video survey and to make necessary repairs to the collection system. Total estimated costs are \$109,000.

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In Order No. 15788, we found that Viva Villas' plant-in-service as of April 30, 1985, was \$170,920. Of that amount \$32,708 was attributed to treatment and disposal facilities and \$6,000 was attributed to land. Since the treatment and disposal system and the land will no longer be used, we believe it appropriate to recognize the retirement of the \$32,708 treatment and disposal system and of \$55,000 in land cost, which we have calculated by adding the \$6,000 in original cost to the \$49,000 needed to remove the package plant and refill the percolation pond.

Therefore, in consideration of the above, we find that the utility's projected plant-in-service as of December 31, 1990, is \$1,268,830.

Land

The utility has no treatment facilities. Its wastewater is treated by Pasco County. For this reason, the utility has no land used in providing service. Therefore, the amount of land to be included in rate base is \$0.

Accumulated Depreciation and Amortization

Accumulated depreciation was established in Commission Order No. 16893 to be \$24,293 as of December 31, 1985. Using the depreciation rates prescribed by Rule 25-30.140, Florida Administrative Code, and our adjusted plant balances, we calculate a composite rate of 3.91% for 1986, 3.91% for 1987, 3.97% for 1988, and 3.93% for 1989. Based on historical plant through December 31, 1989, as determined herein, we have calculated that, as of December 31, 1989, accumulated depreciation was \$90,955.

Based on actual plant additions as of June 30, 1990, and projected plant additions, including those for Viva Villas for July 1 through December 31, 1990, we shall include in accumulated depreciation an additional \$37,735 for the projected 1990 depreciation expense and an additional \$28,953 for the accumulated depreciation of Viva Villas' plant, which will remain in service.

Therefore, in consideration of the above, we find that the proper balance of accumulated depreciation and amortization of plant-in-service for the test year is \$157,644.

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Contributions-in-Aid-of-Construction (CIAC)

In Order No. 16893, we established the CIAC balance as of December 31, 1985, to be \$167,137. During the period January 1, 1986, through December 31, 1988, the utility received \$103,891 in contributions. Therefore, CIAC as of December 31, 1988, was \$271,028. During 1989, the utility received \$55,468, and during the first six months of 1990, it received an additional \$25,718 in contributions. Therefore, the CIAC balance as of June 30, 1990, was \$352,214.

In addition, we consider it appropriate to give recognition to CIAC related to the projected plant-in-service discussed earlier. We therefore will include \$289,716 of additional CIAC to account for projected plant.

Therefore, in consideration of the above, we find that the proper test year balance of CIAC is \$641,930.

Accumulated Amortization of CIAC

Accumulated amortization of CIAC was established in Order No. 16893 to be \$53,399 as of December 31, 1985. We have updated this balance through December 31, 1989, using the historical CIAC balances and the composite depreciation rates calculated above. We find that as of December 31, 1989, accumulated amortization is \$88,010.

Based on actual CIAC additions up to June 30, 1990, and projected CIAC additions, including those for Viva Villas, for the period July 1 through December 31, 1990, we shall recognize additional accumulated CIAC amortization of \$18,576.45 for 1990's projected amortization and \$30,488 for accumulated CIAC amortization of the Viva Villas plant. Therefore, in consideration of the above, we find that test year accumulated amortization of CIAC is \$137,074.

Advances-For-Construction

The utility has executed numerous contracts for the construction of mains to provide service to commercial customers. A portion of the cost of the mains is paid up front by the establishment requesting service. Based on the hydraulic share of the establishment which first requested service, and upon the other

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establishments which will connect eventually, the utility has treated a portion of the funds as CIAC and the other portion as advances-for-construction. As of June 30, 1990, the utility recorded a balance of \$144,246.11 as advances-for-construction. No additional contracts of this nature for commercial customers have been executed to date, and none are anticipated before the end of the test year. Therefore, we find that the proper balance for advances-for-construction for the test year is \$144,246.

Working Capital

Consistent with Rule 25-30.443, Florida Administrative Code, we have used the one-eighth of operation and maintenance (O & M) expenses method to calculate the working capital allowance for the utility.

Based on the \$394,362 which we have projected as the utility's O & M expenses, we find that the utility's working capital allowance for the projected test year is \$49,295.

Test Year Rate Base

Given the above calculations for plant-in-service, accumulated depreciation and amortization of plant-in-service, CIAC, accumulated amortization of CIAC, advances for construction, and working capital allowance, we find that test year rate base is \$511,380.

COST OF CAPITAL

Our calculation of the appropriate cost of capital, including our adjustments, is depicted on Schedule No. 2. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on that schedule without further discussion in the body of this Order.

Return on Equity

In Order No. 23318, issued on August 7, 1990, we established the current leverage formula to be used in calculating equity returns for water and wastewater utilities. Given Hudson's historical capital structure and the \$400,000 loan which Hudson received from William R. Hough & Co. on July 11, 1990, we calculate the utility's equity ratio to be .0905. Order No. 23318 caps

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equity returns at 13.51 percent for utilities whose equity ratios are .40 or less. Accordingly, because the current equity ratio is .0905, we find that the appropriate return on equity is 13.51 percent, with a range of 12.51 percent to 14.51 percent.

Overall Rate of Return

The utility's historical capital structure was comprised of 12 percent debt owed to the Seventh-Day Adventists, the former majority stock holder; 8 percent debt owed to the utility's present stockholders; 10 percent debt owed to Al Meyer; common stock; additional paid-in-capital; and negative retained earnings. On July 11, 1990, the utility obtained new debt through William R. Hough and Company, in St. Petersburg, in the amount of \$400,000 at 13 percent. The debt owed to the Seventh-Day Adventists and Al Meyer was retired with part of the proceeds from Hough.

In calculating the utility's weighted cost of capital, we have used the capital structure components' test year weight (excluding retired debt), a 12.65 percent weighted average interest rate on current outstanding debt, and 13.51 percent equity return. We find that the utility's overall cost of capital is 12.73 percent.

NET OPERATING INCOME

Our calculation of net operating income is depicted on Schedule No. 3, with our adjustments itemized on Schedules Nos. 3-A and 3-B. Those adjustment which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Projected Annualized Revenue

Based on a projected 686 residential and 48 general service test year customers and the current rates, we calculate annualized revenues, before adjustment for increased rates, to be \$447,764.

Operation & Maintenance Expense (O & M)

We have reviewed the utility's expense accounts for proper amounts, periods, and classifications and made adjustments to reclassify certain expenses and to reflect certain allowances

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necessary for plant operation. A summary of our adjustments follows.

1) Salaries and Wages - Employees. During the audit period of July 1, 1989, through June 30, 1990, the utility recorded \$11,176.55 in this account. As all services provided to the utility were performed under contract, we reclassified \$10,462.55 of the total to Contractual Services - Labor, Maintenance and \$714 to Contractual Services - Office. The resulting balance for this account is zero.

On a prospective basis, however, our tabulation changes. The utility recently opened and is currently in the process of staffing an office on Highway 19 near the service area in anticipation of adding 404 residential customers and Club Wildwood by the end of the year. The utility president believes that he will need a full-time manager and two full-time field persons as well as an office manager to handle the needs of the utility's influx of customers. Also, the utility anticipates adding two lift stations by the end of the year to its existing eight lift stations. The field persons will check, maintain, and clean the lift stations, complete the logs, respond to customer complaints, make repairs, and perform the meter-reading duties. The utility believes it will need two full-time field persons, at \$10 per hour and \$8 per hour, respectively.

Upon consideration, we believe that only a part-time manager, one full-time field person and one part-time field person will be necessary. We therefore shall allow \$17,014 for the manager's salary and \$29,120 per year for the field personnel.

Based on the above, we find that the appropriate level of salaries and wages - employees for the test year is \$46,134.

2) Salaries and Wages - Officers, Directors, Stockholders. During the audited period, the utility recorded zero in this account. As all services provided to the utility were performed under contract, the audited total is also zero.

On a prospective basis, however, we will allow the utility to recover an amount for this expense. The utility will soon have an office manager. As part of her duties, the office manager will be responsible for keeping track of the new customers and the disconnects, keeping utility records, handling the billing and

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collection functions, and providing customer contact. We believe \$11.50 per hour to be reasonable compensation for these duties and, therefore, approve an allowance of \$23,920 per year for this expense.

3) Pensions and Benefits. During the audit period, no expenditures were made for pensions and benefits, as all services were performed under contract. Therefore the audited test year balance is zero.

On a prospective basis, we estimate the utility's share of health insurance premiums to be \$100 per month per employee. For the projected test year, the utility estimates having four employees. Based on the above cost estimate and the projected number of employees, we approve an allowance of \$4,800 per year for this expense.

4) Purchased Wastewater Treatment. During the audit period, the utility recorded \$86,846.14 in wastewater treatment costs. Because the audit period encompassed two historical accounting periods, the year-end adjusting journal entries for 1989 were included in our audit period, but the adjusting entries to be made at calendar year end 1990 were not. Therefore, transactions recorded during the test period differed from actual costs for the test period by \$25,108.46. Based on our examination of Pasco County's invoices, we find that \$61,737.68 is the proper audited total for this account. Therefore, we have reduced the utility's recorded amount by \$25,108.46.

Using projected customers, 70,347,000 gallons of estimated flows, and the current wastewater treatment cost of \$4.13 per thousand gallons, we find that projected annualized wastewater treatment costs are \$290,533. As this figure was arrived at for a prospective period, we made an annualizing adjustment so that purchased sewage treatment cost is increased by \$228,795.32.

We therefore find that the proper amount for purchased sewage treatment for the test period is \$290,533.

5) Purchased Power. During the audit period, the utility recorded \$3,416.42 in this account. Our review of audit period expenses has revealed that \$14.24 in lift station power expense was recorded in miscellaneous expense. In addition, the purchased power account balance contained \$466.33 in power costs for the

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utility office. We have therefore reclassified \$14.24 from miscellaneous expenses to purchased power and reclassified \$466.33 from purchased power to miscellaneous expenses. The net result of these two adjustments is a decrease in the audited account balance to \$2,964.33.

Based on annual flows through the lift stations and current power cost, we estimate the utility's projected power cost to be \$5,201 annually. We have therefore made a pro forma increase of \$2,236.67 to reflect this projection.

6) Materials and Supplies. The utility recorded \$3,907.86 in materials and supplies during the audit period. After our audit of the transactions, we reclassified \$576.80 to plant-in-service and \$300.31 to transportation expense, leaving an audited total of \$3,030.75 for the test period, which we believe to be reasonable.

During 1989, the average cost per connection for materials and supplies was \$9.08. During the first six months of 1990, the average cost was \$10.98 per connection. By multiplying \$10.03, an average of the cost per connection from both periods, by the 734 projected year-end connections, we find that \$7,362, the product, is the appropriate amount for test year materials and supplies.

7) Contractual Services - Accounting. The utility recorded \$3,183.39 during the audit period. Of this amount, \$406.99 was for computerized customer bills and \$1,700 was for computer services provided to develop a billing and collections program. We have reclassified \$406.99 to miscellaneous expense and three-quarters of the computer program costs, or \$1,275, as a deferred debit. This leaves audited expenses at \$1,501.40. This \$1,501.40 balance reflects recurring accounting fees for monthly write-up work, annual report and income tax preparation and filing. We therefore find that \$1,501.40 is the appropriate amount for test year accounting services.

8) Contractual Services - Management. The utility recorded \$19,200 for services provided by the utility's president. Although this amount may have been justified in prior years, the utility president is now spending more time on his construction company. Furthermore, as we have herein approved salaries for a manager, field personnel, and an office manager, we believe it appropriate to reduce this account to zero on a prospective basis. Therefore,

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we find that the proper amount for management services for the test year is zero.

9) Contractual Services - Office. During the audit period, the utility recorded \$5,244 for services performed by two office persons. We have increased this account by \$714 to reflect our earlier reclassification from salaries and wages - employees. The audited test year total, then, is \$5,958. The office persons have been responsible for billing, collections, check writing, banking, limited meter reading, and general office duties. Since January of this year, one of the office persons has been fulfilling the office duties, and the other office person has been compensated by Morelli Construction, the utility president's construction company. Based on the foregoing, we believe that the audited balance of \$5,958 is reasonable.

However, as one of the utility's stockholders will now manage the office as an employee, we find it appropriate to reduce this account to zero on a prospective basis. Therefore, we find that the proper amount for office services for the test year is zero.

10) Contractual Services - Maintenance and Repair Labor. The utility recorded zero in this account during the audit period. As stated earlier, we have reclassified \$10,462.55 from salaries and wages - employees to this account. This \$10,462.55 payment covers routine checks and maintenance on the utility's eight lift stations (including wash downs, mowing, and the logging of daily power usage), repairs to the lift stations and lines, and meter readings of the general service customers' water meters. Based on the number of lift stations and the average number of customers during the test year, we believe this amount to be reasonable.

Nonetheless, we shall reduce this account to zero on a prospective basis. As two field persons will perform the aforementioned maintenance duties and be compensated as employees, the utility will no longer need contractual services for maintenance. Therefore, we find that the proper amount for maintenance services for the test year is zero.

11) Rental Expense - Office. The utility recorded \$3,000 during the audit period for office rent. This represents a monthly rental fee of \$250 for the utility's office on U.S. Highway 19 in Hudson. As we believe this amount to be reasonable on a historical

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and prospective basis, we find that the proper amount for office rent for the test year is \$3,000.

12) Rental Expense - Equipment. The utility recorded \$1,200 in this account during the audit period. This amount represents the \$100 a month which the utility president charges for the utility's use of his heavy equipment. As we believe this amount to be reasonable on a historical and prospective basis, we find that the proper amount for equipment rent for the test year to is \$1,200.

13) Rental Expense - Copier and Fax. During the audit period, the utility recorded \$1,416.69 in this account. The amount represents eleven monthly lease payments of \$128.79 for a copier and facsimile machine. We increased the recorded amount by \$128.79 to allow for a twelfth payment. The utility president has recently formed a separated corporation named Morelli Construction, and Morelli Construction is tracking the costs of utility plant expansion. According to the utility president, the tracking service is being provided by a separate corporation as a requirement of the bonding agent, William R. Hough and Co. As Morelli Construction requires a separate office, telephone line, and secretary/bookkeeper, we believe that one-half of the copier and facsimile's usage will be for construction activities and, thus, should be charged to Morelli. We have therefore reclassified one-half of the recorded amount, or \$772.74, as nonutility expense and find that the proper amount for rent for the copier and fax equipment is \$772.74.

14) Transportation Expense. During the audit period, the utility recorded \$177.10 in this account. As stated earlier, we have reclassified \$300.31 from materials and supplies to this account, leaving an audited test period total of \$477.41. This amount is attributable to repairs to and tires for the utility president's truck. Because the utility president is not a utility employee, but rather bills his time to the utility under contract, we believe that truck repairs are an inappropriate cost to the utility, and we therefore reclassify the \$477.41 as nonutility expense.

On a prospective basis, the utility will need two vehicles for utility-related activities. We shall therefore allow the utility an allowance of \$2,340 for repairs, insurance, and gasoline for these two vehicles.

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15) Insurance Expense. The utility recorded zero in this account during the audit year. We believe this is appropriate. To date, the utility has no employees and, hence, no group policies, and the utility does not carry any liability insurance.

On a prospective basis, we will allow the utility \$1,415 for worker's compensation. We base this figure on the payroll approved herein and the rate of \$4.14 per \$100 of pay for field personnel and \$.51 per \$100 of payroll for the office personnel.

16) Regulatory Commission Expense. During the audit period, the utility recorded \$50 in this account. This amount represents a "right-of-way" permit, which we have reclassified as CWIP, leaving an audited regulatory Commission expense of zero.

On a prospective basis, we need only consider the treatment of the \$900 filing fee for this proceeding and \$300 in other costs for extra mailings and time spent by the utility's Certified Public Accountant. Consistent with Commission policy, we shall reclassify three-quarters of the \$1,200 total as a deferred debt and allow the utility one-quarter as a current expense. Therefore, we find that the proper amount for regulatory Commission expense for the test year is \$300.

17) Miscellaneous Expenses. The utility recorded \$7,859.92 in miscellaneous expenses during the audit period. We have reclassified as nonutility expenses \$3,568.11, which we believe should be charged to Morelli Construction and to other nonutility activities, and \$531.88, which is attributable to costs related to the last rate case, penalties, donations, and contributions. We have also reclassified \$114 to plant-in-service and \$14.24 to purchased power. As stated earlier, we have reclassified \$406.99 from materials and supplies and \$466.33 from purchased power to this account. Consequently, we find audit period miscellaneous expenses to be \$4,505. This amount consists of \$360 in purchased water for two lift stations, \$920 for telephone costs, \$834 for postage, \$1,178 for office supplies, \$466 for power for the office, \$650 for bank service charges, and \$97 in other miscellaneous costs.

Furthermore, the utility's monthly bill for water services to its lift stations has increased from \$15 to \$17.50. Hudson will be adding lift stations, which will also need water, by year's end. To allow for these changes, we hereby approve a pro forma increase

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of \$690 to this account. Also, the utility estimates that additional customers will increase postage costs by \$687.55, which we find to be reasonable. We therefore find that the proper amount for miscellaneous expenses for the test year is \$5,882.61.

In summary, we have increased recorded test year operating expenses by \$247,683.68, from \$146,678.07 to \$394,361.75.

Depreciation Expense

Using the projected average plant balances and the depreciation rates prescribed by Rule 25-30.140, Florida Administrative Code, we find that the proper depreciation expense is \$37,735.54 and that the composite depreciation rate is 3.84 percent.

Amortization of Bond Issuance Cost

During late 1988, 1989, and early 1990, Hudson expended \$94,148.68 for services performed in anticipation of \$3,500,000 in tax-free bond financing which did not materialize. This expenditure is mainly comprised of an engineering feasibility study, attorney fees, and accounting fees. In July of this year, however, William R. Hough & Co. loaned the utility \$400,000 as the first installment of overall financing of approximately \$3,505,000 in taxable bonds. According to the utility, the overall financing will be payable over a twenty-five year period.

Given the above and our examination of the individual components of the \$94,148.68 expended, we determined that \$4,170.86 of the \$94,148.68 provided no benefit to the utility's obtaining the \$400,000 "interim" financing or the \$3,505,000 permanent financing. We have therefore reduced the costs to \$89,977.82. Conversely, the closing statement for the \$400,000 interim financing reflected a \$13,449 charge in additional costs directly related to the interim financing. While we believe it appropriate to recognize \$103,426.82 as the full borrowing costs, we shall amortize this amount over a twenty-five year period so that recovery matches the projected repayment term of the permanent financing. Therefore, we find that \$4,137 is the proper amount of bond cost amortization for the test year.

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Viva Villas Loss

As discussed earlier, Hudson is acquiring the Viva Villas system. The land upon which Viva Villas' treatment and disposal facilities are located and the treatment and disposal facilities will be retired, as the collection system will be interconnected with Hudson's existing system. Therefore, we believe it appropriate to recognize the loss or gain associated with the disposition of Viva Villas' assets.

The original cost of land included in Viva Villas rate base is \$6,000. Hudson estimates that it will cost \$49,000 to dismantle the Viva Villas treatment facility and to fill the existing percolation pond. The utility also believes, based on recent sales adjusted for lot improvements, the land has a fair market value of \$10,000 to \$12,000 per acre; the utility represents that the plant is on 1.6 acres. We therefore calculate the loss to be \$35,000; that is, the \$6,000 original cost of the land plus the \$49,000 cost of removal less the \$20,000 market value of the land. Consistent with our past decisions, we shall amortize the loss over a four year period. Therefore, we find that the proper amount of loss to be included in test year rate base is \$8,750.

CIAC Amortization

Using projected average test year CIAC and the 3.84 percent composite depreciation rate, we find that the proper amount of test year CIAC amortization is \$18,576.45.

Taxes Other Than Income Taxes

Taxes other than income taxes includes payroll taxes, regulatory assessment fees and tangible property taxes. We calculated payroll taxes to be \$5,359.13 based on a \$70,054 payroll and the current social security tax rate of 7.65 percent. We calculated regulatory assessment fees based on the revenue requirement approved herein and find \$23,910 to be the proper amount. The utility's tangible property tax for 1989 was \$10,572.95, if paid in November 1989. We find this amount to be proper. We find that total taxes other than income taxes are \$39,842.29.

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Income Taxes

As of December 31, 1989, the utility had net operating loss carry forwards of \$57,125. Allowing for projected interest expense, we calculate projected taxable income to be a negative figure. Therefore, we find that the proper amount of income tax expense for the test year is zero.

Test Year Operating Loss

We project test year revenues annualized for the year-end number of customers and the current rates to be \$447,763.68. Projected test year expenses are \$462,489.19. We therefore find that the projected test year operating loss is \$14,725.51.

Revenue Requirement

Based upon the utility's books and records and the adjustments discussed above, we find that the appropriate annual revenue requirement is \$531,337.77. This revenue requirement represents an annual increase in revenue of \$83,574.09, or 18.67 percent. This revenue requirement will allow the utility to recover its expenses and allow it an opportunity to earn a 12.73 percent return on its investment.

RATES AND CHARGES

Since Hudson provides wastewater services only, water service is provided to the existing customers by Hudson Waterworks, a nonregulated cooperative. The cooperative recently agreed to provide water consumption data to Hudson. Currently, Hudson charges a flat rate for residential service. Our preferred structure is the base facility charge (BFC) structure.

The BFC allows the utility to track costs and allows the customers to have some control over their bills. The customer pays for his or her pro rata share of the fixed costs necessary to provide utility service through the base facility charge and pays for his or her usage through the gallonage charge. Accordingly, we will change the existing rate structure for single-family residences from the flat rate structure to the BFC rate structure. The general service customers' water meters are currently read by Hudson and are billed based on water consumption.

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We find that the rates set forth below are fair, just, reasonable, and not unfairly discriminatory. These rates have been designed to allow Hudson to recover its operating expenses of \$466,248.84 and earn a 12.73 percent return on its investment. The utility's existing rates and those approved herein are set forth below for the purpose of comparison.

MONTHLY RATES

RESIDENTIAL SERVICE

<u>Base Facility Charge</u>	<u>Present</u>	<u>Approved</u>
<u>Meter Size</u>		
All meter sizes	\$33.51	\$ 13.68
Gallonage Charge per 1,000 gallons (maximum of 10,000 gallons per month)	N/A	\$ 4.41

MULTI-RESIDENTIAL AND GENERAL SERVICE

<u>Base Facility Charge</u>	<u>Present</u>	<u>Approved</u>
<u>Meter Size</u>		
5/8" x 3/4	\$ 4.80	\$ 13.68
Full 3/4"	7.19	20.52
1"	11.99	34.20
1 1/2"	23.96	68.40
2"	38.35	109.44
3"	76.68	218.88
4"	119.81	342.00
6"	239.64	684.00
8"	383.52	1,094.40
10"	551.15	1,573.20
Gallonage Charge per 1000 gallons (no limit)	\$ 4.80	\$ 5.29

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BULK FLOW METER SERVICE

<u>Base Facility Charge</u> <u>Meter Size</u>	<u>Present</u>	<u>Approved</u>
5/8" x 3/4"	N/A	\$ 13.68
Full 3/4"	N/A	20.52
1"	N/A	34.20

<u>Base Facility Charge</u> <u>Meter Size</u>	<u>Present</u>	<u>Approved</u>
1 1/2"	N/A	68.40
2"	N/A	109.44
3"	N/A	218.88
4"	N/A	342.00
6"	N/A	684.00
8"	N/A	1,094.40
10"	N/A	1,573.20

Gallage Charge per 1000 gallons (no limit)	N/A	\$ 5.51
---	-----	---------

By Order No. 23685, as amended, the Commission authorized the emergency connection between Viva Villas and Hudson. The Commission also approved Hudson's charging its rates and charges to the Viva Villas area on an emergency, temporary basis in order to forestall further losses to Hudson resulting from the interconnection. We ordered the difference between Hudson's rates and the amount Hudson pays to Pasco County for bulk treatment to be placed in escrow, subject to refund, pending completion of the transfer and a limited proceeding.

We believe it is appropriate to include the Viva Villas customers in the rate changes approved herein. The Viva Villas plant costs, CIAC, and customers have been incorporated into the designed rates. Therefore, we find that the rates approved in this proceeding shall also apply to the Viva Villas system. In addition, the amount the utility is required to escrow under Order No. 23685, as amended, shall be calculated using the rates and charges approved for Hudson herein.

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The rates approved herein shall be effective for meter readings taken on or after thirty days after the stamped approval date on the revised tariff pages. The revised tariff pages will be approved upon Staff's verification that the tariffs are consistent with our decision herein, that the proposed customer notice is adequate, and upon expiration of the protest period. The customer notice should specifically reference Viva Villas' unique situation and state that the Hudson rates approved herein are subject to refund and will remain temporary pending completion of the limited proceeding and transfer in Docket No. 900832-SU.

Miscellaneous Service Charges

Currently, the utility's tariff provides for the following miscellaneous service charges:

Initial Connection	\$10.00
Normal Reconnection	\$10.00
Premises Visit Charge (in lieu of disconnection)	\$ 5.00
Reconnection after discontinuance for violation	\$10.00 plus actual cost of plugging and reconnecting service

Based upon our analysis of the labor and materials required for these services, we find that the following miscellaneous service charges are reasonable and consistent with Rule 25-30.345, Florida Administrative Code.

Initial Connection	\$15.00
Normal Reconnection	15.00
Violation Reconnection	Actual Cost
Premises Visit (in lieu of disconnection)	10.00

The charges outlined above are designed to more accurately defray the costs associated with each service and place the responsibility for the cost on the persons creating it rather than the ratepaying body as a whole. The charges will be effective for service rendered on or after the stamped approval date on revised tariff sheets.

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The following is a description of each service:

(1) Initial Connection: This charge is to be levied for service initiation at a location where service did not exist previously.

(2) Normal Reconnection: This charge is to be levied for transfer of service to a new customer account at a previously-served location, or reconnection of service subsequent to a customer-requested disconnection.

(3) Violation Reconnection: This charge is to be levied prior to reconnection of service for cause according to Rule 25-30.320(2), Florida Administrative Code, including a delinquency in bill payment. (Actual cost is limited to direct labor and equipment rental).

(4) Premises Visit Charge (in lieu of disconnection): This charge is to be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

Service Availability Charges

The utility's current service availability policy provides for a system capacity charge of \$265 per ERC, where an ERC is assumed to equal 224 gallons per day (gpd). A more recent analysis indicates that an ERC is 173 gpd.

As previously stated, the utility is currently undertaking an aggressive expansion program which will entail \$6,936,385 in additional plant expenditures subsequent to the end of the projected test year. Using the current service availability charges, \$6,936,385 of projected additional capital expenditures, 5,002 additional ERCs, and seven years to reach designed capacity, we calculate that the utility would be 24% contributed at its designed capacity.

Rule 25-30.580, Florida Administrative Code, states that contributions should not be less than the percentage that the collection system is to total plant, nor should it be more than 75 percent of net plant at designed capacity. We do not believe that

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this rule fits this utility's circumstances. Hudson's plant consists exclusively of its collection system. Application of the rule would therefore require that the utility be 100 percent contributed at a minimum and 75 percent contributed at a maximum.

Rule 25-30.580, Florida Administrative Code, was designed to produce a desirable mix of investor and customer investment in utility assets. Using the projections outlined above, we find that a service availability charge of \$1,000 per ERC will result in the utility's being approximately 75 percent contributed at designed capacity. We believe that this \$1,000 charge satisfies the intent of the rule and creates a healthy capital mix.

The service availability charge shall be effective for connections made on or after the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon Staff's verification that the tariffs are consistent with our decision herein and that the proposed customer notice is adequate.

Customers Deposits

Currently, the utility's tariff does not provide for the collection of customer deposits. The utility has been experiencing difficulty in collecting bills for the last month of service from some customers. For this reason, the utility requests approval of an initial customer deposit of \$60.00, as well as specific criteria for the establishment of credit, payment of eight percent interest on all residential customer deposits, and a refund of residential deposits after twenty-three months of satisfactory payment.

As it appears that the request is in compliance with Rule 25-30.311, Florida Administrative Code, it may be approved administratively by Staff pursuant to Chapter 2.08(C)(9)(a), Administrative Procedures Manual.

RATES AND SERVICE AVAILABILITY CHARGES
IN THE EVENT OF PROTEST

This Order proposes an increase in wastewater rates and service availability charges. A timely protest could delay what may be a justified rate and charge increase, pending a formal hearing and final order in this case, resulting in an unrecoverable loss of revenue to the utility. Specifically, we are concerned that a protest of this Order could place a disproportionate burden

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on customers who would have to pay the service availability charge after the formal hearing and final order. Also, the increased rates and service availability charges are critical to the utility's financing arrangement with the bonding company.

Accordingly, in the event that a timely protest is filed by anyone other than the utility, we hereby authorize the utility to collect the service rates and service availability charges approved herein, on a temporary basis, subject to refund, provided that it furnishes security for such a potential refund. The security should either be a bond or letter of credit in the amount of \$365,000 or the utility may establish another escrow account with an independent financial institution pursuant to a written agreement. Any withdrawals of funds from this escrow account are subject to the prior approval of this Commission through the Director of the Division of Records and Reporting.

The utility must keep an accurate account, in detail of all monies received by said increase, specifying by whom and on whose behalf such amounts were paid. The utility shall also file a report, no later than the twentieth day of each month that the temporary rates are in effect, showing the amount of revenues collected as a result of the temporary rates and the amount of revenues that would have been collected under the prior rates. Should a refund be required, the refund would be with interest, pursuant to Rule 25-30.360, Florida Administrative Code.

The utility is authorized to implement the temporary rates and charges only after providing the above discussed security and Staff's approval of the revised tariff sheets and customer notice.

RATES AFTER AMORTIZATION OF RATE CASE EXPENSE

Section 367.0816, Florida Statutes, states that:

The amount of rate case expense determined by the Commission pursuant to the provision of this chapter to be recovered through a public utility's rates shall be apportioned for recovery over a period of four years. At the conclusion of the recovery period, the rate of the public utility shall be reduced immediately by the amount of rate case expense previously included in rates.

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Earlier, we approved \$1,200 as regulatory Commission expense. Based on the four year amortization period and a gross-up for regulatory assessment fees, we will include \$314.14 in the utility's rates. At the end of four years, Hudson's rates shall be reduced by \$314.14 annually. Based on existing circumstances, the effect of this rate reduction would be an approximate \$.03 reduction in the utility's base facility charge for a 5/8 inch x 3/4 inch meter. The reduction results in the following rates:

MONTHLY RATES

RESIDENTIAL SERVICE

<u>Base Facility Charge</u>	<u>Approved</u>
<u>Meter Size</u>	
All meter sizes	\$ 13.65
Gallonage Charge per 1,000 gallons (maximum of 10,000 gallons per month)	\$ 4.41

MULTI-RESIDENTIAL AND GENERAL SERVICE

<u>Base Facility Charge</u>	<u>Approved</u>
<u>Meter Size</u>	
5/8" x 3/4"	\$ 13.65
Full 3/4"	20.47
1"	34.13
1 1/2"	68.26
2"	109.22
3"	218.44
4"	341.32
6"	682.64
8"	1,092.00
10"	1,569.75
Gallonage Charge per 1000 gallons (no limit)	\$ 5.29

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BULK FLOW METER SERVICE

Base Facility Charge

<u>Meter Size</u>	<u>Approved</u>
5/8" x 3/4"	\$ 13.65
Full 3/4"	20.47
1"	34.13
1 1/2"	68.26
2"	109.22
3"	218.44
4"	341.32
6"	682.64
8"	1,092.00
10"	1,569.75

Gallage Charge per 1000 gallons (no limit)	\$ 5.51
---	---------

The utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility also shall file a proposed customer letter setting forth the lower rates and the reason for the reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

CHANGE IN NAME

At the September 20, 1990, customer meeting, one customer stated that he received his wastewater bill from Hudson Bay Company. The company president explained that the proper name of the utility is Hudson Utilities, Inc., doing business as (d/b/a) Hudson Bay Company. The reason for the different name, he explained, was that people were confusing Hudson Utilities, Inc., with Hudson Waterworks, the water company and would send their payments to the wrong party. To avoid further confusion, the utility began doing business under a slightly different name.

We have learned that the utility is registered with the Clerk of the Circuit Court in Pasco County as doing business under a fictitious name, as it is required to do by Section 865.09,

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Florida Statutes. The utility's letterhead lists both names, Hudson Bay Co. first and Hudson Utilities, Inc., below it.

We approve this name change, and we find that the utility should return its certificate within thirty (30) days for entry reflecting its proper name as Hudson Utilities, Inc., d/b/a Hudson Bay Company. The utility should submit revised tariff sheets within thirty (30) days reflecting its name as Hudson Utilities, Inc., d/b/a Hudson Bay Company.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of Hudson Utilities, Inc., for an increase in its wastewater rates in Pasco County is approved as set forth in the body of this Order. 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 body of this Order and in the schedules attached hereto are by reference incorporated herein. It is further

ORDERED that the provisions of this Order issued as proposed agency action shall become final, unless an appropriate petition in the form provided by Rule 25-22.029, Florida Administrative Code, is received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the date set forth in the Notice of Further Proceedings below. It is further

ORDERED that Hudson Utilities, Inc., is authorized to charge the new rates and charges set forth in the body of this Order. It is further

ORDERED that the rates approved herein shall be effective for meter readings taken on or after thirty (30) days after the stamped approval date on the revised tariff pages. It is further

ORDERED that the service availability charges approved herein shall be effective for connections made on or after the stamped approval date on the revised tariff pages. It is further

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ORDERED that the miscellaneous service charges approved herein shall be effective for services rendered on or after the stamped approval date on the revised tariff pages. It is further

ORDERED that prior to its implementation of the rates approved herein, Hudson Utilities, Inc., shall submit and have approved a proposed notice to its customers of the increased rates and charges and the reasons therefor. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, Hudson Utilities, Inc., shall submit within thirty (30) days of this Order and have approved revised tariff pages. The revised tariff pages will be approved upon Staff's verification that the pages are consistent with our decision herein and that the protest period has expired. It is further

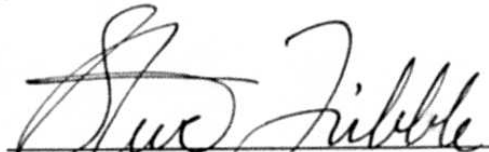
ORDERED that in the event of a protest by any substantially affected person other than the utility, Hudson Utilities, Inc., is authorized to collect the rates and service availability charges approved herein on a temporary basis, subject to refund in accordance with Rule 25-30.360, Florida Administrative Code, provided that Hudson Utilities, Inc., has provided satisfactory security for any potential refund and provided that it has submitted and Staff has approved revised tariff pages and a proposed customer notice. It is further

ORDERED that the amount which Hudson Utilities, Inc., was ordered to escrow under Order No. 23685, as amended, shall be calculated using the rates and charges approved for the utility herein. It is further

ORDERED that within thirty (30) days Hudson Utilities, Inc., shall return its certificate to the Commission for entry reflecting its proper name as Hudson Utilities, Inc., d/b/a Hudson Bay Company and shall submit revised tariff sheets reflecting its proper name as Hudson Utilities, Inc., d/b/a Hudson Bay Company.

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By ORDER of the Florida Public Service Commission, this 27th
of NOVEMBER, 1990.



STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

MF

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, except for the setting of rates and service availability charges in the event of protest, are preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on December 18, 1990. 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

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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 sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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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SCHEDULE NO. 1
PAGE 1 OF 1

WASTEWATER RATE BASE
PROJECTED TEST YEAR ENDING
DECEMBER 31, 1990

	BALANCE PER UTILITY (06/30/90)		COMMISSION ADJUSTMENTS	PROJECTED BALANCE PER COMMISSION (12/31/90)
	-----		-----	-----
LAND AND LAND RIGHTS	\$0		\$0	\$0
DEPRECIABLE PLANT IN SERVICE	\$766,180	A	\$502,650	\$1,268,830
ACCUMULATED DEPRECIATION AND AMORTIZATION OF PLANT IN SERVICE	(\$99,715)	B	(\$57,929)	(\$157,644)
CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)	(\$355,983)	C	(\$285,946)	(\$641,930)
ACCUMULATED AMORTIZATION OF CIAC	\$90,886	D	\$46,188	\$137,074
ADVANCES FOR CONSTRUCTION	(\$144,246)		\$0	(\$144,246)
WORKING CAPITAL ALLOWANCE	\$0	E	\$49,295	\$49,295
	-----		-----	-----
	\$257,122		\$254,258	\$511,380
	=====		=====	=====

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SCHEDULE NO. 1-A
PAGE 1 OF 1

ADJUSTMENTS TO WASTEWATER RATE BASE
TEST YEAR ENDED DECEMBER 31, 1990

A. DEPRECIABLE PLANT IN SERVICE	
1. Adjust to audited balance at 06/30/90	\$5,526.41
2. Projected plant additions 07/01/90 through 12/31/90	\$584,832.00
3. Projected retirement of Viva Villas treatment and disposal facilities, including the associated land	(\$87,708.00)

	\$502,650.41
	=====
B. ACCUMULATED DEPRECIATION AND AMORTIZATION OF PLANT IN SERVICE	
1. Adjust to audited balance at 12/31/89	\$3,960.00
2. Projected depreciation expense for 01/01/90 through 12/31/90	(\$32,936.00)
3. Projected accumulated depreciation from Viva Villas	(\$28,953.00)

	(\$57,929.00)
	=====
C. CONTRIBUTIONS IN AID OF CONSTRUCTION	
1. Adjust to audited balance at 06/30/90	\$3,770.00
2. Projected CIAC from Viva Villas	(\$141,461.00)
3. Projected CIAC related to projected plant in service	(\$148,255.00)

	(\$285,946.00)
	=====
D. ACCUMULATED AMORTIZATION OF CIAC	
1. Adjust to audited balance at 12/31/89	\$214.00
2. Projected amortization for 01/01/90 through 12/31/90	\$15,486.15
3. Projected accumulated amortization from Viva Villas	\$30,488.00

	\$46,188.15
	=====
E. WORKING CAPITAL ALLOWANCE	
Projected working capital allowance based on one-eighth of O & M expenses (\$394,362 / 8)	\$49,295.00
	=====

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SCHEDULE NO. 2
 PAGE 1 OF 1

COST OF CAPITAL/OVERALL RATE OF RETURN
 PROJECTED TEST YEAR ENDING
 DECEMBER 31, 1990

	BALANCE PER UTILITY	RECONCILIATION AND COMMISSION ADJUSTMENTS	BALANCE PER COMMISSION	RATIO	COST	WEIGHTED COST
	-----	-----	-----	-----	-----	-----
STOCKHOLDERS' EQUITY	(\$47,352.32)	\$1,060.09	(\$46,292.23)	0.0905	0.1351	0.0122
LONG-TERM DEBT	(\$475,738.28)	\$10,650.50	(\$465,087.78)	0.9095	0.1265	0.1150
	-----	-----	-----	-----		-----
	(\$523,090.60)	\$11,710.59	(\$511,380.01)	1.0000		0.1273
	=====	=====	=====	=====		=====

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SCHEDULE NO. 3
PAGE 1 OF 1

NET OPERATING INCOME
PROJECTED TEST YEAR ENDING
DECEMBER 31, 1990

	TOTAL PER UTILITY 07/01/89 TO 06/30/90	COMMISSION ADJUSTMENTS	PROJECTED TOTAL PER COMMISSION	ADJUSTMENTS FOR INCREASE	TOTAL FOR INCREASE
	-----	-----	-----	-----	-----
OPERATING REVENUE	(\$116,308.87)	A (\$331,454.81)	(\$447,763.68)	H (\$83,574.09)	(\$531,337.77)
OPERATING AND MAINTENANCE EXPENSES	\$146,678.07	B \$247,683.68	\$394,361.75	\$0.00	\$394,361.75
DEPRECIATION AND AMORTIZATION	\$27,503.00	C \$10,232.54	\$37,735.54	\$0.00	\$37,735.54
AMORTIZATION OF BOND ISSUANCE COSTS	\$0.00	D \$4,137.00	\$4,137.00	\$0.00	\$4,137.00
AMORTIZATION OF LOSS	\$0.00	E \$8,750.00	\$8,750.00	\$0.00	\$8,750.00
CIAC AMORTIZATION	(\$11,441.00)	F (\$7,135.45)	(\$18,576.45)	\$0.00	(\$18,576.45)
TAXES OTHER THAN INCOME TAXES	\$20,769.02	G \$15,312.33	\$36,081.35	I \$3,760.83	\$39,841.00
INCOME TAX EXPENSE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	-----	-----	-----	-----	-----
OPERATING EXPENSES	\$183,509.09	\$278,980.10	\$462,489.19	\$3,760.83	\$466,248.84
	-----	-----	-----	-----	-----
NET OPERATING (INCOME)/LOSS	\$67,200.22	(\$52,474.71)	\$14,725.51	(\$79,813.26)	(\$65,087.68)
	-----	-----	-----	-----	-----
WASTEWATER RATE BASE	\$257,121.53		\$511,380.01		\$511,380.01
	-----		-----		-----
RATE OF RETURN	-0.2614		-0.0288		0.1273
	-----		-----		-----

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SCHEDULE NO. 3-A
PAGE 1 OF 4

ADJUSTMENTS TO NET OPERATING INCOME
TEST YEAR ENDED DECEMBER 31, 1990

A. OPERATING REVENUE

Adjust to projected revenues based
on projected year end customers and
current rates (\$331,454.81)

B. OPERATING AND MAINTENANCE EXPENSES

1. Reclassify to contractual services for
period 07/01/89 to 06/30/90 (\$11,176.55)

1a Project salaries and wages of a manager
(part-time); a full-time field person;
and a part-time field person \$46,134.00

\$34,957.45

2. Project salary of office manager \$23,920.00

3. Project utility's share of health insurance
premiums, based on projected employees \$4,800.00

4. Reclassify as prior period adjustment
based on audited costs for period 07/01/89
through 6/30/90 (\$25,108.46)

4a. Pro forma adjustment, based on projected
gallons of 70,347,000 and current cost of
treatment at \$4.13/thousand gallons \$228,795.32

\$203,686.86

5. Reclassify power expense related to a
lift station from miscellaneous expenses \$14.24

5a. Reclassify power expense related to office
to miscellaneous expense (\$466.33)

5b. Pro forma adjustment based on estimated
flows and current power costs \$2,236.67

\$1,784.58

6. Reclassified as plant in service (\$576.80)

6a. Reclassified as transportation expense (\$300.31)

6b. Pro forma adjustment based on average
historical cost and projected customers \$4,331.25

\$3,454.14

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SCHEDULE NO. 3-A
PAGE 2 OF 4

7. Reclassify customer bills to miscellaneous expenses	(\$406.99)
7a. Reclassify three-quarters of computer programming costs as deferred debit	(\$1,275.00)

	(\$1,681.99)
8. Pro forma adjustment to recognize that test year services for utility management will be performed by personnel in projected test period	(\$19,200.00)
9. Reclassified from salaries and wages - employees	\$714.00
9a. Pro forma adjustment to recognize that test year services for office management will be performed by personnel in projected test period	(\$5,958.00)

	(\$5,244.00)
10. Reclassify from salaries and wages - employees	\$10,462.55
10a. Pro forma adjustment to recognize that test year services will be performed by utility personnel in projected test year	(\$10,462.55)

	\$0.00
11.	\$0.00
12.	\$0.00
13. Adjust to reflect twelve months of lease payments	\$128.79
13a. Reclassify one-half of total annual lease costs of facsimile and Savin copier as nonutility expense	(\$772.74)

	(\$643.95)
14. Reclassify from materials and supplies	\$300.31
14a. Pro forma adjustment to recognize employees' projected business use of personal vehicles	\$1,862.59

	\$2,162.90

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SCHEDULE NO. 3-A
PAGE 3 OF 4

15. Pro forma allowance for workers compensation on projected payroll levels and current rates	\$1,415.00
16. Reclassified "right of way" permit as CWIP	(\$50.00)
16a. Pro forma allowance for \$900 filing fee and \$300 in other costs related to this proceeding	\$1,200.00
16b. Reclassify three-quarters of rate case expense as a deferred debit	(\$900.00)

	\$250.00
17. Reclassify as nonutility expenses	(\$4,099.99)
17a. Reclassify to plant in service	(\$114.00)
17b. Reclassify to purchased power	(\$14.24)
17c. Reclassified from materials and supplies	\$406.99
17d. Reclassified from purchased power expense	\$466.33
17d. Pro forma allowance for increase in cost of water and number of taps	\$690.00
17e. Pro forma allowance for increase in postage based on projected customers	\$687.60

	(\$1,977.31)

TOTAL O & M EXPENSE ADJUSTMENTS	\$247,683.68

C. DEPRECIATION AND AMORTIZATION	
Pro forma adjustment based on rates per Rule 25-30.140, FAC, and projected plant balances	\$10,232.54

D. AMORTIZATION OF BOND ISSUANCE COSTS	
Pro forma allowance for amortization of bond costs over a twenty-five year period	\$4,137.00

E. AMORTIZATION OF LOSS ON DISPOSITION OF UTILITY PROPERTY	
Pro forma allowance for amortization of Viva Villas retired plant over a four-year period	\$8,750.00

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F. CIAC AMORTIZATION	
Pro forma adjustment based on composite depreciation rate and projected levels of CIAC	
	(\$7,135.45)
	=====
G. TAXES OTHER THAN INCOME TAXES	
1. Pro forma allowance for payroll taxes	\$5,359.13
2. Pro forma allowance for regulatory assessment fees based on projected annualized revenues and 4.5 percent	\$9,953.20

	\$15,312.33
	=====
H. OPERATING REVENUE	
Pro forma increase to allow the utility the opportunity to recover its projected expenses and earn a 12.73 percent return on its projected investment	
	(\$83,574.09)
	=====
I. TAXES OTHER THAN INCOME TAXES	
Pro forma allowance for regulatory assessment fees associated with increased revenues	
	\$3,760.83
	=====

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DETAIL OF OPERATING AND MAINTENANCE EXPENSES
PROJECTED TEST YEAR ENDING
DECEMBER 31, 1990

	TOTAL PER UTILITY 07/01/89 TO 06/30/90		COMMISSION ADJUSTMENTS	TOTAL PER COMMISSION (PROJECTED)
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SALARIES AND WAGES - EMPLOYEES	\$11,176.55	(1)	\$34,957.45	\$46,134.00
SALARIES AND WAGES - OFFICERS, DIRECTORS, STOCKHOLDERS	\$0.00	(2)	\$23,920.00	\$23,920.00
PENSIONS AND BENEFITS	\$0.00	(3)	\$4,800.00	\$4,800.00
PURCHASED SEWAGE TREATMENT	\$86,846.14	(4)	\$203,686.86	\$290,533.00
PURCHASED POWER	\$3,416.42	(5)	\$1,784.58	\$5,201.00
MATERIALS AND SUPPLIES	\$3,907.86	(6)	\$3,454.14	\$7,362.00
CONTRACTUAL SERVICES - ACCOUNTING	\$3,183.39	(7)	(\$1,681.99)	\$1,501.40
CONTRACTUAL SERVICES - MANAGEMENT	\$19,200.00	(8)	(\$19,200.00)	\$0.00
CONTRACTUAL SERVICES - OFFICE	\$5,244.00	(9)	(\$5,244.00)	\$0.00
CONTRACTUAL SERVICES - MNTCE. LABOR	\$0.00	(10)	\$0.00	\$0.00
RENTAL EXPENSE - OFFICE	\$3,000.00	(11)	\$0.00	\$3,000.00
RENTAL EXPENSE - EQUIPMENT	\$1,200.00	(12)	\$0.00	\$1,200.00
RENTAL EXPENSE - COPIER AND FAX	\$1,416.69	(13)	(\$643.95)	\$772.74
TRANSPORTATION EXPENSE	\$177.10	(14)	\$2,162.90	\$2,340.00
INSURANCE EXPENSE	\$0.00	(15)	\$1,415.00	\$1,415.00
REGULATORY COMMISSION EXPENSE	\$50.00	(16)	\$250.00	\$300.00
MISCELLANEOUS EXPENSES	\$7,859.92	(17)	(\$1,977.31)	\$5,882.61
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	\$146,678.07		\$247,683.68	\$394,361.75
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