BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application of Southern) DOCKET NO. 920655-WS
States Utilities, Inc., for) ORDER NO. PSC-93-1070-FOF-WS
Increased Water and Wastewater) ISSUED: 07/23/93
Rates in Collier County (Marco)
Island Utilities).)
______________________________)

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
SUSAN F. CLARK
LUIS J. LAUREDO

APPEARANCES: KENNETH A. HOFFMAN, Esquire, Messer, Vickers, Caparello, Madsen, Lewis, Goldman, & Metz, P.A., 215 South Monroe Street, First Bank Building, Suite 701, Tallahassee, Florida, 32301, and BRIAN P. ARMSTRONG, Esquire, Southern States Utilities, Inc., 1000 Color Place Apopka, Florida 32703-7753
<u>On behalf of Southern States Utilities, Inc. (Marco Island Systems)</u>.

JACK SHREVE, Esquire, and STEVE REILLY, Esquire, Office of Public Counsel, The Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida, 32399-1400
<u>On behalf of the Citizens of the State of Florida</u>.

RICHARD F. BERGMANN, Gulfview Club #1503, 58 North Collier Boulevard, Marco Island, Florida 33937
<u>On behalf of Richard Bergmann and Gulfview Apartments of Marco Island, Inc.</u>

LILA A. JABER, Esquire, and REX GOLDEN, Esquire, Florida Public Service Commission, 101 E. Gaines Street, Tallahassee, Florida, 32399-0862
<u>On behalf of the Commission Staff</u>.

FINAL ORDER SETTING RATES AND CHARGES

BY THE COMMISSION:

Background

On August 10, 1992, Southern States Utilities, Inc. (SSU or utility), a Class A water and wastewater utility, filed an application for authority to increase water and wastewater rates and charges for its Marco Island systems in Collier County. On September 9, 1992, the utility completed the minimum filing requirements (MFRs) for a general rate increase and that date was established as the official filing date for this proceeding. A projected test year ending April 30, 1993, was approved for establishing final rates. The test year for the interim rate increase was the historical test year which ended April 30, 1992.

According to the utility's MFRs, annual revenues for the twelve month period ended April 30, 1992, were $4,135,902 for water and $1,090,910 for wastewater. The Marco Island systems are in an area that has been designated by the South Florida Water Management District (SFWMD) as a critical use area.

By Order No. PSC-92-1359-FOF-WS, issued November 23, 1992, this Commission suspended the utility's proposed rates and granted interim rate increases of $2,488,974 or 60.17 percent for water and $1,191,123 or 90.44 percent for wastewater which are being held subject to refund. The Office of Public Counsel's (OPC) intervention was acknowledged by Order No. PSC-92-1050-PCO-WS, issued September 23, 1992. By Order No. PSC-93-0310-PCO-WS, issued February 25, 1993, the Commission granted the Petition to Intervene filed by Mr. Richard Bergmann, a customer of the utility and President of Gulfview Apartments of Marco Island, Inc., also a customer of the utility.

The utility requested final rates designed to generate annual revenues of $8,571,656 for water and $3,343,777 for wastewater. The corresponding requested revenue increases are $4,394,093 or 105.18 percent for water and $1,519,000 or 83.24 percent for wastewater.

On February 26, 1993, a prehearing conference was held in Tallahassee, Florida. The hearing was held on March 8 and 9, 1993, in Marco Island and continued on March 26, 1993, in Tallahassee, Florida. At the hearing, thirty-one customers testified.

Finding of Fact, Law, and Policy

Having heard the evidence presented at the hearing in this proceeding and having reviewed the recommendation of the Commission Staff (Staff), as well as the briefs of the parties, we now enter our findings and conclusions.

STIPULATIONS

Prior to the hearing, the utility, OPC, Mr. Bergmann and Staff agreed upon a number of stipulations. At the hearing, we accepted the following stipulations:

CATEGORY A

The parties agree to the final resolution, including all requests for reconsideration and appeals of the Commission's decision in Docket No. 920199-WS on the following issues:

1. In consideration of the gain associated with sale of the St. Augustine Shores system, test year expenses for Marco Island should be reduced by $11,722 for water and $2,755 for wastewater. Further, OPC agrees to withdraw its proposed adjustment for the removal of dollars associated with the gain from the equity portion of the utility's capital structure. Based on this stipulation, the utility withdraws the following portions of Mr. Sandbulte's rebuttal testimony: page 4, line 9 beginning with the word "First" through line 13 ending with the word "structure"; page 4, line 20 through page 6, line 1; and page 6, line 18 through page 9, line 5. Based on this stipulation, OPC withdraws the following portions of Ms. Dismukes' testimony: page 2, line 2 beginning with the word "In" through page 3, line 1 ending with the word "Shores"; page 25, line 17 through page 26, line 13; and OPC agrees that Ms. Dismukes' Exhibit (KHD) 1, Schedule 7 is modified to be consistent with this stipulation.

2. General plant should be allocated based on the number of customers. Administrative and general expenses should be allocated based on the number of customers. Based on this

stipulation, the utility agrees to withdraw page 8, line 10 through page 14, line 18 of Mr. Ludsen's direct testimony and page 1, line 4 through page 9, line 13 of Mr. Ludsen's rebuttal testimony. Based on this stipulation, OPC agrees to withdraw the following portions of Ms. Dismukes' testimony: page 2, line 19 beginning with the word "In" through line 21 ending with the word "Island"; page 4, line 14 through page 17, line 21; page 22, line 21 through page 24, line 1; and Schedules 2 and 3 to Exhibit (KHD) 1.

3. No adjustment is necessary for the Price Waterhouse study regarding the Employee Saving Plan.

CATEGORY B

Those stipulations where OPC, Mr. Bergmann, the utility, and Staff agreed are set forth below:

1. The rate base provision for deferred income taxes should be reduced to the extent prepaid amounts (debit accounts) correspond to interim rates from Docket No. 900329-WS which are to be refunded.

2. Test year revenues should be adjusted to reflect the authorized rates prior to Docket No. 900329-WS.

3. Test year expenses should be reduced by $2,024 to reflect above-the-line treatment for vendor discounts.

4. The cost of debt capital should be adjusted to reflect the change in interest rates as of the time of the hearing for variable-cost debt components.

5. Implementation of FAS 109 should be revenue neutral.

6. The test year provision for merger costs should be amortized over 5 years for a $380 ($477 x 80 percent) reduction to expenses.

7. Test year expenses should be reduced by $24 to remove charitable contributions.

8. Test year expenses should be reduced by $163 to remove chamber of commerce dues and other public relations expenses from the test year.

9. Gas advertising expenses should be reduced as follows:

Gas Promotional	$388
Condemnation Expenses	$ 67
Lehigh Promotional	$ 19
Lehigh Rate Case	$ 12
Public Relations	$ 89
Not Supported	$ 13

10. Test year expenses should be reduced as follows:

Drinking Water Analysis	$2,895
Write-Off Variance in General Ledger	$3,484
Reconciliation Adjustment	$ 167
1990 Accounts Payable Write-Off	$ (19)
Write-Off Deferred Rip-Rap	$4,435

11. Test year expenses should be reduced by $3,316 to reflect an over accrual of materials and supplies.

12. The utility should file a service availability case for the Marco Island systems within two years.

13. The Allowance for Funds Prudently Invested (AFPI) rate should be adjusted to conform with the approved cost of capital, the used-and-useful reduction to net plant, the used-and-useful adjustment to property taxes, and all other used-and-useful corrections.

14. If the Commission approves the accrual method for post-retirement benefits, expenses should be reduced by $2,987.

15. Depreciation expense should be reduced by $7,500 to reflect retirement of percolation ponds. Since this is a normal retirement, plant-in-service and accumulated depreciation should each be reduced by $135,000.

16. Test year expenses should be reduced by $199 to remove a duplicate payment to Minnesota Power and Light for intangible taxes.

17. The Allowance for Funds Used During Construction (AFUDC) rate should conform to the authorized cost of capital.

18. The appropriate cost rate for the deferred investment tax credits is the weighted cost rate of short-term debt, long-term debt, common stock and preferred stock shown on Schedule D of the MFRs because the Company has made a valid election under Section 46(f)(2) of the Internal Revenue Code (IRC).

19. Plant-in-service should be increased by $900 for the Reverse Osmosis (R.O.) Clearing Test which was expensed and should have been capitalized and by $3,460 for the rebuilding of a lime sludge pump, which was expensed and should have been capitalized.

20. Test year expenses should be reduced by $900 for the R.O. Clearing Test which was expensed and should have been capitalized and by $3,460 for the rebuilding of a lime sludge pump which was expensed and should have been capitalized.

21. Test year revenues should be increased by $10,000 for effluent sales and by $11,000 for Marco Shores' billing errors.

<u>CATEGORY C</u>

Those stipulations where the utility and Staff agreed, but none of the other parties took positions or participated in the stipulations are set forth below:

1. Private fire protection rates should be equivalent to 1/3 the approved base facility charges for comparable meter sizes of 4" and above for fire hydrants and 2" and above for sprinkler systems.

2. The wastewater gallonage charge should be calculated based on the assumption that 80 percent of water sold to residential customers, 96 percent of water sold to general service customers, and 100 percent of water sold to bulk wastewater service customers is returned to the wastewater system.

3. The cap for residential wastewater service should be approved at 10,000 gallons.

4. The new final rates should be effective for services rendered on or after the stamped approval date of the tariff sheets. The utility should be allowed to prorate the customer bills so that the rates become effective on the same day for all customers.

5. The cost of equity should be set using the leverage formula in effect at the time of the Agenda Conference for the final order in this case. The range for the cost of equity should be plus or minus 100 basis points.

QUALITY OF SERVICE

Our analysis of the overall quality of service provided by the utility is based upon evidence received regarding the utility's compliance with the Department of Environmental Regulation's (DER) rules and other regulatory agencies, the quality of the utility's production of water and wastewater, the operational conditions of the utility's plants, and customer satisfaction. The customers were given two opportunities to present evidence regarding quality of service and their concerns are addressed below.

At the portion of the hearing held in Marco Island, Florida on March 8 and 9, 1993, thirty utility customers testified including Mr. Bergmann who intervened in this rate proceeding as a separate party. All thirty customers expressed opposition to the proposed rate increases and several gave testimony about specific quality of service issues.

A former president of the Marco Island Civic Association testified that he had no quality of service problems at the present time involving low water pressure, although there was a problem in the past. Another testified that the pressure is good and averaged between 68 and 70 pounds per square inch (PSI). One customer testified that the water did not taste very good. Another customer testified that the water is yellowish-green and smells like iodine. The customer went on to testify that a water purification salesman told him that the Marco Island water was corrosive. One customer states he had noticed a modest increase in water pressure and testified that the water at room temperature had a definite chemical taste to it now, after the R.O. plant went on line, but when the water was refrigerated he could not notice a major difference.

OPC's Brief states that while the water probably meets DER's minimum standards, the taste and drinkability of the water is not satisfactory and has not improved. Mr. Bergmann presented extensive testimony concerning the corrosivity of the R.O. water and the potential for future problems, particularly in the antiquated distribution system. Mr. Bergmann did testify that he thought the utility had improved its pressure and delivery of water.

Utility witness Denny testified on the subject of the corrosivity of the water. He testified that the Langlier Saturation Index of -1.17 was within the DER guidelines of plus or minus 2, since the utility has been using the chemical stabilizer, hexametaphosphate.

Staff presented two DER witnesses. Mr. Robert D. Glenn testified on the quality of water and Mr. James V. Grob testified on the quality of wastewater. Corrosivity was not addressed by the DER witnesses. Mr. Glenn's testimony supported the utility's position that the water met state and federal quality standards and that chemical analyses of raw and finished water do not indicate the need for additional treatment. Staff Witness Glenn also testified that the utility maintains the required chlorine residual throughout the distribution system. Staff Witness Grob testified that DER required the utility to construct an odor control system so as to minimize adverse effects resulting from odors, noise, and aerosol drift.

While we agree that the water has a metallic or chemical taste for some customers, this is not a measurable violation and consequently not a basis for a finding of unsatisfactory quality of service. Witness Bergmann testified at great length over the potential for corrosivity as a result of the R.O. water. The utility, however, presented evidence that SFWMD, the regulatory authority with jurisdiction over the supply and use of water in South Florida, commended SSU for its efforts to construct the R.O. plant and SFWMD further confirmed that the R.O. plant was the most expeditious and cost-effective means of obtaining necessary water supplies on Marco Island.

There were no specific customer complaints about the wastewater system nor were there any adverse comments or complaints about the service provided by utility personnel. Several customers expressed interest in expanding the wastewater effluent reuse system. Based on the testimony in the record, we find the quality of water and wastewater service provided by Marco Island to be satisfactory.

RATE BASE

Our calculations of the appropriate rate bases are depicted on Schedule No. 1-A for the water system and on Schedule No. 1-B for the wastewater system. Our adjustments are itemized on Schedule No. 1-C. 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.

Plant-in-Service

OPC witness Dismukes proposed two adjustments to correct two errors regarding the installation cost of a water transmission main. Installation of this main was one of the projected plant additions that would be completed during the test year. Accordingly, 50 percent of its estimated cost was included in the rate base calculation. As Ms. Dismukes testified, the utility agreed that two adjustments would be proper for that facility. First, the utility admitted that a $1,300,064 element of the construction cost was counted twice. Second, the utility acknowledged that the actual cost would be $377,000 less than the budgeted amount reported in the MFRs. Ms. Dismukes testified that plant should be reduced by $838,558 to reflect the average balance related to these corrections. She also recommended a corresponding $23,958 reduction to depreciation expense.

Utility witness Kimball testified that an inadvertent error caused the construction cost of the utility's R.O. plant to be understated in the MFRs. On that basis, she asked the Commission to allow corresponding upward adjustments of $1,075,821 for the water system and $373,820 for the wastewater system. Utility witness Terrero also testified that inadvertent omissions should be considered in the rate base determinations and produced an exhibit to specify the necessary adjustments. Mr. Terrero testified that no party would be prejudiced through inclusion of the R.O. plant completion costs since Staff and OPC audited the utility's records and received supporting documentation, which included contracts and change orders, for the R.O. plant. Ms. Kimball also testified that no party would be prejudiced by consideration of these test year construction costs because discovery ended after Mr. Terrero's rebuttal testimony was filed, all parties were notified that SSU would be requesting these offsets when the utility served its response to OPC Interrogatory No. 199, and the utility furnished

Staff and OPC auditors copies of all documents associated with the additional costs during the discovery phase of this proceeding.

In consideration of the foregoing, we have reduced the average test year plant balance by $838,558 to remove a double counting error and to reflect a reduced estimate of completion costs with respect to installation of mains. Furthermore, the accumulated depreciation and depreciation expense accounts shall be corrected to reflect the most current and accurate information available concerning the cost of installing all plant facilities. Accordingly, depreciation expense shall be reduced by $23,958.

Since an average test year is employed in this proceeding, additions to R.O. plant during the test year are reduced by 50 percent to show the average amount. Those adjustments are $537,911 and $186,910 for the respective water and wastewater divisions. The wastewater division's share reflects its allocated portion of the R.O. brine injection well, which also serves as a backup facility for effluent disposal. The adjustments made to depreciation expense are $24,450 and $10,384 for the respective water and wastewater divisions. The adjustments to rate base and depreciation expense are shown in the attached accounting schedules.

Plant and depreciation account balances should be adjusted to reflect the most current and accurate information available, which would include both upward and downward adjustments. Utility witness Kimball acknowledged that replacement of the effluent main on Collier Boulevard would not be completed during the test year. Accordingly, she agreed that the $157,732 projected construction costs should be removed. Therefore, we have reduced the average plant balance by $78,866 and depreciation expense by $2,629 to show removal of the effluent line.

In its filing, the utility requested test year consideration of the estimated cost to replace catwalks at its wastewater treatment plant. OPC witness Dismukes proposed removing the $203,997 cost ($101,999 average balance) for this improvement since completion during the test year was uncertain. Witness Terrero testified that the utility signed a contract with an outside contractor on February 16, 1993, which requires replacement of the catwalks to be substantially complete by April 27, 1993. He testified that the contract cost was $141,200. Witness Terrero testified that two of the five catwalks had been replaced as of March 9, 1993. He further testified that, although the contract price was less than initially estimated, the $141,200 contract price did not include overhead or contingent costs. He, therefore, reported that the $203,997 estimate per the MFRs was still reasonable.

Based on witness Terrero's testimony, it appears that the catwalk replacement program will be substantially complete by April 30, 1993. Therefore, we find it appropriate to include the contract cost of those improvements in rate base. We have allowed the $141,200 contract price, rather than the $203,997 original estimate, because the utility failed to identify what overhead provisions apply when outside contractors perform construction and because contingent costs cannot be predicted with any degree of certainty. The reduction to plant is $31,499, or the average balance associated with this project. We have also made the corresponding adjustments to the depreciation accounts.

Provision for Margin Reserve

In its application, the utility requested that a margin reserve be included in the calculations of used and useful plant for its water and wastewater facilities. The utility projected the amount to be included to be 200 equivalent residential connections (ERC) per year for water and 100 ERCs per year for wastewater.

OPC Witness Parrish testified that no recognition should be given to margin reserve when calculating rates for existing customers. He believes it is appropriate that a utility be granted and guaranteed a margin reserve revenue requirement, but the future customers should bear the primary responsibility of funding that requirement.

As discussed later in this Order, the water plant facilities are 100 percent used and useful due to customer demand and fire flow. Therefore, an additional provision for margin reserve is unnecessary for the water division.

Witness Hartman testified that for a utility to obtain a valid operating permit from DER, the facility must have the capacity on line to serve the next four years of growth, or it must have the facilities under design or construction. He quoted from DER Rule 17-600.405, Florida Administrative Code, which states that if a plant will reach its permitted capacity within four years, the utility must provide a statement from a registered engineer that plans and specifications for expansion are being prepared. The utility requested a four-year margin reserve period for the wastewater treatment plant only. The report provided by the utility to DER indicates that the current wastewater facilities are sufficient for another seven to nine years. The utility has no final design plans or specifications for additional capacity, although it has been considering various capacity alternatives.

Since the Marco Island wastewater plant has sufficient capacity to serve the area for another seven to nine years, a four year margin reserve period is too generous. An eighteen month margin reserve period is adequate under the circumstances to provide the necessary capacity for customer growth. In consideration of the foregoing, we have allowed eighteen months as the margin reserve period, representing growth of 150 ERCs.

Used and Useful Plant

Witness Hartman testified that the water distribution system is 100 percent used and useful. He testified that by Order No. 17600, issued May 26, 1987, the Commission found the lines to be 100 percent used and useful. Based on the foregoing, the water distribution system is 100 percent used and useful.

With regard to the wastewater collection system, the utility's application indicates that this collection system is 100 percent used and useful. Further, witness Hartman testified that by Order No. 17600 the Commission found the lines to be 100 percent used and useful. Based on the foregoing, the wastewater collection system is 100 percent used and useful.

Witness Hartman testified that a singular maximum day of 8.5 million gallons per day (mgd) on December 9, 1992, should be used in calculating the used and useful portion of the water treatment facilities. To this, he stated, fire flow allowances should be added. Fire flow requirements in the MFRs are 1,080,000 gallons per day (gpd). The utility also requested a margin reserve of 200 ERCs per year for the water system.

We took official notice of Orders Nos. 20567, 23809 and 25092 pursuant to the utility's request. The utility attempted to show that the Commission used the peak day demand in those cases for establishing used and useful. In reviewing these Orders, we find no support for the use of a singular maximum day in the water plant used and useful calculation here.

OPC Witness Parrish testified that it was not appropriate to use the single maximum day that Witness Hartman used because that single day was an aberration compared to other data in that month, and therefore, that single day was a spike. Witness Parrish also testified concerning the total plant capacity and suggested one of the alternatives the Commission should consider is the 6.0 mgd potential capacity of the R.O. plant including a pro forma adjustment for the costs to achieve that 6.0 mgd. He further explained that he was not saying this alternative should or should not be used, but rather it is a method that has been used and could be used. According to the testimony he had heard at the hearing, the plant was in dire need of expansion, beyond the current 9.0 mgd, but he did not know what the utility's plans were for expansion, nor did he believe from the testimony he had listened to at the hearing that the utility knew either.

We believe that both Witnesses Hartman and Parrish have raised valid points about the maximum day flows needed to be met by the plant facilities. While there is no argument concerning the month of maximum flow, we believe Witness Parrish's testimony is more persuasive about the singular day, December 9, 1992, being a spike and inappropriate to use in this used and useful calculation. In light of the storage facilities available, peak demands should be adequately met using Witness Parrish's plant flow evaluation.

We, therefore, conclude that the maximum day flow should be 8.19 mgd, plus fire flow of 1.080 mgd, for total plant requirements of 9.27 mgd. This amount of plant production needed exceeds the available capacity of 9.0 mgd. No margin reserve is appropriate since plant capacity is already committed to the existing customers and reserved for fire flow. In consideration of the above, we find that the water treatment plant is 100 percent used and useful.

Witness Hartman testified that the wastewater treatment facilities are 85.6 percent used and useful. The basis for this conclusion is the calculations found on Schedule F-6 in the MFRs, which anticipates a four year margin reserve. Witness Hartman testified that in the capacity analysis report, while it is stated that historical data shows the average daily wastewater flows are 100 gpd per person, the 100 gpd is a default value for capacity analysis reports when no permanent population exists. The MFRs on Schedule F-6 show, using a maximum day from the peak month, 500 gpd per ERC. OPC offered no testimony on this issue.

We have reviewed Schedule F-6 of the MFRs, EX 8, and agree that the conclusions stated and the calculations performed use 500 gpd per ERC, based upon a maximum month comparison. The trend on Schedule F-6 in Volume II of the MFRs shows decreasing flows per ERC from 1990 to 1992. It is reasonable to project the flows per ERC based upon the flow data on this schedule, and use 500 gpd per ERC. Relying upon the growth statistics on Schedule F-6, the number of wastewater ERCs was 5,489 for 1992. The average number of ERCs for 1992 was 5,274. Adding the 100 ERC growth per year projected by the utility for 1993 shows the anticipated ERCs for the year 1993 to be 5,374. Adding the eighteen month margin of 150 ERCs, brings the total ERCs to be included in the used and useful calculation to 5,524. At 500 gpd per ERC, the demand placed upon the wastewater facilities is 2,762,000 gpd. Comparing this demand to the plant capacity of 3.5 mgd, we find a used and useful allocation of 78 percent to be appropriate for the wastewater treatment facilities.

Finally, the record does not support a finding of less than 100 percent used and useful for the 24 inch raw water main. We, therefore, must conclude that the 24 inch raw water main is 100 percent used and useful.

Land Held for Future Use Plant Site

Witness Terrero testified that the utility purchased a 160 acre parcel to use as a water supply source for Marco Island. A report has been sent to SFWMD by SSU addressing potential withdrawal from the site in the amount of 5 mgd. Prior to 1991, the site was also used for lime sludge disposal from the lime softening plant on the island. The utility is not currently pumping any water from this site. The utility has not used this land parcel as an additional water source because the site is six miles from the current water supply.

OPC witness Dismukes recommended removing this land in the amount of $221,000 from rate base and treating it as plant held for future use. We agree with Ms. Dismukes. It appears somewhat speculative as to when, if ever, the site will become a raw water source for the Marco Island lime softening plant. The lease with Collier Properties expires in December 1994, and it is unclear whether alternative sources will be located and activated, or if the lease will be renewed. If the lease is renewed, apparently this 160 acre site will not be needed as a raw water source. If the site is permitted and developed as a water source according to the testimony, it will be expensive to install raw water mains five or six miles. There was no testimony on the cost of wells, pumps, and their installation.

Based upon the evidence in the record, we find that the 160 acre parcel is land held for future use and accordingly, the land account in rate base shall be reduced by $221,000.

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

A margin reserve increases the amount of plant that is considered used and useful. Pursuant to Commission practice, that incremental amount is typically offset by a corresponding imputation of CIAC to reflect the reduction to rate base that occurs when future customers pay their connection fees. This practice of imputing CIAC is well established, as evidenced by two decisions that the Commission took official notice of: Order No. 23660, issued October 24, 1990, and Order No. PSC-92-0594-FOF-SU, issued July 1, 1992. The imputation of CIAC is also reflected in two recent Commission orders (Order No. PSC-93-0423-FOF-WS, issued March 23, 1993 and Order No. PSC-93-0301-FOF-WS, issued February 25, 1993).

While Mr. Hartman's testimony supports allowing a margin reserve and explains how current customers may benefit from that consideration, he did not specifically address the imputation argument. OPC Witness Dismukes testified that CIAC should be imputed to be consistent with the added investment associated with margin reserve.

We believe that CIAC should be imputed to partially offset the margin reserve allowed with respect to the wastewater treatment plant. The used and useful determination for that equipment includes 150 ERCs for margin reserve. Since CIAC for 90 prepaid ERCs is already included in the rate base determination, an additional 60 ERCs must be imputated. Accordingly, based on a $385 per ERC charge, we have imputed $23,100 of CIAC. We have also made corresponding adjustments to increase accumulated amortization of CIAC and reduce depreciation expense. The used and useful determinations for the water treatment plant the distribution and collection systems do not include provisions for margin reserve, and therefore imputation of CIAC for those plant accounts is not appropriate.

Unfunded Liability for Post-Retirement Benefits

Witness Gangnon testified that SSU will fund its Financial Accounting Standard (FAS) 106 obligation with a grantor trust. He testified that the FAS 106 liability will not be shown on the financial statements and that will allow SSU to attract capital at cheaper rates. We note that, while SSU intends to fund its Other Post-Employment Retirement Benefits (OPEB) obligation, it has not yet established the grantor trust.

In its brief, OPC asserts that SSU's proposed funding method is revocable and does not qualify as a funding method under FAS 106. OPC points out that under cross-examination witness Gangnon testified that "the obligation would be recorded on the balance sheet." He later stated under redirect examination that the liability would not be shown on the Company's financial statements. OPC argues that the grantor trust, which the Company intends to use to fund its OPEB obligation, does not qualify as a plan asset under FAS 106.

Since SSU has a clear funding plan and since its witness has provided testimony that the FAS 106 liability will not appear in the financial statements, we find that SSU will not have an unfunded liability. Therefore, we have not made a rate base adjustment. To ensure that the obligation will be funded in a manner that qualifies as a plan asset under FAS 106, SSU shall place an amount equal to the monthly FAS 106 expense allowance in an escrow account until it establishes a fund that meets the FAS 106 criteria for such funds. When SSU establishes the fund, it shall transfer the escrowed amount to the fund. The period covered by this provision begins when rates set by this Final Order are first collected and ends when SSU establishes the appropriate fund. Since SSU will begin FAS 106 accounting in 1993, SSU should establish the fund sometime in 1993. In any case, SSU must establish a fund by March 31, 1994. If SSU has not established a qualifying fund by that date, we shall reduce rates and require a refund based on a reduction to rate base due to the unfunded liability.

Deferred Income Taxes

The utility's filing reflects debit deferred income taxes of $12,658 comprised of $9,359 for water and $3,299 for wastewater related to the accrual of under FAS 106. The utility believes the ratepayers should pay the carrying costs of the deferred taxes.

OPC and Mr. Bergmann believe that the utility should continue to recognize its OPEB obligation on a pay-as-you-go basis or a tax advantaged trust should be used.

As discussed earlier in this Order, the utility shall account for its OPEB obligations under FAS 106. Therefore, debit deferred taxes related to OPEBs are appropriate. Since the utility's filing indicates that debit deferred taxes from all sources exceed credit deferred taxes, net debit deferred taxes related to OPEBs are appropriately included in rate base.

Working Capital

In its application, the utility calculated its working capital allowance by using the formula approach method of one-eighth of the annual operation and maintenance (O&M) expenses.

It is OPC's position that the proper allowance for working capital is $0 absent a properly conducted balance sheet calculation. However, OPC did not sponsor nor solicit any evidence in the record to demonstrate that the formula approach yields an unreasonable provision for working capital or that the balance sheet approach would yield a more appropriate sum. Therefore, we have determined the allowance for working capital in accordance with the formula approach prescribed by Rule 25-30.437, Florida Administrative Code. The resulting working capital allowances are $294,405 for water and $97,391 for wastewater.

Allocation of General Plant

OPC witness Dismukes testified that a portion of the utility's general plant balances, administrative and general expenses, and depreciation expense should be allocated to its acquisition and sales efforts because SSU devotes considerable effort to such activities. Ms. Dismukes testified that her proposed allocation was proper because that activity benefits from administrative expenses and general plant no less than the utility's water and wastewater business. She testified that treating this acquisition activity as a separate division would warrant a corresponding allocation.

Ms. Dismukes testified that her proposed adjustments were derived by comparing total direct labor charges to the amounts booked to two specific deferred accounts: Account 166.100, Possible Acquisitions-Miscellaneous, and Account 166.200, Possible

Sale-Gas Division. She testified that she increased her resulting .57 percent ratio to .75 percent based upon her belief that some individuals who work on acquisition and sales activities do not directly charge their time to those activities. Applying her modified .75 percent ratio, she recommended the following: reduce administrative expenses by $3 488, reduce net plant by $3,148, and reduce depreciation expense by $575.

Utility witness Ludsen testified that the utility's sales and acquisition efforts are not separate business units; rather, they are activities within the water, wastewater, and gas businesses. On that basis, he stated that the rationale underlying Ms. Dismukes' proposed allocation was factually defective. He testified that SSU labor related to acquisition and sales efforts was minimal. Topeka Group, Inc., and Minnesota Power and Light personnel, he contended, performed the "vast majority" of work in that area. He also testified that any SSU administrative labor related to those activities was charged below-the-line and, thus, Ms. Dismukes' proposed allocation would double count those labor charges. He testified that only $24,007 out of the total company payroll of $10,200,389 was charged to possible acquisitions and that the resulting 0.2 percent ratio was de minimis. Witness Ludsen further testified that SSU's acquisition activities did not impact the utility's customer service, rates, purchasing, engineering, human resource, or accounting departments. Mr. Ludsen also testified that, because of economies of scale, all customers benefit when new systems are acquired.

Based on the testimony and other evidence in the record, we agree with Mr. Ludsen that general plant should not be allocated to acquisition and sales activities. The amount of time devoted to that activity is de minimus, 0.57 percent per Ms. Dismukes' calculation, 0.2 percent per Mr. Ludsen's calculation. We agree that since administrative payroll charges devoted to acquisition activities are already charged below-the-line, a further allocation of administrative overhead would double count that element. The record further indicates that the proposed allocation of administrative expenses includes rate, customer service, engineering, and other departments with little or no involvement in the subject activities. Accordingly, OPC's proposed allocation of administrative and general plant expenses is rejected.

Prudence of R.O. Plant Construction

Witness Terrero testified that the utility considered several alternatives before deciding to construct the R.O. plant on Marco Island. First, Mr. Terrero testified that expansion of the lime softening plant was not practical because there is a lack of additional raw water supplies available to the island; and the raw water from the wells on the island is too brackish for lime softening. If the plant were to be expanded, the existing permitted plant would have to be razed and other plant facilities would have to be redesigned and relocated.

Witness Terrero stated that the second alternative of purchasing more water under the lease with Collier Properties was not possible since the lessor would not negotiate such an agreement and the water quality and quantity from the lakes were diminishing. The current lease expires in December 1994, and the lessor has resisted attempts to renew the lease.

A third alternative source of raw water was explored according to witness Terrero, at Southfield Farms. An agreement was reached with Southfield, a consumptive use permit from the SFWMD was obtained, but an unfavorable decision by the Collier County Commission caused the arrangement to fail to come to fruition. A fourth alternative involved the development of the 160 acre parcel discussed earlier. Due to its distance from the current water supply, where the existing raw water line to the island begins, and the expected high construction costs, this alternative would be expensive.

Finally, witness Terrero testified, the utility also examined purchasing water from Collier County and the City of Naples. The County could offer only a contract for 1 mgd on an "as available" basis. This did not meet the utility's needs. A contract now exists between the utility and the County. During 1990, the utility purchased 39,256 thousand gallons; in 1991 15 thousand gallons and in 1992, 0 gallons. The utility has been negotiating a potential water purchase agreement with the City due to the City perhaps having supplies available that have not been available in the past.

We believe the utility adequately addressed the various alternatives for its decision to build the R.O. plant. Based on the evidence in the record, we find that the decision to construct the R.O. facility was prudent.

R.O. Plant Construction Costs

Witness Elliott testified that the cost of constructing the R.O. plant was reasonable. He compared the cost of this plant and found it within the range of costs of similar plants. He noted that the cost of the entire project, $16.89 million, was 14 percent above the original projected cost of $14.74 million. Normal construction contracts have a 10 percent cost overrun and fast track contracts have 20 percent. This plant was constructed under a fast track approach. Witness Elliott testified that the fast track approach was a prudent one, and estimated that in 50 percent or more of the R.O. plants in Florida, this same method is used. The difference between the two methods is that the conventional design involves more engineering charges and the fast track involves more contractor charges.

Using published cost curves, Witness Elliott compared the total fees paid to the consulting engineers, Stone and Webster, and found the fees to be comparable to the industry norms. The actual fees were 6 percent higher than the cost curve showed. Further, he believed that the change orders were properly documented. He agreed with OPC that there were some deficiencies involving the construction of the R.O. plant, but contended they were not unusual. Witness Elliott opined that the utility has the responsibility of examining change orders justifying them, and cross-checking to verify costs of materials and installation.

Witness Elliott testified that there were problems encountered with the deep well construction. One was related to the drilling and involved a change order to the deep well consultant for $160,000. In examining the change order, he believed the costs were appropriate. Although it is not clear how the drilling problem was caused. A second problem involved the membranes for the R.O. plant. The utility selected an alternate supplier, which resulted in additional costs for the membranes. This cost was $400,000.

A third problem arose from litigation with Alsay, Inc. The utility retained two outside engineers to review the claims in the litigation and to make recommendations to the utility. The outside engineers concluded that the deep well design engineer had failed to incorporate existing structures into the bid package site plan, and, reasonable engineering judgement was not used in selecting the setting point of the well casing. The well design engineer disputed the outside engineer's opinion of the casing error.

Arbitration and mediation failed to resolve the issue of responsibility for the problems with the well. A total of three lawsuits was involved. To avoid the cost of lengthy litigation, the parties to the lawsuit held a mediation session in July 1992. A comprehensive settlement was reached and reduced to writing. In the settlement, Deltona paid the remaining $370,000 to the well contractor due under the contract; the well design engineer and its insurance company paid $550,000 to the well contractor; and, Deltona paid an additional $205,000 to the well contractor primarily for additional casing to complete the well.

OPC Witness Dismukes testified that ratepayers should not be held accountable for contractor deficiencies. Costs associated with poor performance or mismanagement should not be passed on to customers. OPC Witness Dismukes testified that a portion of Stone and Webster's engineering fees should be removed resulting from construction delays, poor contractor performance and redesign resulting from alternative membrane selection. Further, Witness Dismukes testified that an incentive payment of $40,000 to a contractor for early completion of construction should be removed since this effort was wasted. She also addressed the increased AFUDC accruing as a result of the four month project delay totalling $377,901, which she believes should be disallowed. Any amounts disallowed should be offset by the damages paid by the contractor to the Company of $34,000.

We have relied upon the testimony of Witness Elliott and his expertise in project design and construction, as well as disputes which can arise from contractors involved in construction and the resolution of those disputes. There is no argument that the cost of the R.O. plant and the deep well exceeded the original cost of the contracts. Witness Elliott testified that there are circumstances beyond the utility's and the contractor's control, but the utility acted very diligently in managing the project.

With regard to the membrane selection, it appears that the utility attempted to obtain the low bid membrane, which subsequently became the subject of a patent infringement lawsuit. The utility was then forced to purchase from another of the limited suppliers at a higher cost. While Witness Dismukes advocates the disallowance of the contractor's $40,000 incentive payment, it does appear that the contractor attempted in good faith to complete the project early. In light of the overall costs being within an acceptable range as testified to by Witness Elliott, we will not disallow the $40,000 incentive payment to the contractor.

Based upon the evidence in the record, we find that, while the plant was expensive, there were no excessive costs during construction and plant-in-service shall not be reduced by these costs.

Land

Wastewater effluent is piped to percolation ponds on the mainland. The appraisal value of that land when dedicated to utility service was $280,000. Approximately 78.9 percent, or $220,855, of that cost is allocated to the Marco Island system. Therefore, the appropriate value of the 43 acre percolation ponds site is $220,855, as reflected in the MFRs.

Test Year Rate Base

Based on our decisions and adjustments discussed above, we find the appropriate test year rate base to be $25,020,635 for the water system and $10,491,929 for the wastewater system.

COST OF CAPITAL

Accumulated Deferred Income Taxes

In the MFRs, the utility included $165,174 of net debit deferred income taxes. Pursuant to Stipulation B-1, the parties and Staff agreed to reduce the rate base provision for deferred income taxes to the extent these prepaid amounts correspond to the calculation of the interim rates allowed in Docket No. 900329-WS. We agree that this is appropriate.

In consideration of the foregoing, we have reduced the rate base provision of deferred income taxes for the water and wastewater system by $83,868 and $46,278, respectively, to remove the debit deferred income taxes related to the interim revenues collected in Docket No. 900329-WS. The debit balance of accumulated deferred income taxes has been reduced by $134,052 to remove the debit deferred income taxes related to the collection of interim revenues in Docket No. 900329-WS. Additionally, based on our adjustment to other post-employment benefits, debit deferred income taxes have been reduced by $3,906, comprised of $2,888 for water, and $1,018 for wastewater.

Investment Tax Credits

In its MFRs, the utility included investment tax credits (ITCs) in the amount of $2,410,038 in its unreconciled capital structure. As reflected in the MFRs, the cost rate associated with the ITCs is 10.78 percent. Based on our approved capital structure, the appropriate amount of ITCs to be included in the capital structure is $518,073, after reconciliation with an associated cost rate of 10.21 percent.

Cost of Debt on Long-Term Bond

It is OPC's position that the interest rate on the mortgage bonds should be reduced from the 15.5 percent fixed rate to what would be a reasonable rate had the bonds been refinanced. OPC believes that if the Commission does not reduce the interest rate on this debt, then it should recognize a negative acquisition adjustment associated with the reduced purchase price related to this debt. OPC witness Dismukes testified that Topeka Group, Inc., purchased Deltona under the mistaken assumption that it could refinance the debt based on a finding in its original due diligence study. For this reason, Ms. Dismukes argues that Topeka Group, Inc., was not adequately compensated for the high cost debt it assumed and therefore a negative acquisition is warranted if the Commission does not reduce the cost rate to 10.0 percent.

Utility witness Vierima countered that Topeka was aware of the restrictions on this debt before the purchase was consummated. He further testified that Topeka received certain concessions and that the high cost debt was only one of many components of this deal. He concluded that because the acquisition of Deltona by Topeka ultimately benefited its ratepayers, a negative acquisition adjustment is not warranted. Utility witness Vierima acknowledged that these bonds will be paid off in December 1994. He also acknowledged that SSU will issue new first mortgage bonds or similar long-term debt to pay off the maturing bonds. Although the utility's MFRs reflect that SSU projects borrowing long-term funds at a rate of 8.0 percent, during the hearing witness Vierima testified that the rate on new long-term debt may be in the 10.0 percent to 11.0 percent range.

In Marco Island Utilities v. Public Service Commission, 566 So.2d 1325 (1st DCA 1990), the First District Court of Appeal held that where there was no basis in the record for the Commission to disregard the provision that the bonds could not be refinanced, "it was incumbent on the Commission to view the bond-financing transaction as being fixed in its terms without an opportunity to renegotiate for a lower rate." Id. at 1329. Utility witness Vierima acknowledged that the bonds cannot be refinanced and that these are the same bonds referenced in the Court's decision.

There is compelling evidence supporting both the utility's and OPC's positions. However, even if it could be conclusively demonstrated that a negative acquisition adjustment is warranted in this case, there is no record evidence to support a determination of the appropriate amount. As a result, we cannot make a negative acquisition adjustment related to this debt. Nevertheless, OPC has raised a valid concern regarding the fact that these bonds will be paid off in December 1994, and that the costs related to them should not be embedded in the utility's rates after that date. Unless we make an adjustment, the utility's rates will reflect this high cost debt even after it is no longer in SSU's capital structure.

We have not adjusted the cost of debt capital to reflect a reduced interest rate for the fixed rate mortgage bonds. However, to recognize the retirement of this debt in December 1994, we hereby approve a stepped decrease in the overall cost of capital to reflect the fact that the utility will no longer be supporting these high cost mortgage bonds after that time.

We have determined that if the 15.5 percent long-term mortgage bonds are replaced with 10.0 percent long-term debt, the embedded cost of long-term debt will drop from 9.50 percent to 7.92 percent. This change in the cost rate for long-term debt will drive the overall cost of capital down from 10.19 percent to 9.43 percent. The change in revenues as a result of the decline in the overall cost of capital is approximately $283,000 per year. This amount represents approximately 5.44 percent of the total revenue increase approved in this Order. On a per ERC basis, this amount represents approximately $13.52 per year for water and $15.46 per year for wastewater.

Collier County Bonds

Utility witness Vierima testified that in 1990, Collier County authorized the issuance of industrial development bonds (IDBs) in the amount of $19.4 million. Approximately $11.1 million was issued in 1990 and $8.3 million was issued in December 1992. Because the utility filed its MFRs in August 1992, only $11.1

million of the IDBs issued in 1990 were reflected in the capital structure. A subsequent issuance of $8.3 million of IDBs is not reflected in the MFRs.

The utility provided a revised D-5 schedule that includes the average balance of the IDBs issued in December 1992. In addition, the utility adjusted its embedded cost of long-term debt to reflect the increased amount of IDBs in its capital structure. This adjusted cost of debt is reflected in the approved capital structure shown in Schedule No. 2-A.

Cost Rate of Long-Term Debt

Topeka charges SSU a 10.5 percent rate for long-term funds which is tied to the rate Topeka pays on a 10-year obligation with the Teachers Insurance and Annuity Association. The rate on this $30 million obligation is 10.44 percent. The 5.20 percent rate Topeka charges for short-term borrowings is tied to the rate it pays for variable cost short-term debt. The rate on short-term debt is tied to the London Interbank Offer Rate (LIBOR) plus 125 basis points.

The 9.185 percent rate OPC recommends for long-term borrowings is actually the weighted average cost of total Topeka borrowings, long and short-term. Topeka can recover the 9.185 percent total cost of debt by charging 10.50 percent for the weighted amount of long-term funds and 5.20 percent for the weighted amount of short-term funds or by charging 9.185 percent for total borrowings. Topeka and the utility have chosen to specifically identify long-term and short-term borrowings. The overall cost of capital and capital structure detailed on Schedule No. 2-A reflect short-term debt at a rate of 5.20 percent. The appropriate cost rate to attach to the long-term debt borrowed from Topeka is 10.50 percent.

Overall Cost of Capital

We have calculated the appropriate overall cost of capital by using the cost rates originally filed by the utility for preferred stock and customer deposits and the revised cost rates provided by the utility for the long-term debt of 9.50 percent and short-term debt of 5.20 percent. The updated cost rates for long and short-term debt are discussed in Stipulation B-4. We used a cost of common equity of 12.19 percent. This rate is based on the most current leverage formula approved by Order No. PSC-92-0686-FOF-WS, issued July 21, 1992. Finally, we used a cost rate of 10.21 percent for the ITCs.

However, as discussed earlier, SSU will retire the remaining balance of 15.5 percent mortgage bonds in December 1994. The cost rate for long-term debt will drop from 9.50 percent to 7.92 percent and the rate for ITCs will drop accordingly from 10.21 percent to 9.44 percent. The resulting overall cost of capital will be 9.43 percent beginning in January 1995. Therefore, we have set rates for the period ending December 1994 based on an overall cost of capital of 10.19 percent and the rates will automatically be adjusted beginning in January 1995 to reflect an overall cost of capital of 9.43 percent. Schedule No. 2-A shows the components, amounts, cost rates, and weighted average cost of capital associated with the test year ended April 30, 1993.

As discussed earlier, effective January 1995, rates will be reduced to reflect a 9.43 percent cost of capital. The associated rate base, cost of capital, and operating schedules for calculation of Phase 2 rates are attached as Schedules Nos. 4, 5, and 6, respectively.

NET OPERATING INCOME

Our calculations of the appropriate levels of net operating income (NOI) for this proceeding are attached as Schedules Nos. 3-A for water and 3-B for wastewater, with our adjustments shown on Schedule No. 3-C. Those adjustments which are self-explanatory, or which are essentially mechanical in nature, are depicted on those schedules without any further discussion in the body of this Order. The remaining adjustments are discussed below.

R.O. Plant Operating Expenses

OPC Witness Dismukes' testified that the utility's requested salary of $30,000 for an additional plant operator should be disallowed. Utility Witness Denny testified that an additional plant operator was needed to comply with DER staffing requirements. Additionally, OPC contended that projections for chemical and purchased power expenses which are based upon the plant(s) operating at capacity, overstate the amount of water demanded by the customers by 748,246 thousand gallons. OPC gave three alternatives for reduction of these expenses:

1. Assume all of the gallons not needed would come from the R.O. plant. Chemical and power expenses should be reduced by $624,317.

2. Assume all of the gallons not needed would come from the lime softening plant. Chemical and power expenses should be reduced by $378,394.

3. Assume 30 percent of the gallons not needed would be produced by the R.O. plant and 70 percent would be produced by the lime softening plant. The concomitant reduction would be $509,238.

Witness Terrero testified that the lime softening plant is rated at 5.0 mgd and the R.O. plant at 4.0 mgd, capable of producing 3.2 mgd due to 80 percent recovery. The R.O. plant can produce 3.2 mgd for 330 days per year. The total water available to customers is 1,825,000 thousand gallons per year from the lime plant and 1,056,000 thousand gallons from the R.O. plant, for a total of 2,881,000 thousand gallons. The utility uses water from both plants, and blends it. Blending the R.O. water with the lime softened water allows the utility to meet the trihalomethanes (THM) standard set by DER. Utility Witness Elliott testified that a linear relationship to chemical and electric power does not exist. He did not explain how a more accurate calculation could be made, but did prepare an exhibit (Exhibit 81) showing that these two items were overstated by $165,474. When labor is considered, witness Elliott's exhibit reflected, the amount of overstated projected expenses is $131,895.

We have reviewed the projections offered by the utility for the R.O. plant as well as the true-up prepared by Witness Elliott, which uses actual data from October 1992 through February 1993. This exhibit also includes a labor comparison which shows labor costs are $33,579 higher than originally projected. We compared the true-up data to the pumping data in the MFRs as explained below.

The MFRs indicate that the total gallons pumped from both plants was 1,987,014 thousand gallons for the historic test year. This is significantly less than the total capacity of both plants, which is 2,881,000 thousand gallons per year. If the lime softening plant operates at capacity, the R.O. plant needs to provide only 162,014 thousand gallons for the 1992 test year, or about 15 percent of its annual production capability.

Based on the evidence in the record, we must conclude that an adjustment to the utility's projection is necessary. We are not persuaded by Witness Elliott's suggestion in Exhibit 81 that the projection is on target, nor by OPC's suggestions in Alternatives 1 and 2 above. We believe that the amount in Exhibit 81 explained above is a reasonable approximation of the overstated projection. Therefore, we have reduced electric power and chemicals for the R.O. plant by $131,895. The increased costs for labor for plant staffing has been incorporated into this adjustment.

Electric Costs

Witness Dismukes testified that a new electrical system was installed at Marco Island which will result in an estimated annual cost savings of $20,000. This amount was allocated $14,788 to water and $5,212 to wastewater.

Witness Terrero testified that while the R.O. plant was producing an average daily flow of 1.235 mgd from May 1992, to January 1993, this period involved startup and testing of the new plant. He expected the plant to be producing more water on a constant basis.

Based upon Witness Terrero's testimony, we find that if the R.O. plant is providing water on a constant basis, an adjustment is necessary to decrease the costs at the lime softening plant, because production at the R.O. plant will be reduced. Conservatively assuming the R.O. plant will produce 2.0-2.5 mgd, the lime softening plant will be treating 2.0 to 2.5 mgd less than during the test year. Assuming a 2 mgd reduction in treatment, this is a 40 percent reduction from the 5.1 mgd average daily flow for the test period (1,860,000 thousand gallons, divided by 365 days). We recognize that any reduction to electrical expenses would not be linear, and estimate conservatively that there would be a 25 percent reduction to electrical expenses related to reduced pumping from the mainland, and, reduced chemical mixing and treatment. This reduction would apply to the 1992 power purchased of $678,181, less the $14,788 related to the savings from the new electrical system. At 25 percent the reduction would be $165,848.

In consideration of the foregoing, test year expenses have been reduced by $20,000 to reflect projected annual savings in electric costs allocated $14,788 to water and $5,212 to wastewater. We have also made an additional downward adjustment of $165,848 to reflect the reduced production at the lime softening plant.

Chemical Expenses

In its filing, the utility included $192,297 for chemical expenses. Witness Dismukes testified that chemical expenses should be reduced by $16,782 resulting from projected savings associated with the installation of a new odor control system. She recommended this reduction be allocated $12,475 to water and $4,397 to wastewater. We agree.

We have reduced chemical expenses by $12,475 for costs associated with the new odor control system. We have made additional chemical expense reductions in the amount of $89,991 due to reduced production at the lime softening plant. Purchased water expenses were reduced by 50 percent or $25,209 due to reduced production at the lime softening plant.

Sludge Hauling Expenses

Witness Denny testified that the utility has in the past hauled its own sludge. The utility now uses an outside contractor. The costs shown as sludge hauling costs in Exhibit 20 do not include the utility's own sludge hauling expenses. Witness Kimball testified that sludge hauling for the calendar year 1992 is higher than the historic test year because only four months of 1992 are included in the test period, and therefore this cost is understated.

OPC Witness Dismukes testified that the doubling of sludge hauling costs from 1991 was troubling and absent sufficient justification, should be reduced by $25,000.

In consideration of Mr. Denny's testimony, we find that no adjustment is necessary to sludge hauling expenses for the test year.

Rate Case Expense

In its MFRs, the utility included total estimated rate case expense of $151,712, which consisted of $7,513 for outside accounting services, $95,040 for legal services, $34,620 for outside engineering services, $11,389 for direct costs incurred by SSU, and a $3,150 filing fee. At the time of the hearing, the utility filed an updated rate case expense exhibit indicating total rate case expense of $298,478.

It is OPC's position that the utility has not explained nor justified why the revised estimate for rate case expense substantially exceeds the amount reported in the MFRs. OPC contends the fees for accounting consultants should be disallowed because the utility did not explain why these services were needed, the utility did not explain why the projected expense exceeds the original estimate, consultants should be held to a budget, and projected billings from January 1 until March 31 were not supported by actual bills. With regard to the engineering consultant, OPC argues that the $30,000 initial estimate, rather than the $59,863 revised amount, should be allowed for those services since the billings do not reveal what work was accomplished. OPC also argues that the initial $5,000 estimate, rather than the $16,847 revised amount, should be allowed for the consultant who responded to Mr. Stewart's proposed rainfall adjustment. Further, OPC argues that the $25,000 charge for the witness who supported the OPEB expense should be allocated among all SSU systems, and that the corresponding reduction for Marco Island would be $23,830.

Accounting Charges

Utility Witness Ludsen testified that an accounting consultant provided support services during the audit and discovery phases of this proceeding. The staff audit was completed in November 1992. The discovery phase was largely completed by February 1992. The utility's inability to produce supporting invoices for the accounting consultants, more than one month after the hearing, for services reportedly rendered before the hearing, foils any opportunity to evaluate the necessity or reasonableness of that cost. Accordingly, we have removed the $21,170 projected provision for added consulting fees since the utility did not produce documentation for this charge.

Legal Charges

The reported $94,397 for legal services includes $54,397 for services rendered through March 1, 1993, and $40,000 for projected completion costs. Based upon a $140 hourly rate for attorney services, the projected portion is about equal to 280 additional hours. This completion estimate appears unreasonably large. The utility has provided no detailed description as to what this $40,000 costs will relate. Without such an explanation, we cannot find such costs to be reasonable. Therefore, we have reduced the projected completion costs for legal services by 50 percent. Accordingly, we have made a $20,000 reduction for this component.

Engineering Charges

The requested $59,863 provision for engineering services is $13,559 larger than the $46,304 amount reported on the engineer's invoice for services through March 24, 1993. Since the engineer concluded his testimony on March 9, 1992, we believe the final invoice is conclusive. Accordingly, we have reduced rate case expense by $13,559 for this component.

Consultant for OPEB Charges

Utility witness Ludsen testified that the issue concerning OPEB costs is a company-wide consideration, whereas Marco Island is allocated about 4 percent of that expense. Mr. Ludsen testified that other systems benefit from the consultant's defense of the utility's OPEB plan. He also testified that allocating this expenditure to all systems was workable, and that the amount allocated to other systems could be recovered in later rate applications. Since other systems benefit from the consultant's services in this docket, the payment for his services shall be allocated to those other systems. The resulting adjustment is a $23,829 reduction to rate case expense for this proceeding.

Summary

Based upon our review of the record, we find that the following adjustments are appropriate: a) the $21,170 estimate of outstanding fees for accounting services between January and March 1993, should be removed because no documentation was produced to support that charge; b) the estimated $40,000 sum for added legal fees should be reduced to $20,000 since that projection was inadequately explained; c) the $59,863 amount reported for the engineering consultant should be reduced to $46,304 as reflected on the invoice for services though the hearing; and 4) as only a portion of the $25,000 provision for the OPEB witness should be allocated to Marco Island, we find a $23,829 reduction of this expense to be appropriate.

We have allowed rate case costs of $219,920, which amount shall be amortized over 4 years. The utility shall submit a detailed statement of the actual rate case expense incurred within 60 days after the final order is issued, or if applicable, within 60 days after the issuance of an order entered in response to a motion for reconsideration of such final order. The information shall be submitted in the form prescribed for Schedule B-10 of the MFRs.

Weather Normalization

OPC witness Stewart testified that the test year used by SSU as a basis for making revenue projections was abnormally wet and did not reflect revenues that would occur in a more normal year. He testified that revenues should be increased by $558,307 to reflect a more normal year in terms of weather conditions. The additional revenues would result from water consumption used for residential non-domestic purposes, such as irrigation. OPC witness Stewart did conduct a weather normalization study which he believes would reflect a more normal year in terms of water consumption. OPC's request for a revenue increase of $558,307 for weather normalization is derived from its assumption of an increase in water consumption of 348,941,933 gallons, which would be an increase of 17.46 percent in water consumption.

It is SSU's position that Mr. Stewart's normalization study is flawed. OPC agreed that rainfall data was missing in 26 of the 137 months used in the study. SSU argued that the study does not accurately reflect the water consumed during each month because of the missing data. SSU also pointed out that OPC did not take into consideration that the utility has two billing cycles each month. According to SSU, the study does not consider the effect of other variables on consumption, including price elasticity, economic conditions, conservation, and weather conditions such as humidity, cloud cover, and temperature. It is also SSU's position that Mr. Stewart does not have any prior experience in either water utility ratemaking or weather normalization and that Mr. Stewart's experience and knowledge of weather normalization is limited to reviewing weather normalization studies conducted in two electric cases.

Historically, this Commission has not authorized weather normalization adjustments in rate cases for water or wastewater utilities. We believe that the basis of the revenue adjustment, the correlation between rainfall and consumption, is not properly accounted for. In order to identify the correlation, if any, between the two variables, adjustments must be made so that the same time period is reflected in the comparisons. For example, if rainfall data for January 1-31 is used, then consumption data for the same period should also be used. While Mr. Stewart states that he adjusted his figures to account for the lag, we believe the study is not accurate because the consumption records reflect usage that overlaps two months. Additionally, the study does not take into consideration the utility's two billing periods. Therefore, the actual correlation, if any, between rainfall and consumption is unknown.

We believe that the impact of other variables, such as per capita income, housing mix, and weather conditions, including humidity and temperature, should have been considered in the study to determine their possible impact on consumption. Since the requested revenue adjustment for weather normalization is based on a study that appears to be both invalid and incomplete for reasons explained above, we find that it is not appropriate to adjust test year revenues for weather normalization.

OPEBS

Utility witness Gangnon testified that the Commission should use FAS 106 in determining the appropriate rates. He testified that the OPEBs expense should be recovered by the utility for Marco Island in this proceeding as the employees earn these benefits, and the OPEBs expense should be paid by the ratepayers for whom the employee is performing services rather than future ratepayers. He testified that SSU will adopt FAS 106 in 1993.

OPC witness Montanaro opposes the use of FAS 106 for ratemaking. She testified that the Commission should use the pay-as-you-go method. She also testified that, if the Commission accepts the FAS 106 methodology for accounting for OPEBs, it should make regulatory adjustments to the Company's requested amount. She presented five adjustments in her testimony. The five adjustments Ms. Montanaro recommended are: 1) substitute the lowest cost OPEB plan for the SSU'S current plan; 2) adjust the discount rate to 8.24 percent, the double A utility bond rate as of December 29, 1992; 3) change the assumption that 85 percent of SSU's retirees would be married and their spouses would receive benefits to 50 percent; 4) change the assumed retirement date from age 55 to age 65; and 5) reflect the capitalization of a portion of OPEB costs.

Utility witness Neuwirth offered rebuttal testimony regarding witness Montanaro's testimony. Mr. Neuwirth disagrees with the substitution of Proposed Plan 2 for SSU's current plan. He testified that the current plan is the substantive plan, which is the basis for calculating the FAS 106 expense, and that Proposed Plan 2 never was communicated to employees. He testified that

Proposed Plan 2 has a lifetime benefit maximum for employees over age 65 of $10,000 and that none of the 77 utilities in his firm's data base have a maximum this low. He states that the $10,000 maximum is not competitive. Utility witness Neuwirth believes 8 percent is a reasonable discount rate and may be an overly high discount rate. With regard to the marital dependency assumption, Mr. Neuwirth believes that 85 percent is a reasonable assumption. Witness Neuwirth believes that the retirement age assumption used by SSU is appropriate, and that witness Montanaro's adjustment is inappropriate.

With regard to witness Montanaro's proposed capitalization rate, witness Gangnon agrees that some FAS 106 costs should be capitalized but he notes that the actual Marco Island rate is 5.37 percent. Witness Gangnon testified that SSU's capitalization rate for 1991 was 18.02 percent. He also testified that SSU's FAS 106 costs are allocated to the Marco Island system and that 18.02 percent of the FAS 106 costs will be capitalized.

Witness Montanaro testified that SSU can unilaterally modify the plan. She asserts that many companies that offer OPEBs are enacting cost sharing measures. She agrees that it is appropriate to compare utility costs, such as FAS 106 costs, to the costs of companies in competitive markets. She states that SSU's OPEBs may be on the low end when compared to other utilities, but may exceed what other employers in SSU's geographical area are offering.

We believe it is appropriate to use FAS 106 for ratemaking purposes. Furthermore, the accrual accounting prescribed by FAS 106 is appropriate for ratemaking purposes because it matches the costs of OPEBs to the period when the employees are working and earning the benefits. Continuing the pay-as-you-go method would result in a mismatch between the cost of employees' service and the period when they provide the service.

Furthermore, we find it appropriate to use Proposed Plan 3 as the basis for the FAS 106 expense allowance since SSU may reduce OPEBs in the future and most of its OPEB plan participants are active employees, not retirees. We acknowledge that the $10,000 maximum benefit does make Proposed Plan 2 less competitive. Proposed Plan 3 does not have a restrictive maximum benefit like Proposed Plan 2 and it has the same eligibility, medical, and death benefits as SSU's current plan. Proposed Plan 3 contains cost sharing provisions, making it consistent with witness Montanaro's assertion that many companies are enacting cost sharing measures or are eliminating the benefit entirely. Using a lower cost OPEB plan such as Proposed Plan 3 offsets the possibility that the Company may lower its postretirement benefits in the future.

We do not agree with OPC that an adjustment to the Company's FAS 106 costs is appropriate since 85 percent of SSU's retirees would be married and their spouses would receive benefits. The existing marriage assumption is reasonable. With regard to witness Montanaro's testimony that the assumed retirement date should be changed from age 55 to age 65, we note that FAS 106 requires that postretirement benefits be fully accrued when the employee becomes eligible for the benefits. In consideration of the above, we believe that SSU's retirement date assumption is acceptable. Furthermore, we believe that SSU's existing 8 percent discount rate is appropriate. We note that witness Montanaro agrees that the current double A public utility bond yield is 7.75 percent. The Commission has used the current double A public utility bond yield as a comparison rate in other cases. We believe that the rate should be used as a floor or check on a utility's discount rate. Since SSU's discount rate of 8 percent is above the floor of 7.75 percent, we have not adjusted the discount rate.

Our FAS 106 expense allowance is based on total company plan costs of $992,525, which is the cost of Proposed Plan 3 plus a death benefit and an allowance for the Lehigh systems. The allocation factor is 4.6866 percent. We have removed 18.02 percent of the FAS 106 costs because this portion of the costs are associated with construction. The resulting FAS 106 expense allowance is $38,133, of which $28,195 is allocated to water and $9,938 is allocated to wastewater.

Salary Increases

The test year provision for wages includes a pro forma adjustment to allow a 5.0 percent increase relative to actual wages for the period ended April 30, 1992. Utility witness Phillips testified that the wage expense for that historical period included bonuses and similar employee incentives. He testified that the utility's projected pay increase for 1992 was 5.34 percent, consisting of 3.33 percent for actual merit increases, 1.26 percent for step adjustments, and .75 percent for bonuses or other employee incentive compensation plans.

Although we believe the record supports allowing a provision for employee bonuses as an incentive to superior performance, we believe the utility's requested 5.0 percent increase is somewhat high in these economic times. We find that a 3.0 percent increase in this instance is reasonable. Therefore, we have included the 3.0 percent increase in projected test year salaries. Accordingly, we have reduced the projected test year wages by $12,121 for water and $5,095 for wastewater.

Common Expenses

OPC witness Dismukes testified that SSU's operating expenses should be adjusted to reflect the consolidation and closing of some of the utility's customer service offices. She testified that the expected savings would be $72,615. Ms. Dismukes testified that test year expenses should be reduced by $2,696 to show Marco Island's allocated share of the net reduction to office expenses. She also testified that the utility recently opened an office on Marco Island, and that this would cause a corresponding $17,726 increase to expenses.

Utility witness Kimball testified that the downward adjustments to expenses should not be made if upward adjustments were not likewise considered. She testified that any savings in office costs should be offset by the increased expense related to a change in the accounting treatment for health insurance premiums. She testified that since the overhead rate included something for health insurance, the utility's practice of simultaneously capitalizing 20 percent of insurance premiums was discontinued. She reported that a journal entry recorded in 1992 increased expenses by $177,252 to reclassify and expense health insurance charges that were capitalized during the first six months of 1992. She testified that a portion of this increased expense would be assigned to Marco Island, and that the resulting increase would more than offset the savings related to closed or consolidated offices. If increases and reductions were considered, Ms. Kimball testified that a net increase of $3,043 would result.

We agree with Ms. Dismukes' proposed $2,696 net reduction to reflect the expected net savings due to closing and consolidation of offices. The utility did not dispute that some savings are expected. Accordingly, test year expenses have been reduced by $2,696. We believe Ms. Kimball's observation regarding offsetting of increases and reductions has merit. However, we believe that the record does not contain sufficient evidence to justify test year consideration of the greater expenses resulting from the changed accounting treatment regarding capitalization of health insurance.

Property Taxes

OPC witness Dismukes testified that property taxes associated with non-used and useful property should be removed from test year expenses, as well as taxes related to property held for future use and any excessive R.O. plant construction costs.

Utility Witness Ludsen testified that the utility's requested provisions for property taxes were calculated based upon the net book value of projected plant relative to the same net balance for the historical period. He further explained that the utility is only taxed on 25 percent of its non-used and useful property in Collier County. Mr. Ludsen indicated that the utility would consent to exclusion of property taxes on its non-used and useful investment if those taxes were recovered through allowance for funds prudently invested charges. He maintained, however, that the 25 percent discount formula should be considered when any reduction was calculated. He further agreed that property taxes on non-used and useful plant were assigned to the allowance for funds prudently invested rate in Docket No. 920199-WS. He testified that any discounts available on non-used plant were applied when the adjustments were calculated in that proceeding.

We agree with Ms. Dismukes that property taxes should not be charged to customers for plant that is not used and useful. Accordingly, we have reduced property taxes by $139 for the water division to match the actual tax expense for the 160-acre parcel discussed earlier. Further, based on evidence in the record, we have reduced property taxes by $8,148 to correspond with our provision for non-used and useful property for the wastewater division. This calculation adopts the 25 percent tax application formula that Mr. Ludsen testified is applied when Collier County assesses its property taxes. The excluded portion for the wastewater division is assigned to the AFPI calculation in accordance with Stipulation B-13.

Interest on Utility Deposits

OPC witness Dismukes proposed an adjustment that would reclassify $1,400 of interest earned on utility deposits above-the-line. She testified that this adjustment was appropriate since utility deposits are implicitly included in the working capital provision derived using the formula approach.

Utility witness Vierima testified that interest earned on utility deposits should remain below-the-line. He testified that because these deposits are interest bearing, they would consequently be excluded from working capital. He reported that interest on deposits is generally less than the average cost of capital. He further testified that the suggested above-the-line classification would effectively preclude recovery of prudently incurred costs.

OPC is incorrect in its assumption that utility deposits are included in any provision for working capital. We believe the rationale for OPC's proposed adjustment has been effectively rebutted by the utility and we hereby reject OPC's suggestion to transfer interest income on utility deposits above-the-line.

Interest on Customer Deposits

OPC witness Dismukes proposed an adjustment to impute interest income of $2,216 as Marco Island's share of earnings on customer deposits and to classify that income above-the-line. However, she noted that Mr. Vierima explained that customer deposits do not directly produce interest income but rather offset otherwise incurred bank service charges. She offered to rescind her proposed adjustment if proof of reduced service charges was produced.

Utility witness Vierima testified that customers indirectly benefit from their deposits, although these funds are not kept in separate interest bearing accounts. He also testified that the utility's customers receive 8 percent interest income on their deposits, and therefore directly benefit from their deposits.

We believe that customers indirectly benefit from their deposits through reduced operating expenses, not only reduced bank service charges, but an inherently reduced level of bad debt expense. Further, customers are the direct beneficiaries of deposits since they receive interest on their deposits. In consideration of the foregoing, we deny OPC's proposal.

Bad Debt Expense

OPC witness Dismukes proposed a $3,349 reduction to bad debt expenses to reflect Marco Island's allocated share of a $71,450 savings for the combined SSU operating systems. She based her adjustment on four separate components:

1) reducing the total company expense by $30,000 to remove a charge related to M&M Utilities, a system previously operated by SSU under receivership status,

2) reducing the total company expense by $15,000 to remove a charge associated with certain Deltona gas systems that were sold,

3) reducing the total company expense by $16,950 to remove a charge for an account (Sun Club Condo Association, Inc.) once considered uncollectible but later recovered, and

4) a $9,500 overall reduction to correct an alleged bias concerning increasing bad debt expense if, on average, customer receivables are outstanding more than 60 days, but, conversely, not reducing the expense if, on average, the outstanding balance is less than 60 days old.

Utility witness Kimball did not dispute the adjustment related to the Deltona gas systems. She, however, argued that the other adjustments were improper. First, she testified that the expense for the Sun Club Condo Association was recorded before the test year; therefore, the charge did not increase test year expenses. She testified that the utility's practice of maintaining the reserve for uncollectible accounts at least equal to accounts outstanding for 60 days was not "biased", instead, it was consistent with conservative accounting standards. With respect to M&M Utilities, she testified that Ms. Dismukes misunderstood certain details regarding that account, and that the adjustment was therefore inappropriate.

We believe the reduction for M&M Utilities is proper because SSU ended its receivership duties for that system during the test year. Therefore, the bad debt expense related to operating that system is not a representative cost for future periods. Ms. Kimball testified that the $62,000 payment to the utility by the City of Ocoee was reimbursement for unrecovered operation expenses and not reimbursement of uncollectible accounts related to M&M Utilities as asserted by Ms. Dismukes.

The record supports two adjustments. Accordingly, we have reduced bad debt expense by $703 to reflect the sale of the Deltona gas systems, and by $1,406 to reflect the end of the receivership of M&M Utilities. The $1,406 adjustment is Marco Island's allocated share of a $30,000 total company adjustment. We agree, however, with Ms. Kimball that the other proposed adjustments are not appropriate.

Test Year Legal Expenses

OPC witness Dismukes testified that the utility's legal expenses should be disallowed to the extent they relate to DER fines and violations. She argued that legal fees to defend the utility in such proceedings should be removed since the fines are recorded below-the-line. Because the utility could not separate legal fees to contest EPA (Environmental Protection Agency) or DER violations from other services related to the environment, she proposed eliminating all legal costs that could not be segregated. She also testified that no similar legal fees were incurred from 1988 to 1990. She, therefore, recommended eliminating $20,738 for such costs or, in the alternative, amortizing the subject payments over 4 years for a $15,554 reduction. Ms. Dismukes also recommended disallowing legal charges associated with legislation to establish the value of utilities under condemnation actions.

Utility witness Teasley rebutted Ms. Dismukes' proposed adjustments concerning these legal expenses. She testified that denying recovery of legal fees to oppose alleged violations by DER/EPA would thereby deny recovery of legitimately incurred costs of operation. She argued that denying recovery of legal fees simply because a fine was paid would have a chilling effect on the utility's willingness to dispute alleged violations, which could be detrimental to customers.

Ms. Teasley testified that Ms. Dismukes' experience did not reveal any dealings with DER/EPA or familiarity with their violation and enforcement measures. Such exposure was essential, she asserted, to evaluate the merit of Ms. Dismukes' proposed adjustment. She indicated that capitulation to all regulatory prescriptions would be costly for customers, and that denying recovery of legal fees might produce this adverse impact. In a more general sense, she testified that attorneys providing environmental-related services may also be involved in settlement of alleged violations, and legal costs in those situations are inexorably intermixed. She testified that while SSU did not admit any violation during 1991, consent orders are sometimes accepted because further legal proceedings may be more costly, and that the Commission should not presume that such acquiescence denotes guilt.

Ms. Teasley disagreed with Ms. Dismukes' proposal that these legal costs should be amortized. She explained that while each separate legal proceeding has a certain finality, the utility will inevitably incur legal expenses every year in some other category. Ms. Teasley testified that legal expenses for the 1990 and 1991 calendar years were $116,838 and $109,057, respectively, that $240,447 was projected in 1992, and that the comparative test year provision for legal expenses was $122,701. She further testified that 1992 legal costs included substantial sums to resolve environmental issues, which she indicated should not be considered unusual given increased DER/EPA actions to enforce compliance with pertinent regulations.

Ms. Teasley also disagreed with Ms. Dismukes' proposal to remove legal expenses related to valuation of condemned utility systems. She explained that the disputed expenses were not lobbying expenses, as suggested by Ms. Dismukes, but rather, expenses to research statutory protections that apply when local governments propose condemnation of utility facilities. She testified that such research had application to SSU in relation to discouraging condemnation of its own facilities.

Based upon evidence in the record, we have allowed the disputed legal costs. The test year provision for legal fees does not appear unusual when compared to similar expenses in other referenced periods. The suggestion that legal costs should be disallowed because they were incurred to defend the utility against alleged violations presupposes that the utility should acquiesce in all cases, whether or not fault exists. We agree with Ms. Teasley that litigation may be appropriate even when imposition of a fine is a possibility, when compliance with a disputed regulation will create adverse economic consequences. On other occasions, payment of a fine pursuant to a consent order, even when "guilt" is not admitted, may result in avoidance of further litigation costs that would be detrimental to a utility's financial condition. An absolute prohibition against recovery of legal fees in any proceeding where a fine may be imposed would be impractical.

Furthermore, we do not agree with OPC's proposal to disallow costs related to condemnation measures. We believe the utility is entitled to discover and, if necessary, promote those practical measures that will prevent condemnation of its systems. Customers benefit from the economies of scale that are preserved when the utility protects its systems against condemnation. Accordingly, we have not reduced the utility's test year expenses.

Salaries Related to Gas Promotional Employees

OPC Witness Dismukes testified that test year expenses should be reduced to reflect wages and fringe benefits related to gas promotional activities. She testified that such removal was appropriate since other charges to promote gas sales are excluded. The utility did not rebut Ms. Dismukes' proposed adjustment. In fact, the utility agreed that a reduction of $842, or the allocated portion, was appropriate. The utility, however, did not submit any documentation that would demonstrate that the disputed expense was an allocated charge. Accordingly, since some reduction is appropriate, and no evidence was produced to show that the subject expense is allocated, we have reduced test year expenses by the $3,158 amount proposed by Ms. Dismukes.

MPL Organizational Development Charges

OPC witness Dismukes testified that SSU incurred $16,384 in expenses related to MPL's Organizational Development program during the test year. She testified that, based on what appeared to be a trend of declining monthly amounts and an absence of charges between May and August 1992, the reported expense seemed abnormal and nonrecurring. She recommended amortizing the $16,384 amount over 4 years.

Utility witness Kimball testified that the variation in monthly charges simply shows when MPL individuals are directly involved in SSU's organizational development activity. She testified that, typically, an MPL employee from Organizational Development will, upon request, visit SSU as it enters different phases of its development, that several months may pass without need for such assistance, but that this activity is an on going process. She testified that SSU's cost for calendar year 1992 was $11,363 and $11,967 was budgeted for 1993. Before 1991, the utility deferred organizational development costs for amortization over the period that presumably received a benefit, perhaps 12 to 18 months. Beginning in 1991, the utility reportedly recognized that these costs were recurring in nature and the charges were thereafter fully expensed. And, as a further reflection of that change, a $8,397 amount deferred in 1990 was expensed in 1991.

Based on evidence in the record, we believe that organizational development costs are recurring charges, and that the $16,384 test year expense is not dramatically different from similar charges for the period from 1990 to 1993. Accordingly, amortization of those charges as proposed by Ms. Dismukes is not appropriate. However, we believe an adjustment is appropriate to preclude double consideration of organizational development charges that resulted from adoption of a new accounting practice in 1991. That double consideration would transpire if charges deferred in 1990 were expensed in 1991, and 1991 payments were also fully expensed. Therefore, we have removed the $8,397 expense associated with the 1990 activity. As an allocated item, the corresponding reduction for Marco Island is $394.

Insurance Expenses

OPC witness Dismukes proposed that charges to SSU from its parent companies, Topeka Group, Inc., and Minnesota Power and Light, should be disallowed because the utility did not produce information showing how those charges were allocated. Ms. Dismukes testified that in response to OPC's interrogatory concerning intercompany charges, the utility stated that there are no allocations from the parent companies to the Company. According to Ms. Dismukes, her proposed reduction of $5,423 represents Marco Island's allocated share of $109,050 for insurance from the parent organizations. The disputed insurance costs are for directors and officers (D&O) and excess liability insurance premiums.

Utility witness Vierima testified that removal of intercompany charges was improper because SSU only solicits those services from Minnesota Power/Topeka for which they offer a distinct quality or cost advantage. Mr. Vierima produced a schedule showing specific documentation provided to OPC to support intercompany charges, including the disputed payments for insurance coverage. Mr. Vierima testified that disallowance of the disputed insurance payments would suggest that the Company should discontinue its D&O and excess liability coverages, which would discourage qualified personnel from serving in positions of authority, and restrict capital attraction due to excessive, uninsured business risks. According to Mr. Vierima, SSU reimbursed MPL $27,300 for $25 million worth of D&O coverage, whereas it received a $70,000 minimum quote from an unrelated party for $5 million of coverage. He testified that SSU reimbursed MPL $91,000 for excess liability, whereas $124,000 would have been paid to an unrelated party for less than one-third of comparative coverage. Mr. Vierima testified that much of the confusion about intercompany payments is a question of definition: is the subject charge a reimbursement of direct costs, an allocation of common costs, or is some other descriptive term more appropriate. Regardless of the terminology, he testified that the utility has made every effort to disclose the nature of all intercompany charges. He testified that some intercompany services are provided without cost and that all other services are competitively priced.

Based upon evidence in the record, we reject OPC's proposed adjustment to disallow intercompany payments for insurance coverage. The utility has produced evidence that the intercompany payment for insurance is less expensive than comparative fees from an unrelated party. The utility has also shown that other services are priced competitively or below cost.

Abnormal Repair Expense

OPC witness Dismukes proposed a $9,920 reduction to test year expenses to show amortization of a $12,764 period expense over 4 years. She testified that this adjustment would reflect proper amortization of an abnormally high cost to repair an 18" transmission main. She reported that the utility explained that while this particular repair may not be recurring, repair of transmission mains is a recurring concern.

Utility Witness Kimball testified that actual cost of repairing the transmission main was $3,902, not the alleged $12,764 charge, and that this should be considered an ordinary repair. Ms. Kimball testified that the utility regularly repairs its mains and that this charge would not be considered material.

Our review of the record indicates that the disputed $3,902 repair is neither material nor abnormal. Amortization of this charge is inappropriate.

ITC Interest Synchronization

In its filing, the utility includes ITCs in the capital structure with an associated cost rate of 10.78 percent. It is the utility's position that although it is Commission practice to make this adjustment, an interest synchronization adjustment is not appropriate because there is no interest expense associated with ITCs and the utility is unable to deduct the interest expense for Internal Revenue Service purposes.

OPC argued that, in accordance with past Commission practice, the Commission must impute interest on ITCs. These tax credits, according to OPC, are cost-free capital but they are included in the capital structure and SSU's overall cost of capital. Therefore, fairness dictates that the interest expense for the debt component of the "phantom" cost rate attached to the ITCs be used to reduce income taxes. Mr. Bergmann took no position on this issue.

Absent record support to deviate from past Commission practice, we believe an interest synchronization adjustment is appropriate. The utility provided no evidence supporting a deviation from Commission practice. Therefore, we have made an adjustment of $9,619 to show the tax effect of the interest synchronization adjustment.

Parent Debt Adjustment

Rule 25-14.004, Florida Administrative Code, requires the income tax expense of a regulated company "...be adjusted to reflect the tax effect of the parent debt that may be invested in the equity of the subsidiary where a parent-subsidiary relationship exists and the parties to the relationship join in the filing of a consolidated tax return."

The parties and Staff agreed that a parent debt adjustment would be necessary and that the amount would be subject to the resolution of other issues in this case. We agree. Based on our findings and conclusions in other portions of this Order, we find the appropriate amount of the parent debt adjustment to be $62,465 for water and $34,468 for wastewater.

Test Year Income Taxes

This is a mathematical calculation based on the level of revenues and expenses approved in this case. The appropriate provision for test year income tax expense is $672,035 for water and $266,188 for wastewater.

Test Year Operating Income

The adjusted income level, which reflects the difference between the utility's test year revenues and its adjusted operating expenses, shows the expected earnings amount (or loss condition) if current rates are retained. Based on previously discussed adjustments, the adjusted operating income levels are $461,691 and

$72,206 for the respective water and wastewater divisions. Schedules that depict our calculations of operating income are attached as Schedules Nos. 3-A and 3-B. The adjustments are shown on Schedule No. 3-C.

REVENUE REQUIREMENT

Based on the utility's application and our adjustments and calculations discussed above, we find the appropriate annual revenue requirement for Phase 1 to be $7,694,120 for water and $3,013,685 for wastewater. This represents a $3,505,557 or 83.69 percent increase for water revenues and a $1,673,797 or 124.92 percent increase for wastewater revenues.

As discussed in an earlier portion of this Order, rates shall be reduced upon refinancing of debt capital at December 31, 1994. This reduction to rates will be Phase 2 of the approved rate implementation formula for this proceeding. The projected cost of capital, following this refinancing, is 9.43 percent. Accordingly, for Phase 2, the appropriate annual revenue requirement is $7,494,761 for water and $2,930,087 for wastewater. Those sums reflect prospective revenue reductions of $199,358 for water and $483,597 for wastewater.

RATES AND RATE STRUCTURE

Marco Shores - Bulk Service

Marco Island sells bulk raw water service to an affiliate, Marco Shores. Service is provided by the Marco Island lime softening plant to the Marco Shores water plant. The current rates for raw water service, a $99.50 base facility charge, and a $0.53 per 1,000 gallons of raw water charge, were approved by the Commission by Order No. 18860, issued February 15, 1988. Projected revenues based on current rates for the test year ending April 30, 1993, for the raw water service were approximately $29,130. This reflects 0.0034 percent of the requested revenue requirement, $8,571,656, and includes the $21,000 in revenues resulting from the Commission-approved stipulations in this docket.

This issue was raised out of concern for potential cross-subsidization between Marco Shores and Marco Island's other customers. According to the MFRs and Commission-accepted stipulations regarding water purchased by Marco Shores, Marco Shores estimated water purchased for the projected test year is

52,702,000 gallons, which is 2.6 percent of the expected 2,025,559,000 gallons of water sold.

The utility states that it does not believe that an adjustment is appropriate at this time. The current rates for Marco Shores were approved by the Commission in 1988 and an increase was not proposed in Docket No. 920199-WS nor in this rate case. While Docket No. 920199-WS included the Marco Shores water system, it did not include the Marco Island systems. Therefore, it would not have been appropriate for SSU to ask for an increase in Marco Island's rates to Marco Shores in that docket. Additionally, although SSU did not request an increase in rates to its affiliate, Marco Shores, it would be unfair to other utility customers if increased costs that were related to providing service to Marco Shores were passed on to these other customers rather than to Marco Shores.

The utility did not provide information regarding the cost of providing service to Marco Shores. The utility has stated that the utility did not perform a separate cost of service study for providing raw water service. We cannot assume that the cost of providing service has not increased since 1988, particularly when SSU has requested a revenue increase of $4,394,093. Some amount of increase in Marco Shores' rate is warranted. The record indicates that an increase to reflect inflation would be a baseline amount. Therefore, the rates should be increased in accordance with the level of inflation for each year since 1988, based on the percentage increase authorized by the Commission for price indices each year.

The rates, when taking the annual price indices into consideration for the years 1989 through 1992, would result in an increase of $21.03 in the base facility charge and $0.11 per 1,000 gallons increase in the gallonage charge. In consideration of the foregoing, we have approved a base facility charge of $120.53 and a gallonage charge of $0.64 per 1,000 gallons for providing raw water service to Marco Shores.

Stand-Alone Rates

The Marco Island water and wastewater systems were not included in the docket in which state-wide rates were established for the majority of SSU's PSC-regulated systems, Docket No. 920199-WS. Utility witness Ludsen testified that the reason why the Marco Island systems were excluded from that docket was because the utility used a test year based solely on historical data for the twelve months that ended December 31, 1991, in that docket. Mr. Ludsen testified that the utility chose to file a projected test year for the Marco Island systems so that the utility could begin earning a return on its investment in the water and wastewater plant additions that were completed in April 1992.

Additionally, SSU did not want to further complicate its multi-system, multi-county filing by requesting approval to use a projected test year. Further, SSU did not believe that it could wait to file a rate case for all of its PSC-regulated systems based on a historical test year which included the Marco Island plant additions, due to the loss in revenues that would occur in the meantime. In consideration of the foregoing, we find it appropriate to set Marco Island's rates on a stand-alone basis.

Rate Structure

The rates we have approved below reflect Commission policy regarding the base facility charge rate structure based on ERC equivalents for each meter size. We find this rate structure to be appropriate. The rates set forth below reflect recovery of 20 percent of the revenues through the base facility charge and 80 percent through the gallonage charge. These rates spread the impact of the revenue increase more evenly across the customer types and should encourage conservation.

Rates

The permanent rates requested by the utility are designed to produce revenues of $8,571,656, an increase of $4,394,093 (105.18 percent) for water and $3,343,777, an increase of $1,519,000 (83.24 percent) for wastewater.

We have established the appropriate revenue requirements to be $7,694,120 and $3,013,685 for water and wastewater, respectively, on an annual basis. The rates, which we find to be fair, just and reasonable, are designed to achieve these revenue requirements, using the base facility charge rate structure. Therefore, we have approved rates that are designed initially to produce annual revenues of $7,694,120 for water and $3,013,685 for wastewater. We have approved a reduction in the revenue requirement due to a significant change in the capital structure that is expected to occur on December 31, 1994. The change would result in a reduction in the revenue requirement of $199,358 for water and $83,597 for wastewater. Therefore, following the change in the capital structure, the rates shall be reduced to produce annual revenues of $7,494,761 for water and $2,930,087 for wastewater.

The approved rates will be effective for service rendered on or after the stamped approval date of the tariff sheets, as stipulated. The revised tariff sheets will be approved upon our verification that the tariffs are consistent with the Commission's decision and the proposed customer notice is adequate. The comparison of the utility's original rates, interim rates, requested rates, and our final approved rates are set forth below for comparison.

UTILITY: Southern States Utilities, Inc./Deltona Utilities, Inc.
SYSTEM: MARCO ISLAND
COUNTY: COLLIER
DOCKET NO. 920655-WS
PROJECTED TEST YEAR ENDED: APRIL 30, 1993

WATER

RATE SCHEDULE

PHASE 1

Monthly Rates

	Current	Commission Approved Interim	Utility Requested Final	Commission Approved Final
Residential, Multi-Family, and General Service				
Base Facility Charge:				
Meter Size:				
5/8"x3/4"	$5.81	$9.31	$22.25	$8.19
3/4"	---	---	$33.38	$12.29
1"	$13.01	$20.84	$55.63	$20.48
1-1/2"	$24.99	$40.03	$111.25	$40.95
2"	$39.38	$63.07	$178.00	$65.[illegible]2
3"	$77.73	$124.50	$356.00	$131.04
4"	$120.90	$193.65	$556.25	$204.75
6"	$240.77	$385.64	$1,112.50	$409.50
8"	$464.80	$744.47	$1,780.00	$655.20
10"	$668.15	$1,070.18	$2,558.75	$941.85
Gallonage Charge per 1,000 G.	$1.60	$2.56	$2.18	$3.08
Bulk Raw Water Service				
Base Facility Charge:				
All Meter Sizes 5/8"x3/4"	$99.50	$99.50	$99.50	$120.53
Gallonage Charge per 1,000 G.	$0.53	$0.53	$0.53	$0.64
Private Fire Protection				
Meter Size:				
5/8"x3/4"	---	---	$7.42	---
3/4"	---	---	$11.13	---
1"	---	---	$18.54	---
1-1/2"	---	---	$37.08	---
2"	$13.81	$22.12	$59.33	$21.84
3"	$26.59	$42.59	$118.67	$43.68
4"	$40.98	$65.64	$185.42	$68.25
6"	$80.94	$129.64	$370.83	$136.50
8"	$128.89	$206.44	$593.33	$218.40
10"	$184.83	$296.04	$852.92	$313.95
5/8" x 3/4" meter				
3 M	$10.61	$16.99	$28.79	$17.43
5 M	$13.81	$22.12	$33.15	$23.59
10 M	$21.81	$34.93	$44.05	$38.99

UTILITY: Southern States Utilities, Inc./Deltona Utilities, Inc.
SYSTEM: MARCO ISLAND
COUNTY: COLLIER
DOCKET NO. 920655-WS
PROJECTED TEST YEAR ENDED: APRIL 30, 1993

WASTEWATER

RATE SCHEDULE

PHASE 1

Monthly Rates

	Current	Commission Approved Interim	Utility Requested Final	Commission Approved Final
Residential				
Base Facility Charge:				
All meter sizes	$6.57	$12.51	$37.28	$11.30
Gallonage Charge (per 1,000 Gallons)				
0–6,000 Gallons	$1.11	$2.11	$2.23	$3.26
6,000 – 10,000 Gallons	---	---	$2.23	$3.26
Sewer Cap (Gallons)	6,000	6,000	10,000	10,000
General Service and Multi–Family				
Base Facility Charge:				
Meter Size:				
5/8"x3/4"	$6.57	$12.51	$37.28	$11.30
3/4"	---	---	$55.92	$16.95
1"	$30.05	$57.23	$93.20	$22.60
1–1/2"	$59.39	$113.10	$186.40	$56.50
2"	$94.60	$180.16	$298.24	$90.40
3"	$188.51	$359.00	$596.48	$180.80
4"	$294.15	$560.18	$932.00	$282.50
6"	$587.62	$1,119.06	$1,864.00	$565.00
8"	$587.62	$1,119.06	$2,982.40	$904.00
10"	$755.55	$1,438.87	$4,287.20	$1,299.50
Gallonage Charge (per 1,000 Gallons)	$1.35	$2.57	$2.23	$3.91
Shadowridge	$814.28	$1,550.71	$1,287.83	$1,909.55
Bulk Wastewater Service				
Base Facility Charge:				
Meter Size:				
5/8"x3/4"	$6.57	$12.51	$37.28	$11.30
3/4"	---	---	$55.92	$16.95
1"	$30.05	$57.23	$93.20	$22.60
1–1/2"	$59.39	$113.10	$186.40	$56.50
2"	$94.60	$180.16	$298.24	$90.40
3"	$188.51	$359.00	$596.48	$180.80
4"	$294.15	$560.18	$932.00	$282.50
6"	$587.62	$1,119.06	$1,864.00	$565.00
8"	---	---	$2,982.40	$904.00
10"	---	---	$4,287.20	$1,299.50
Gallonage Charge (per 1,000 Gallons)	$1.41	$2.69	$2.23	$3.91
Effluent Reuse				
Gallonage Charge per 1,000 G.	$0.25	$0.25	$0.25	$0.25
5/8" x 3/4" meter				
3,000 Gallons	$9.90	$18.35	$43.97	$21.08
5,000 Gallons	$12.12	$23.08	$48.43	$27.60
10,000 Gallons	$13.23	$25.20	$59.58	$43.90

UTILITY: Southern States Utilities, Inc./Deltona Utilities, Inc.
SYSTEM: MARCO ISLAND
COUNTY: COLLIER
DOCKET NO. 920655-WS
PROJECTED TEST YEAR ENDED: APRIL 30, 1993

WATER
RATE SCHEDULE

PHASE 2

Monthly Rates

	Current	Commission Approved Interim	Utility Requested Final	Commission Approved Final
Residential, Multi-Family, and General Service				
Base Facility Charge:				
Meter Size:				
5/8"x3/4"	$5.81	$9.31	$22.25	$7.97
3/4"	---	---	$33.38	$11.96
1"	$13.01	$20.84	$55.63	$19.93
1-1/2"	$24.99	$40.03	$111.25	$39.85
2"	$39.38	$63.07	$178.00	$63.76
3"	$77.73	$124.50	$356.00	$127.52
4"	$120.90	$193.65	$556.25	$199.25
6"	$240.77	$385.64	$1,112.50	$398.50
8"	$464.80	$744.47	$1,780.00	$637.60
10"	$668.15	$1,070.18	$2,558.75	$916.55
Gallonage Charge per 1,000 G.	$1.60	$2.56	$2.18	$3.00
Bulk Raw Water Service				
Base Facility Charge:				
All Meter Sizes 5/8"x3/4"	$99.50	$99.50	$99.50	$120.53
Gallonage Charge per 1,000 G.	$0.53	$0.53	$0.53	$0.64
Private Fire Protection				
Meter Size:				
5/8"x3/4"	---	---	$7.42	---
3/4"	---	---	$11.13	---
1"	---	---	$18.54	---
1-1/2"	---	---	$37.08	---
2"	$13.81	$22.12	$59.33	$21.25
3"	$26.59	$42.59	$118.67	$42.51
4"	$40.98	$65.64	$185.42	$66.42
6"	$80.94	$129.64	$370.83	$132.83
8"	$128.89	$206.44	$593.33	$212.53
10"	$184.83	$296.04	$852.92	$305.52
5/8" x 3/4" meter				
3 M	$10.61	$16.99	$28.79	$16.97
5 M	$13.81	$22.12	$33.15	$22.97
10 M	$21.81	$34.93	$44.05	$37.97

UTILITY: Southern States Utilities, Inc./Deltona Utilities, Inc.
SYSTEM: MARCO ISLAND
COUNTY: COLLIER
DOCKET NO. 920655-WS
PROJECTED TEST YEAR ENDED: APRIL 30, 1993

WASTEWATER
RATE SCHEDULE

PHASE 2

Monthly Rates

	Current	Commission Approved Interim	Utility Requested Final	Commission Approved Final
Residential				
Base Facility Charge:				
All meter sizes	$6.57	$12.51	$37.28	$11.00
Gallonage Charge (per 1,000 Gallons)				
0-6,000 Gallons	$1.11	$2.11	$2.23	$3.17
6,000 - 10,000 Gallons	---	---	$2.23	$3.17
Sewer Cap (Gallons)	6,000	6,000	10,000	10,000
General Service and Multi-Family				
Base Facility Charge:				
Meter Size:				
5/8"x3/4"	$6.57	$12.51	$37.28	$11.00
3/4"	---	---	$55.92	$16.50
1"	$30.05	$57.23	$93.20	$22.00
1-1/2"	$59.39	$113.10	$186.40	$55.00
2"	$94.60	$180.16	$298.24	$88.00
3"	$188.51	$359.00	$596.48	$176.00
4"	$294.15	$560.18	$932.00	$275.00
6"	$587.62	$1,119.06	$1,864.00	$550.00
8"	$587.62	$1,119.06	$2,982.40	$880.00
10"	$755.55	$1,438.87	$4,287.20	$1,265.00
Gallonage Charge (per 1,000 Gallons)	$1.35	$2.57	$2.23	$3.81
Shadowridge	$814.28	$1,550.71	$1,287.83	$1,858.84
Bulk Wastewater Service				
Base Facility Charge:				
Meter Size:				
5/8"x3/4"	$6.57	$12.51	$37.28	$11.00
3/4"	---	---	$55.92	$16.50
1"	$30.05	$57.23	$93.20	$22.00
1-1/2"	$59.39	$113.10	$186.40	$55.00
2"	$94.60	$180.16	$298.24	$88.00
3"	$188.51	$359.00	$596.48	$176.00
4"	$294.15	$560.18	$932.00	$275.00
6"	$587.62	$1,119.06	$1,864.00	$550.00
8"	---	---	$2,982.40	$880.00
10"	---	---	$4,287.20	$1,265.00
Gallonage Charge (per 1,000 Gallons)	$1.41	$2.69	$2.23	$3.81
Effluent Reuse				
Gallonage Charge per 1,000 G.	$0.25	$0.25	$0.25	$0.25
5/8" x 3/4" meter				
3,000 Gallons	$9.90	$18.85	$43.97	$20.51
5,000 Gallons	$12.12	$23.08	$48.43	$26.85
10,000 Gallons	$13.23	$25.20	$59.58	$42.70

UTILITY: Southern States Utilities, Inc./Deltona Utilities, Inc.
SYSTEM: MARCO ISLAND
COUNTY: COLLIER
DOCKET NO. 920655-WS
PROJECTED TEST YEAR ENDED: APRIL 30, 1993

RATE SCHEDULE

Schedule of Rate Decrease After Expiration of
Amortization Period for Rate Case Expense

Water

Monthly Rates

Residential, Multi-Family, and General Service		Commission Approved Rates	Rate Decrease
Base Facility Charge (meter sizes):			
5/8"x3/4"		$7.97	$0.05
3/4"		$11.96	$0.07
1"		$19.93	$0.11
1-1/2"		$39.85	$0.23
2"		$63.76	$0.36
3"		$127.52	$0.72
4"		$199.25	$1.13
6"		$398.50	$2.26
8"		$637.60	$3.62
10"		$916.55	$5.21
Gallonage Charge (per 1,000 gallons)		$3.00	$0.02
Bulk Raw Water Service			
Base Facility Charge (meter sizes):	(NO CHANGE)	$120.53	$0.00
Gallonage Charge (per 1,000 gallons)		$0.64	$0.00
Private Fire Protection			
Meter Size:			
2"		$21.25	$0.12
3"		$42.51	$0.24
4"		$66.42	$0.38
6"		$132.83	$0.75
8"		$212.53	$1.21
10"		$305.52	$1.74

UTILITY: Southern States Utilities, Inc./Deltona Utilities, Inc.
SYSTEM: MARCO ISLAND
COUNTY: COLLIER
DOCKET NO. 920655–WS
PROJECTED TEST YEAR ENDED: APRIL 30, 1993

RATE SCHEDULE

Schedule of Rate Decrease After Expiration of
Amortization Period for Rate Case Expense

Wastewater

Monthly Rates

		Commission Approved Rates	Rate Decrease
Residential			
Base Facility Charge (all meter sizes):		$11.00	$0.06
Gallonage Charge (per 1,000 Gallons)			
0–10,000 Gallons		$3.17	$0.02
General Service and Multi–Family			
Base Facility Charge (meter size):			
5/8"x3/4"		$11.00	$0.06
3/4"		$16.50	$0.08
1"		$22.00	$0.11
1–1/2"		$55.00	$0.28
2"		$88.00	$0.45
3"		$176.00	$0.90
4"		$275.00	$1.41
6"		$550.00	$2.82
8"		$880.00	$4.51
10"		$1,265.00	$6.48
Gallonage Charge (per 1,000 Gallons)		$3.81	$0.02
Shadowridge		$1,858.64	$5.37
Bulk Wastewater Service			
Base Facility Charge (meter size):			
5/8"x3/4"		$11.00	$0.06
3/4"		$16.50	$0.08
1"		$22.00	$0.11
1–1/2"		$55.00	$0.28
2"		$88.00	$0.45
3"		$176.00	$0.90
4"		$275.00	$1.41
6"		$550.00	$2.82
8"		$880.00	$4.51
10"		$1,265.00	$6.48
Gallonage Charge (per 1,000 Gallons)		$3.81	$0.02
Effluent Reuse			
Gallonage Charge (per 1,000 gallons)	(NO CHANGE)	$0.25	$0.00

Effluent Charge

Marco Island currently provides treated effluent to three customers: the Island Country Club, Inc., Marco Shores Country Club and R&B Lawn Service. The current rate for treated effluent was established by Order No. 20257, issued November 4, 1988. Due to the poor quality of ground water on the island, the treated effluent customers' only alternative water source is the purchase of raw water from SSU. The currently authorized rate for raw water, as provided to Marco Shores, is $0.53 per 1,000 gallons.

Utility witness Sweat explained that rates for the provision of treated effluent for irrigation purposes should be determined on a case-by-case basis. Circumstances differ within a particular system's service territory which may influence the rates that should be charged. SSU believes that if a firm rate for reclaimed water is established, SSU may lose opportunities to maximize the use of reclaimed water. Since wells cannot be drilled due to the poor quality of ground water supplies, the customers' only alternative water source for irrigation is essentially the customer's ability to purchase raw water from SSU. The currently authorized rate is $0.47. SSU's only alternatives for disposal are the percolation ponds and a deep injection well.

SSU explains that the purchase of treated effluent appears to be price sensitive. While some treated effluent was provided without charge at the request of the utility, SSU was able to sell only approximately 100,000,000 gallons of treated effluent in the test year. In comparison, the utility provided more than 255,500,000 gallons of reclaimed water in the year prior to charging for treated effluent.

We encourage the use of treated effluent particularly since the alternative disposal methods, deep well injection and percolation ponds are more expensive. This cost savings is reflected in the utility's expenses and revenue requirements, and results in lower costs to the customer. The current charge of $0.25 per 1,000 gallons of treated effluent is reasonable. We believe it is appropriate to continue charging current customers $0.25 per thousand gallons for treated effluent. Agreements for the provision of treated effluent with future customers shall be filed with the Commission for review and approval on a case-by-case basis.

No Refund Required

By Order No. PSC-92-1359-FOF-WS, issued November 23, 1992, the Commission approved interim rate increases, subject to refund, of $2,488,974 (59.57 percent) and $1,191,123 (88.74 percent) for water and wastewater, respectively. These increases resulted in annual revenues of $6,666,943 for water and $2,533,314 for wastewater. Pursuant to Section 367.082, Florida Statutes, any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period when interim rates were in effect should be removed.

The approved interim rates for the interim test year ending April 30, 1992, did not include any pro forma provisions for increased operating expenses or increased plant. The increases, however, were determined based upon year-end conditions due to extraordinary growth in the utility's investment in plant facilities. The approved interim increases were designed to allow recovery of actual operating expenses, interest charges, and the floor of the last authorized range of return on equity.

The final revenue requirements in this case are calculated based on the projected test year ended April 30, 1993, and they include certain pro forma expenses that were not incurred during the interim collection period. Most significant among these is the provision for rate case expense, which charge is recovered prospectively. However, even when this charge is excluded, the final rate increase still significantly exceeds the interim rate increase. The comparable revenue requirement was calculated using the cost of capital determined in an earlier portion of this recommendation. This overall cost of capital includes the return on equity that, by statute, is the prescribed return to be used to test for excessive earnings during the interim collection period.

Based on the foregoing, we have calculated comparative interim rate increases of 84.34 percent for water service and 124.12 percent for wastewater service. Since these relative increases exceed the previously approved interim rate increases of 59.57 percent and 88.74 percent for the respective water and wastewater systems, no refund of interim rates is required.

Rate Case Expense Apportionment

Section 367.0816, Florida Statutes, requires that rate case expense be apportioned for recovery over a period of four years. The statute further requires that the rates of the utility be reduced immediately by the amount of rate case expense previously included in the rates. Accordingly, we find that the rates should be reduced by $42,568 for water and $15,003 for wastewater after four years. The revenue reductions reflect the amortized annual rate case expense amounts plus the gross-up for regulatory assessment fees. The appropriate rates upon reduction after four years are reflected in this body of this Order.

The utility shall file revised tariffs no later than one month prior to the actual date of the required rate reduction. In addition, the utility shall file a proposed customer notice 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.

Conservation Program

The utility provided information regarding its conservation program. Utility witness Sweat explained that the utility has a multiple award-winning conservation program. He testified that the utility has given conservation presentations to a number of civic organizations in the service area. He also testified that SSU has had numerous bill inserts, newsletter articles, advertisements and offered water saving kits. The utility also provided a detailed plan regarding implementation and continuance of the program.

OPC did not provide any testimony on this issue during the hearing. However OPC recommends in its brief that the Commission order SSU to provide a study of the viability of using reclaimed water for residential and commercial irrigation purposes and a plan of action for implementing a reclaimed water policy. OPC states further that SSU would be able to reduce the need for additional water treatment facilities and raw water supplies if it pursued the alternative of selling treated effluent for irrigation purposes.

We have reviewed SSU's conservation program plan. The program includes a speaker's bureau that has spoken before a number of civic groups on Marco Island and customer newsletters which emphasize water conservation. Further, written information is available upon request and at open houses regarding xeriscaping. Additionally, the utility currently provides treated effluent to four customers. During the projected test year, the utility expected to sell 67,252,000 gallons or approximately 8.5 percent of total effluent that is expected to be treated during the projected test year. SSU witness Dave Denny testified that SSU's goal is 100 percent reuse from the wastewater plant. Mr. Denny also discussed the possibility of providing treated effluent to other customers such as condominium associations.

It appears that the utility is making substantial efforts at educating its customers about conservation and the future use of treated effluent. Therefore, the utility should continue the current conservation program and the utility should continue to work towards its goal of 100 percent reuse of treated effluent.

Allowance for Funds Prudently Invested and Allowance for Funds Used During Construction

The parties and Staff have adopted certain stipulations with regard to calculation of the appropriate allowance for funds used during construction (AFUDC) and allowance for funds prudently invested (AFPI) rates. Stipulation B-17 specifies that the AFUDC rate should conform to the authorized cost of capital. Stipulation B-13 specifies that the AFPI rate should conform to the authorized cost of capital and, in addition, it should reflect the used and useful adjustments applied in this case. We agree. In accordance with those stipulations, the approved AFUDC and AFPI rates are shown on the attached Schedules Nos. 7 and Schedule 8, respectively.

The AFUDC rate, calculated on an annual basis, is 10.04 percent. The corresponding monthly rate is .800468 percent. The AFPI rates will be effective for connections made on or after July, 1993, and the charge will grow progressively larger each month through June, 1998.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction to determine the water and wastewater rates and charges of Southern

States Utilities, Inc./Deltona Utilities, Inc., pursuant to Sections 367.081 and 367.101, Florida Statutes.

2. As the applicant in this case, Southern States Utilities, Inc./Deltona Utilities, Inc., has the burden of proof that its proposed rates and charges are justified.

3. The rates and charges approved herein are just, reasonable, compensatory, not unfairly discriminatory and in accordance with the requirements of Section 367.081(2), Florida Statutes, and other governing law.

4. Pursuant to Chapter 25-9.001(3), Florida Administrative Code, no rules and regulations, or schedules of rates and charges, or modifications or revisions of the same, shall be effective until filed with and approved by the Commission.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that the application by Southern States Utilities, Inc./Deltona Utilities, Inc., for increased rates and charges for water and wastewater service is hereby approved to the extent 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 herein, whether in the form of discourse in the body of this Order or schedules attached hereto are, by reference, expressly incorporated herein. It is further

ORDERED that Southern States Utilities, Inc./Deltona Utilities, Inc., shall submit within sixty (60) days of the issuance of this Order a detailed statement of the actual rate case expense incurred. The information shall be submitted in the form prescribed for Schedule B-10 of the MFRs. In the event a motion for reconsideration is filed, the rate case expense information shall be filed within sixty (60) days of the issuance of an order entered on the motion for reconsideration. It is further

ORDERED that the new final rates shall be effective for services rendered on or after the stamped approval date of the tariff sheets. The utility shall be allowed to prorate the customer bills so that the rates become effective on the same day for all customers. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, Southern States Utilities, Inc./Deltona Utilities, Inc., shall submit 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 customer notice is adequate. It is further

ORDERED that Phase 2 rates shall be implemented after December 1994. Prior to its implementation of the Phase 2 rates approved herein, Southern States Utilities, Inc./Deltona Utilities, Inc., shall submit 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 customer notice is adequate. It is further

ORDERED that the rates approved herein shall be reduced at the end of the four-year rate case expense amortization period. The utility shall file revised tariff sheets no later than one month prior to the actual date of the reduction.

By ORDER of the Florida Public Service Commission, this 23rd day of July, 1993.

Steve Tribble

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)
LAJ

The two-member panel initially split on five issues. These were issues involving rate case expense, the used and useful percentage for the water treatment facilities, R.O. plant chemical costs and lime softening chemical and electrical costs. Chairman J. Terry Deason voted to split the tie on all of the issues, except for the issue involving the R.O. plant chemical cost. On that issue, Commissioner Lauredo amended his vote and voted with the Majority decision as reflected herein.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

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

COMPANY: SSU / COLLIER / MARCO ISLAND
SCHEDULE OF WATER RATE BASE – PHASE 1 RATES
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 1–A
DOCKET NO. 920655–WS

COMPONENT		TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	$	34,723,838 $	0 $	34,723,838 $	(298,467)$	34,425,371
2 LAND		368,967	0	368,967	(221,000)	147,967
3 NON–USED & USEFUL COMPONENTS		0	0	0	0	0
4 ACCUMULATED DEPRECIATION		(6,166,245)	0	(6,166,245)	(246)	(6,166,491)
5 CIAC		(4,789,508)	0	(4,789,508)	0	(4,789,508)
6 AMORTIZATION OF CIAC		891,099	0	891,099	0	891,099
7 ACQUISITION ADJUSTMENTS –NET		0	0	0	0	0
8 ADVANCES FOR CONSTRUCTION		0	0	0	0	0
9 DEFERRED TAXES		304,548	0	304,548	(86,756)	217,792
10 WORKING CAPITAL ALLOWANCE		220,213	137,448	357,661	(63,256)	294,405
RATE BASE	$	25,552,912 $	137,448 $	25,690,360 $	(669,725)$	25,020,635

COMPANY: SSU / COLLIER / MARCO ISLAND
SCHEDULE OF WASTEWATER RATE BASE – PHASE 1 RATES
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 1–B
DOCKET NO. 920655–WS

COMPONENT		TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	$	19,368,943 $	0 $	19,368,943 $	(58,455)$	19,310,488
2 LAND		234,336	0	234,336	0	234,336
3 NON–USED & USEFUL COMPONENTS		(1,681,877)	0	(1,681,877)	(920,815)	(2,602,692)
4 ACCUMULATED DEPRECIATION		(3,720,709)	0	(3,720,709)	1[illegible],614	(3,589,096)
5 CIAC		(3,967,920)	0	(3,967,920)	(23,100)	(3,991,020)
6 AMORTIZATION OF CIAC		1,218,644	0	1,218,644	547	1,219,191
7 ACQUISITION ADJUSTMENTS –NET		0	0	0	0	0
8 ADVANCES FOR CONSTRUCTION		0	0	0	0	0
9 DEFERRED TAXES		(139,374)	0	(139,374)	(47,296)	(186,670)
10 WORKING CAPITAL ALLOWANCE		95,148	5,649	100,797	(3,406)	97,391
RATE BASE	$	11,407,191 $	5,649 $	11,412,840 $	(920,911)$	10,491,929

COMPANY: SSU / COLLIER / MARCO ISLAND
ADJUSTMENTS TO RATE BASE – PHASE 1 RATES
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 1–C
DOCKET NO. 920655–WS
PAGE 1 OF 1

EXPLANATION	WATER	WASTEWATER
(1) UTILITY PLANT IN SERVICE		
a) Adjustment to show retirement of percolation ponds	$	$ (135,000)
b) Adjustment to correct double counting error and to show reduced cost of transmission main	(838,558)	
c) Test year additions for RO plant and deep well injection plants	537,911	186,910
d) Adjustment to remove effluent line construction cost		(78,866)
e) Adjustment to show reduced cost of catwalks		(31,499)
f) Adjustment to capitalize misclassified charges (S#B19)	2,180	
	$ (298,467)	$ (58,455)
(2) LAND		
a) Adjustment to classify 160 acre site as non–used and useful: property held for future use	$ (221,000)	
(3) NON–USED AND USEFUL PLANT		
a) Used and useful adjustment to wastewater treatment plant includes adjustments for retirements and revised costs		$ (920,815)
(4) ACCUMULATED DEPRECIATION		
a) Adjustment to show retirement of percolation ponds	$	$ 135,000
b) Adjustment to correct double counting error and to show reduced cost of transmission main	11,979	
c) Test year additions for RO plant and deep well injection plants	(12,225)	(5,192)
d) Adjustment to remove effluent line construction cost		1,314
e) Adjustment to show reduced cost of catwalks		492
	$ (246)	$ 131,614
CIAC		
a) Imputation of CIAC to offset margin reserve		$ (23,100)
ACCUMULATED AMORTIZATION		
a) Pro forma provision of amortization of imputed CIAC		$ 547
DEFERRED INCOME TAXES		
a) Reduced provision for deferred taxes – post–retirement benefits	$ (2,888)	$ (1,018)
b) Remove deferred taxes related to interim rates – Docket 900329–WS	(83,868)	(46,278)
	$ (86,756)	$ (47,296)
WORKING CAPITAL		
a) Adjustment to agree with recommended operating expenses	$ (63,256)	$ (3,406)

COMPANY: SSU / COLLIER / MARCO ISLAND
CAPITAL STRUCTURE – PHASE 1 RATES
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 2-A
DOCKET NO. 920655-WS

DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	UTILITY WEIGHTED COST	COMMISSION RECONC. ADJ. TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST PER COMMISSION
1 LONG TERM DEBT	$ 74,241,621	46.09%	10.53%	4.85%	$ (57,391,659)	$ 16,849,962	47.45%	9.50%	4.51%
2 SHORT-TERM DEBT	10,000,000	6.21%	6.71%	0.42%	(7,850,883)	2,149,117	6.05%	5.20%	0.31%
3 PREFERRED STOCK	3,145,284	1.95%	0.00%	0.00%	(2,469,326)	675,958	1.90%	0.00%	0.00%
4 COMMON EQUITY	72,800,857	45.20%	12.10%	5.47%	(57,155,102)	15,645,755	44.06%	12.19%	5.37%
5 CUSTOMER DEPOSITS	1,366,291	0.85%	7.64%	0.06%	(1,072,659)	293,632	0.83%	7.64%	0.06%
7 DEFERRED ITC'S	2,410,038	1.50%	10.78%	0.16%	(1,892,093)	517,945	1.46%	10.21%	0.15%
8 ADJUSTMENT FOR GAS	(2,884,000)	-1.79%	12.10%	-0.22%	2,264,195	(619,805)	-1.75%	12.19%	-0.21%
9 TOTAL CAPITAL	$ 161,080,091	100.00%		10.74%	$ (125,567,528)	$ 35,512,563	100.00%		10.19%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	11.19%	13.19%
OVERALL RATE OF RETURN	9.75%	10.63%

COMPANY: SSU / COLLIER / MARCO ISLAND
ADJUSTMENTS TO CAPITAL STRUCTURE – PHASE 1
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 2–B
DOCKET NO. 920655–WS

	DESCRIPTION	SPECIFIC ADJUSTMENT (1)	SPECIFIC ADJUSTMENT (2)	PRO RATA RECONCILE	NET ADJUSTMENT
1	LONG TERM DEBT	$ 4,162,500	$ 0	$ (61,554,159)	$ (57,391,659)
2	SHORT–TERM DEBT	0	0	(7,850,883)	(7,850,883)
3	PREFERRED STOCK	0	0	(2,469,326)	(2,469,326)
4	COMMON EQUITY	0	0	(57,155,102)	(57,155,102)
5	CUSTOMER DEPOSITS	0	0	(1,072,659)	(1,072,659)
6	ACCUM. DEFERRED INCOME TAX	0	0	(1,892,093)	(1,892,093)
7	OTHER (Explain)	0	0	2,264,195	2,264,195
8	TOTAL CAPITAL	$ 4,162,500	$ 0	$ (129,730,028)	$ (125,567,528)

COMPANY: SSU / COLLIER / MARCO ISLAND
STATEMENT OF WATER OPERATIONS – PHASE 1 RATES
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 3–A
DOCKET NO. 920655–WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	$ 4,177,563	$ 4,394,093	$ 8,571,656	$ (4,383,093)	$ 4,188,563	$ 3,505,557	$ 7,694,120
OPERATING EXPENSES:		105.18%				83.69%	
2 OPERATION AND MAINTENANCE	$ 1,761,702	$ 1,099,587	$ 2,861,289	$ (506,052)	$ 2,355,237	$	$ 2,355,237
3 DEPRECIATION	1,365,052	0	1,365,052	684	1,365,736		1,365,736
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	551,432	239,738	791,170	(197,525)	593,645	157,750	751,395
6 INCOME TAXES	(352,000)	1,147,001	795,001	(1,382,746)	(587,745)	1,259,780	672,035
7 TOTAL OPERATING EXPENSES	$ 3,326,186	$ 2,486,326	$ 5,812,512	$ 9,539,384	$ 3,726,872	$ 1,417,530	$ 5,144,402
8 OPERATING INCOME	$ 851,377	$ 1,907,767	$ 2,759,144	$ (13,922,477)	$ 461,691	$ 2,088,027	$ 2,549,718
9 RATE BASE	$ 25,552,912		$ 25,690,360		$ 25,020,635		$ 25,020,635
RATE OF RETURN	3.33%		10.74%		1.85%		10.19%

COMPANY: SSU / COLLIER / MARCO ISLAND
STATEMENT OF WASTEWATER OPERATIONS – PHASE 1 RATES
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 3-B
DOCKET NO. 920655-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	$ 1,824,777	$ 1,519,000	$ 3,343,777	$ (2,003,889)	$ 1,339,888	$ 1,673,797	$ 3,013,685
OPERATING EXPENSES		83.24%				124.92%	
2 OPERATION AND MAINTENANCE	$ 761,185	$ 45,190	$ 806,375	$ (27,249)	$ 779,126		$ 779,126
3 DEPRECIATION	599,525	0	599,525	(48,734)	550,791		550,791
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	280,991	90,473	371,464	(98,375)	273,089	75,321	348,410
6 INCOME TAXES	(179,887)	520,447	340,560	(675,885)	(335,325)	601,506	266,181
7 TOTAL OPERATING EXPENSES	$ 1,461,814	$ 656,110	$ 2,117,924	$ (850,242)	$ 1,267,682	$ 676,827	$ 1,944,509
8 OPERATING INCOME	$ 362,963	$ 862,890	$ 1,225,853	$ (1,153,647)	$ 72,206	$ 996,969	$ 1,069,176
9 RATE BASE	$ 11,407,191		$ 11,412,840		$ 10,491,929		$ 10,491,929
RATE OF RETURN	3.18%		10.74%		0.69%		10.19%

COMPANY: SSU / COLLIER / MARCO ISLAND
ADJUSTMENTS TO OPERATING STATEMENTS – PHASE 1 RATES
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 3–C
DOCKET NO. 920655–WS
PAGE 1 OF 2

EXPLANATION		WATER		WASTEWATER
(1) OPERATING REVENUES				
a) Reverse utility's proposed rate increase	$	(4,394,093)	$	(1,519,000)
b) Correct Marco Shores billing error		11,000		
c) Adjustment to reflect additional effluent revenues				10,000
d) Remove interim rate increase approved in Docket No. 900329–WS				(494,889)
	$	(4,383,093)	$	(2,003,889)
(2) OPERATING REVENUES				
a) Adjustment to reduce administrative expenses – allocation to St. Augustine system (S#A1)		(11,722)		(2,755)
b) Reclassification of vendor discounts (S#B3)		(1,496)		(527)
c) Amortization of merger costs (S#B6)		(281)		(99)
d) Remove charitable contributions – (S#B7)		(18)		(6)
e) Remove chamber of commerce and public relation expenditures – (S#B8)		(121)		(42)
f) Remove gas advertising expenses – (S#B9)		(435)		(153)
g) Adjustment to miscellaneous expenses (S#B10)		(8,106)		(2,858)
h) Adjustment to correct overaccrual of materials (S#B11)		(3,316)		
i) Adjustment to remove pay–as–you–go post–retirement benefits (S#B14)		(2,211)		(776)
j) Reclassify expenditures at R.O. Plant – clearing test and rebuilding of lime sludge pump (S#B20)		(4,360)		
k) Recommended reduction to post–retirement benefits		(15,349)		(5,410)
l) Adjustment to assign retirement benefits to construction efforts		(6,198)		(2,184)
m) Adjustment to reflect reduced allowance for bad debt expense		(1,559)		(550)
n) Reduce provision for payroll increase to 3%		(12,121)		(5,095)
o) Adjustment to show office closing costs		(1,994)		(703)
p) Remove wage provision related to gas promotional efforts		(2,335)		(823)
q) Remove expense caused by changing accounting treatment regarding deferred organization costs		(291)		(103)
r) Adjust provision for rate case expense		12,608		4,444
s) Adjustment to show reduced pro forma expense at RO plant		(131,895)		
t) Adjustment to electrical expenses		(14,788)		(5,212)
u) Adjustment to chemical expenses		(12,475)		(4,397)
v) Reduced provision for purchased water		(6,621)		
w) Adjustment to electrical expenses – lime softening plant		(165,848)		
x) Adjustment to chemical expenses – lime softening plant		(89,911)		
y) Reduced provision for purchased water – lime softening plant		(25,209)		
	$	(506,052)	$	(27,249)
(3) DEPRECIATION EXPENSE				
a) Adjustment to reflect retirement of percolation pond (S#B15)	$		$	(7,500)
b) Depreciation related to misclassified plant costs		192		
c) Used and useful adjustment to wastewater plant				(46,912)
d) Adjustment to correct double counting error and to show reduced cost of transmission main		(23,958)		
e) Test year additions for RO plant and deep well injection plants		24,450		10,384
f) Adjustment to remove effluent line construction cost				(2,629)
g) Adjustment to show reduced cost of catwalks				(984)
h) Amortization of imputed CIAC				(1,093)
	$	684	$	(48,734)

COMPANY: SSU / COLLIER / MARCO ISLAND
ADJUSTMENTS TO OPERATING STATEMENTS - PHASE 1 RATES
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 3-C
DOCKET NO. 920655-WS
PAGE 2 OF 2

EXPLANATION	WATER	WASTEWATER
(4) TAXES OTHER THAN INCOME TAXES		
a) Regulatory assessment fees related to revenue adjustment	$ (197,239)	$ (90,175)
b) Adjustment to remove duplicate payment of intangible taxes (S#B16)	(147)	(52)
c) Used and useful adjustment to property taxes		(8,148)
d) Property taxes related to 160 acre site	(139)	
	$ (197,525)	$ (98,375)
(5) INCOME TAXES		
a) Income taxes associated with adjusted test year income	$ (1,382,746)	$ (675,885)
(6) OPERATING REVENUES		
a) Adjustment to reflect recommended revenue requirement	$ 3,505,557	$ 1,673,797
(7) TAXES OTHER THAN INCOME TAXES		
a) Regulatory assessment taxes on additional revenues	$ 157,750	$ 75,321
(8) INCOME TAXES		
a) Income taxes related to recommended income amount	$ 1,259,780	$ 601,506

COMPANY: SSU / COLLIER / MARCO ISLAND
SCHEDULE OF WATER RATE BASE – PHASE 2 RATES
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 4–A
DOCKET NO. 920655–WS

COMPONENT		TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	$	34,723,838 $	0 $	34,723,838 $	(298,467)$	34,425,371
2 LAND		368,967	0	368,967	(221,000)	147,967
3 NON–USED & USEFUL COMPONENTS		0	0	0	0	0
4 ACCUMULATED DEPRECIATION		(6,166,245)	0	(6,166,245)	(246)	(6,166,491)
5 CIAC		(4,789,508)	0	(4,789,508)	0	(4,789,508)
6 AMORTIZATION OF CIAC		891,099	0	891,099	0	891,099
7 ACQUISITION ADJUSTMENTS –NET		0	0	0	0	0
8 ADVANCES FOR CONSTRUCTION		0	0	0	0	0
9 DEFERRED TAXES		304,548	0	304,548	(86,756)	217,792
10 WORKING CAPITAL ALLOWANCE		220,213	137,448	357,661	(63,256)	294,405
RATE BASE	$	25,552,912 $	137,448 $	25,690,360 $	(669,725)$	25,020,635

COMPANY: SSU / COLLIER / MARCO ISLAND
SCHEDULE OF WASTEWATER RATE BASE – PHASE 2 RATES
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 4–B
DOCKET NO. 920655–WS

COMPONENT		TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	$	19,368,943 $	0 $	19,368,943 $	(58,455)$	19,310,488
2 LAND		234,336	0	234,336	0	234,336
3 NON–USED & USEFUL COMPONENTS		(1,681,877)	0	(1,681,877)	(920,815)	(2,602,692)
4 ACCUMULATED DEPRECIATION		(3,720,709)	0	(3,720,709)	131,614	(3,589,095)
5 CIAC		(3,967,920)	0	(3,967,920)	(23,100)	(3,991,020)
6 AMORTIZATION OF CIAC		1,218,644	0	1,218,644	547	1,219,191
7 ACQUISITION ADJUSTMENTS – NET		0	0	0	0	0
8 ADVANCES FOR CONSTRUCTION		0	0	0	0	0
9 DEFERRED TAXES		(139,374)	0	(139,374)	(47,296)	(186,670)
10 WORKING CAPITAL ALLOWANCE		95,148	5,649	100,797	(3,406)	97,391
RATE BASE	$	11,407,191 $	5,649 $	11,412,840 $	(920,911)$	10,491,929

COMPANY: SSU / COLLIER / MARCO ISLAND
ADJUSTMENTS TO RATE BASE – PHASE 2 RATES
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 4-C
DOCKET NO. 920655-WS
PAGE 1 OF 1

EXPLANATION	WATER	WASTEWATER
(1) UTILITY PLANT IN SERVICE		
a) Adjustment to show retirement of percolation ponds	$	$ (135,000)
b) Adjustment to correct double counting error and to show reduced cost of transmission main	(838,558)	
c) Test year additions for RO plant and deep well injection plants	537,911	186,910
d) Adjustment to remove effluent line construction cost		(78,866)
e) Adjustment to show reduced cost of catwalks		(31,499)
f) Adjustment to capitalize misclassified charges (S#B19)	2,180	
	$ (298,467)	$ (58,455)
(2) LAND		
a) Adjustment to classify 160 acre site as non-used and useful: property held for future use	$ (221,000)	
(3) NON-USED AND USEFUL PLANT		
a) Used and useful adjustment to wastewater treatment plant includes adjustments for retirements and revised costs		$ (920,815)
(4) ACCUMULATED DEPRECIATION		
a) Adjustment to show retirement of percolation ponds	$	$ 135,000
b) Adjustment to correct double counting error and to show reduced cost of transmission main	11,979	
c) Test year additions for RO plant and deep well injection plants	(12,225)	(5,192)
d) Adjustment to remove effluent line construction cost		1,314
e) Adjustment to show reduced cost of catwalks		492
	$ (246)	$ 131,614
CIAC		
a) Imputation of CIAC to offset margin reserve		$ (23,100)
ACCUMULATED AMORTIZATION		
a) Pro forma provision of amortization of imputed CIAC		$ 547
DEFERRED INCOME TAXES		
a) Reduced provision for deferred taxes – post-retirement benefits	$ (2,888)	$ (1,018)
b) Remove deferred taxes related to interim rates – Docket 900329-WS	(83,868)	(46,278)
	$ (86,756)	$ (47,296)
WORKING CAPITAL		
a) Adjustment to agree with recommended operating expenses	$ (63,256)	$ (3,406)

COMPANY: SSU / COLLIER / MARCO ISLAND
CAPITAL STRUCTURE – PHASE 2 RATES
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 5-A
DOCKET NO. 920655-WS

DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	UTILITY WEIGHTED COST	COMMISSION RECONC. ADJ. TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST PER COMMISSION
1 LONG TERM DEBT	$ 74,241,621	46.09%	10.53%	4.85%	$ (57,391,659)	$ 16,849,962	47.45%	7.92%	3.76%
2 SHORT-TERM DEBT	10,000,000	6.21%	6.71%	0.42%	(7,850,883)	2,149,117	6.05%	5.20%	0.31%
3 PREFERRED STOCK	3,145,284	1.95%	0.00%	0.00%	(2,469,326)	675,958	1.90%	0.00%	0.00%
4 COMMON EQUITY	72,800,857	45.20%	12.10%	5.47%	(57,155,102)	15,645,755	44.06%	12.19%	5.37%
5 CUSTOMER DEPOSITS	1,366,291	0.85%	7.64%	0.06%	(1,072,659)	293,632	0.83%	7.64%	0.06%
7 DEFERRED ITC'S	2,410,038	1.50%	10.78%	0.16%	(1,892,093)	517,945	1.46%	9.44%	0.14%
8 ADJUSTMENT FOR GAS	(2,884,000)	-1.79%	12.10%	-0.22%	2,264,195	(619,805)	-1.75%	12.19%	-0.21%
9 TOTAL CAPITAL	$ 161,080,091	100.00%		10.74%	$ (125,567,528)	$ 35,512,563	100.00%		9.43%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	11.19%	13.19%
OVERALL RATE OF RETURN	8.99%	9.87%

COMPANY: SSU / COLLIER / MARCO ISLAND
ADJUSTMENTS TO CAPITAL STRUCTURE – PHASE 2
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 5-B
DOCKET NO. 920655-WS

	DESCRIPTION	SPECIFIC ADJUSTMENT (1)	SPECIFIC ADJUSTMENT (2)	PRO RATA RECONCILE	NET ADJUSTMENT
1	LONG TERM DEBT	$ 4,162,500	$ 0	$ (61,554,159)	$ (57,391,659)
2	SHORT-TERM DEBT	0	0	(7,850,883)	(7,850,883)
3	PREFERRED STOCK	0	0	(2,469,326)	(2,469,326)
4	COMMON EQUITY	0	0	(57,155,102)	(57,155,102)
5	CUSTOMER DEPOSITS	0	0	(1,072,659)	(1,072,659)
6	ACCUM. DEFERRED INCOME TAX	0	0	(1,892,093)	(1,892,093)
7	OTHER (Explain)	0	0	2,264,195	2,264,195
8	TOTAL CAPITAL	$ 4,162,500	$ 0	$ (129,730,028)	$ (125,567,528)

COMPANY: SSU / COLLIER / MARCO ISLAND
STATEMENT OF WATER OPERATIONS – PHASE 2 RATES
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 6-A
DOCKET NO. 920655-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	$ 4,177,563 $	4,394,093 $	8,571,656 $	(4,383,093)$	4,188,563 $	3,306,198 $	7,494,761
OPERATING EXPENSES:		105.18%				78.93%	
2 OPERATION AND MAINTENANCE	$ 1,761,702 $	1,099,587 $	2,861,289 $	(506,052)$	2,355,237 $	$	2,355,237
3 DEPRECIATION	1,365,052	0	1,365,052	684	1,365,736		1,365,736
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	551,432	239,738	791,170	(197,525)	593,645	148,779	742,424
6 INCOME TAXES	(352,000)	1,147,001	795,001	(1,311,107)	(516,106)	1,188,137	672,031
7 TOTAL OPERATING EXPENSES	$ 3,326,186 $	2,486,326 $	5,812,512 $	9,611,024 $	3,798,512 $	1,336,916 $	5,135,427
8 OPERATING INCOME	$ 851,377 $	1,907,767 $	2,759,144 $	(13,994,117)$	390,051 $	1,969,282 $	2,359,334
9 RATE BASE	$ 25,552,912		$ 25,690,360		$ 25,020,635		$ 25,020,635
RATE OF RETURN	3.33%		10.74%		1.56%		9.43%

COMPANY: SSU / COLLIER / MARCO ISLAND
STATEMENT OF WASTEWATER OPERATIONS – PHASE 2 RATES
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 6-B
DOCKET NO. 920655-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	$ 1,824,777	$ 1,519,000	$ 3,343,777	$ (2,003,889)	$ 1,339,888	$ 1,590,199	$ 2,930,087
OPERATING EXPENSES		83.24%				118.68%	
2 OPERATION AND MAINTENANCE	$ 761,185	$ 45,190	$ 806,375	$ (27,249)	$ 779,126		$ 779,126
3 DEPRECIATION	599,525	0	599,525	(48,734)	550,791		550,791
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	280,991	90,473	371,464	(98,375)	273,089	71,559	344,648
6 INCOME TAXES	(179,887)	520,447	340,560	(645,845)	(305,285)	571,464	266,180
7 TOTAL OPERATING EXPENSES	$ 1,461,814	$ 656,110	$ 2,117,924	$ (820,202)	$ 1,297,722	$ 643,023	$ 1,940,746
8 OPERATING INCOME	$ 362,963	$ 862,890	$ 1,225,853	$ (1,183,687)	$ 42,166	$ 947,176	$ 989,342
9 RATE BASE	$ 11,407,191		$ 11,412,840		$ 10,491,929		$ 10,491,929
RATE OF RETURN	3.18%		10.74%		0.40%		9.43%

COMPANY: SSU / COLLIER / MARCO ISLAND
ADJUSTMENTS TO OPERATING STATEMENTS – PHASE 2 RATES
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 6-C
DOCKET NO. 920655-WS
PAGE 1 OF 2

EXPLANATION	WATER	WASTEWATER
(1) OPERATING REVENUES		
a) Reverse utility's proposed rate increase	$ (4,394,093)	$ (1,519,000)
b) Correct Marco Shores billing error	11,000	
c) Adjustment to reflect additional effluent revenues		10,000
d) Remove interim rate increase approved in Docket No. 900329-WS		(494,889)
	$ (4,383,093)	$ (2,003,889)
(2) OPERATING REVENUES		
a) Adjustment to reduce administrative expenses – allocation to St. Augustine system (S#A1)	(11,722)	(2,755)
b) Reclassification of vendor discounts (S#B3)	(1,496)	(527)
c) Amortization of merger costs (S#B6)	(281)	(99)
d) Remove charitable contributions – (S#B7)	(18)	(6)
e) Remove chamber of commerce and public relation expenditures – (S#B8)	(121)	(42)
f) Remove gas advertising expenses – (S#B9)	(435)	(153)
g) Adjustment to miscellaneous expenses (S#B10)	(8,106)	(2,858)
h) Adjustment to correct overaccrual of materials (S#B11)	(3,316)	
i) Adjustment to remove pay-as-you-go post-retirement benefits (S#B14)	(2,211)	(776)
j) Reclassify expenditures at R.O. Plant – clearing test and rebuilding of lime sludge pump (S#B20)	(4,360)	
k) Recommended reduction to post-retirement benefits	(15,349)	(5,410)
l) Adjustment to assign retirement benefits to construction efforts	(6,198)	(2,184)
m) Adjustment to reflect reduced allowance for bad debt expense	(1,559)	(550)
n) Reduce provision for payroll increase to 3%	(12,121)	(5,095)
o) Adjustment to show office closing costs	(1,994)	(703)
p) Remove wage provision related to gas promotional efforts	(2,335)	(823)
q) Remove expense caused by changing accounting treatment regarding deferred organization costs	(291)	(103)
r) Adjust provision for rate case expense	12,608	4,444
s) Adjustment to show reduced pro forma expense at RO plant	(131,895)	
t) Adjustment to electrical expenses	(14,788)	(5,212)
u) Adjustment to chemical expenses	(12,475)	(4,397)
v) Reduced provision for purchased water	(6,621)	
w) Adjustment to electrical expenses – lime softening plant	(165,848)	
x) Adjustment to chemical expenses – lime softening plant	(89,911)	
y) Reduced provision for purchased water – lime softening plant	(25,209)	
	$ (506,052)	$ (27,249)
(3) DEPRECIATION EXPENSE		
a) Adjustment to reflect retirement of percolation pond (S#B15)	$	$ (7,500)
b) Depreciation related to misclassified plant costs	192	
c) Used and useful adjustment to wastewater plant		(46,912)
d) Adjustment to correct double counting error and to show reduced cost of transmission main	(23,958)	
e) Test year additions for RO plant and deep well injection plants	24,450	10,384
f) Adjustment to remove effluent line construction cost		(2,629)
g) Adjustment to show reduced cost of catwalks		(984)
h) Amortization of imputed CIAC		(1,093)
	$ 684	$ (48,734)

COMPANY: SSU / COLLIER / MARCO ISLAND
ADJUSTMENTS TO OPERATING STATEMENTS – PHASE 2 RATES
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 6–C
DOCKET NO. 920655–WS
PAGE 2 OF 2

EXPLANATION	WATER	WASTEWATER
(4) TAXES OTHER THAN INCOME TAXES		
a) Regulatory assessment fees related to revenue adjustment	$ (197,239)	$ (90,175)
b) Adjustment to remove duplicate payment of intangible taxes (S#B16)	(147)	(52)
c) Used and useful adjustment to property taxes		(8,148)
d) Property taxes related to 160 acre site	(139)	
	$ (197,525)	$ (98,375)
(5) INCOME TAXES		
a) Income taxes associated with adjusted test year income	$ (1,311,107)	$ (645,845)
(6) OPERATING REVENUES		
a) Adjustment to reflect recommended revenue requirement	$ 3,306,198	$ 1,590,199
(7) TAXES OTHER THAN INCOME TAXES		
a) Regulatory assessment taxes on additional revenues	$ 148,779	$ 71,559
(8) INCOME TAXES		
a) Income taxes related to recommended income amount	$ 1,188,137	$ 571,464

COMPANY: SSU / COLLIER / MARCO ISLAND
CAPITAL STRUCTURE – AFUDC RATE
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 7
DOCKET NO. 920655–WS

DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	ADJUSTMENTS PER COMMISSION	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST PER COMM.
1 LONG TERM DEBT	$ 74,241,621	(57,387,515) $	16,854,106	47.45%	9.50%	4.51%
2 SHORT–TERM DEBT	10,000,000	(7,850,355)	2,149,645	6.05%	5.20%	0.31%
3 PREFERRED STOCK	3,145,284	(2,469,159)	676,125	1.90%	0.00%	0.00%
4 COMMON EQUITY	72,800,857	(57,151,254)	15,649,603	44.06%	12.19%	5.37%
5 CUSTOMER DEPOSITS	1,366,291	(1,072,587)	293,704	0.83%	7.64%	0.06%
7 DEFERRED ITC'S	2,410,038	(1,891,965)	518,073	1.46%	0.00%	0.00%
8 ADJUSTMENT FOR GAS	(2,884,000)	2,264,042	(619,958)	−1.75%	12.19%	−0.21%
9 TOTAL CAPITAL	$ 161,080,091	(125,558,793) $	35,521,298	100.00%		10.04%

Monthly AFUDC rate:	rate per utility formula	0.856025 ((1+10.77/100) ^ (1/12)−1)*100
	rate per staff formula	0.800468 ((1+10.04/100) ^ (1/12)−1)*100

COMPANY: MARCO ISLAND UTILITIES
WASTEWATER TREATMENT PLANT
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 8
PAGE 1 OF 4
DOCKET NO. 920655-WS

Allowance for Funds Prudently Invested
Calculation of Carrying Costs for Each ERC

Information Needed

1.	Cost of Assets (net of Acc. Dep.)	$2,602,692
2.	Number of Future Customers	1,476 ERCS
3.	Annual Depreciation Expense	$136,965
4.	Rate of Return	10.19%
5.	Weighted Cost of Equity	5.16%
6.	Federal Income Tax Rate	34.00%
7.	State Income Tax Rate	5.50%
8.	Annual Property Tax	$8,148
9.	Other Costs	$0
10.	Test Year	April / 1993

COMPANY: MARCO ISLAND UTILITIES
WASTEWATER TREATMENT PLANT
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 8
PAGE 2 OF 4
DOCKET NO. 920655-WS

Allowance for Funds Prudently Invested
Calculation of Carrying Costs for Each ERC:

Cost of Qualifying Assets:	$2,602,692	Annual Depreciation Expense:	$	136,965
Divided By Future ERC:	1,476	Future ERC's:		1,476
Cost/ERC:	$1,763.34	Annual Depr. Cost per ERC:	$	92.79
Multiply By Rate of Return:	10.19%			
Annual Return Per ERC:	$179.68	Annual Propery Tax Expense:	$	8,148
		Future ERC's:		1,476
Annual Reduction in Return:	$9.46			
(Annaul Depreciation Expense per ERC Times Rate of Return)		Annual Prop. Tax per ERC:	$	5.52
Federal Tax Rate:	34.00%	Weighted Cost of Equity:		5.16%
Effective State Tax Rate:	3.63%	Divided by Rate of Return:		10.19%
Total Tax Rate:	37.63%	% of Equity in Return:		50.64%
Effective Tax on Return: (Equity % Times Tax Rate)	19.06%	Other Costs:	$	0
		Future ERC's:		1,476
Provision For Tax: (Tax on Return/(1-Total Tax Rate))	30.55%	Cost per ERC:	$	0.00

COMPANY: MARCO ISLAND UTILITIES
WASTEWATER TREATMENT PLANT
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 8
PAGE 3 OF 4
DOCKET NO. 920655-WS

Allowance for Funds Prudently Invested
Calculation of Carrying Cost Per ERC Per Year:

		1993/1994	1994/1995	1995/1996	1996/1997	1997/1998
Unfunded Other Costs:	$	0.00 $	0.00 $	0.00 $	0.00 $	0.00
Unfunded Annual Depreciation:		92.79	92.79	92.79	92.79	92.79
Unfunded Property Tax:		5.52	5.52	5.52	5.52	5.52
Subtotal Unfunded Annual Expense:	$	98.32 $	98.32 $	98.32 $	98.32 $	98.32
Unfunded Expenses Prior Year:		0.00	98.32	196.63	294.95	393.26
Total Unfunded Expenses:	$	98.32 $	196.63 $	294.95 $	393.26 $	491.58
Return on Expenses Current Year:		10.02	10.02	10.02	10.02	10.02
Return on Expenses Prior Year:		0.00	10.02	20.04	30.05	40.07
Return on Plant Current Year:		179.68	170.23	160.77	151.32	141.86
Earnings Prior Year:		0.00	179.68	378.24	597.59	839.86
Compound Earnings from Prior Year:		0.00	18.31	38.54	60.89	85.58
Total Compounded Earnings:	$	189.70 $	388.26 $	607.61 $	849.88 $	1,117.40
Earnings Expansion Factor for Tax:		1.31	1.31	1.31	1.31	1.31
Revenue Required to Fund Earnings:	$	247.66 $	506.88 $	793.25 $	1,109.53 $	1,458.78
Revenue Required to Fund Expenses:		98.32	196.63	294.95	393.26	491.58
Subtotal:	$	345.98 $	703.51 $	1,088.19 $	1,502.79 $	1,950.35
Divided by Factor for Gross Receipts Tax:		0.955	0.955	0.955	0.955	0.955
ERC Carrying Cost for 1 Year:	$	362.28 $	736.66 $	1,139.47 $	1,573.60 $	2,042.25

COMPANY: MARCO ISLAND UTILITIES
WASTEWATER TREATMENT PLANT
TEST YEAR ENDED APRIL 30, 1993

SCHEDULE NO. 8
PAGE 4 OF 4
DOCKET NO. 920655-WS

Allowance for Funds Prudently Invested
Schedule of Charges:

	1993/1994	1994/1995	1995/1996	1996/1997	1997/1998
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July	30.19	393.48	770.23	1,175.65	1,612.66
August	60.38	424.67	803.79	1,211.82	1,651.71
September	90.57	455.87	837.36	1,248.00	1,690.77
October	120.76	487.07	870.93	1,284.18	1,729.82
November	150.95	518.27	904.50	1,320.36	1,768.87
December	181.14	549.47	938.06	1,356.54	1,807.93
January	211.33	580.67	971.63	1,392.71	1,846.98
February	241.52	611.87	1,005.20	1,428.89	1,886.04
March	271.71	643.06	1,038.77	1,465.07	1,925.09
April	301.90	674.26	1,072.33	1,501.25	1,964.15
May	332.09	705.46	1,105.90	1,537.42	2,003.20
June	362.28	736.66	1,139.47	1,573.60	2,042.25