

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for interim and ) DOCKET NO. 940109-WU  
permanent rate increase in ) ORDER NO. PSC-94-1383-FOF-WU  
Franklin County by St. George ) ISSUED: November 14, 1994  
Island Utility Company, Ltd. )  
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APPEARANCES:

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On behalf of St. George Island Utility Company, Ltd.

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On behalf of the Citizens of The State of Florida.

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On behalf of the St. George Island Water Sewer District

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On behalf of the Commission Staff.

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Counsel to the Commissioners.

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, CHAIRMAN  
DIANE K. KIESLING

**FINAL ORDER REVISING RATES AND CHARGES**

BY THE COMMISSION:

**CASE BACKGROUND**

St. George Island Utility, Ltd. (St. George or utility) is a Class B water utility providing service for approximately 993 water customers in Franklin County. On January 31, 1994, the utility filed an application for approval of interim and permanent rate

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increases pursuant to Sections 367.081 and 367.082, Florida Statutes. Its application satisfied the minimum filing requirements (MFRs) for a general rate increase, and that date was designated as the official filing date. The test year for this proceeding is the twelve months ended December 31, 1992. For the test year, the utility reported operating revenues of \$314,517 and a net operating loss of \$428,201.

St. George requested interim water rates designed to generate annual revenues of \$435,453. The requested revenues exceed test year revenues by \$120,935 or 38.45 percent. The utility requested final water rates designed to generate annual revenues of \$742,718, which exceed test year revenues by \$428,201 or 136.15 percent. The utility stated in its filing that the final rates requested would be sufficient to recover an 8.07 percent rate of return on its rate base.

On February 11, 1994, the Office of Public Counsel (OPC) served notice of its intervention in this proceeding. OPC's intervention was acknowledged by this Commission by Order No. PSC-94-0291-PCO-WU, issued March 14, 1994. On April 27, 1994, the St. George Island Water Sewer District (District) petitioned to intervene in this matter. We granted its petition by Order No. PSC-94-0573-PCO-WU, issued May 16, 1994.

By Order No. PSC-94-0461-FOF-WU, issued March 18, 1994, we suspended the utility's proposed permanent rates and granted an interim rate increase subject to refund. By Order No. PSC-94-0461-FOF-WU, we also required the utility to provide a bond in the amount of \$34,307 as guarantee for any potential refund of interim water revenues.

This Commission held a technical hearing in Apalachicola on July 20 and 21, 1994, which was continued in Tallahassee on August 3, 9, and 10, 1994. At the beginning of the hearing in Apalachicola, ten customers of the utility testified in opposition to the proposed rate increase and complained about the quality of the water. One of these witnesses purported to represent ninety-nine customers of 300 Ocean Mile, St. George Island. At the evening session on July 20, nine more customers testified regarding the proposed rate increase as well as quality of service. In addition, several letters protesting the rates and quality of service, written by customers that could not be present, were presented to this Commission. Barbara Sanders, appearing on behalf of the District, also reported that she had received eighteen telephone calls from other customers who wished to express their opposition to the proposed rate increase request to the Commission.

STIPULATIONS

Prior to the hearing, St. George, OPC, and the District stipulated to the following:

1. Plant in service should be reduced by \$2,067 for lack of support documentation, as per Audit Exception No. 5.
2. Plant in service should be reduced by \$876 for unsupported costs associated with the third well, as per Audit Exception No. 9.
3. Plant in service should be reduced by \$2,370 for duplicative recording of Coloney Company invoices as stated in Audit Exception No. 10.
4. Plant in service should be reduced by \$12,518 to remove costs associated with the 50,000 gallon storage tank as stated in Audit Exception No. 12. In addition, corresponding adjustments should be made to reduce accumulated depreciation by \$629 and depreciation expense by \$358.
5. Plant in service should be adjusted for plant retirements as stated in Audit Exception No. 8, as follows:
  - a. An adjustment should be made to increase plant in service by \$1,675 and accumulated depreciation by \$168. In December of 1988 an adjustment was made to retire a copier on the island; however, the copier was never recorded on the books.
  - b. An adjustment should be made to reduce plant in service by \$7,029, accumulated depreciation by \$3,866 and depreciation expense by \$351, to record the retirement of a pump at well #1 which was replaced. In February 1989 the pump was replaced with a new pump but the retirement was not recorded.
  - c. An adjustment should be made to reduce plant in service by \$10,378, accumulated depreciation by \$2,077, and depreciation expense by \$519, to record the retirement of a pump at Well No. 2. In July 1989 the pump was replaced but the retirement was not recorded on the company's books.

- d. An adjustment should be made to decrease plant in service by \$3,654, accumulated depreciation by \$972 and depreciation expense by \$244 to retire a Harris 3M Copier that was not recorded.
6. Plant in service should be reduced by \$3,098 of transportation expenses, as stated in Audit Exception No. 7.
7. Land and Land Rights should be reduced by \$570 to remove non-utility related charges per Audit Exception No. 4.
8. Materials and supplies should be reduced by \$4,851 as stated under Audit Exception No. 22.
9. Chemical expenses should be reduced by \$657 as per Audit Exception No. 21.
10. Contributions in aid of construction (CIAC) should be increased by \$29,759, plant should be increased by \$13,423, accumulated amortization of CIAC should be increased by \$2,702, and depreciation expense should be increased by \$298, to record contributions paid by the St. George Island Volunteer Fire Department and Higdon and Bates.
11. Accumulated Depreciation should be increased by \$10,327, as per Audit Exception No. 15.
12. Accumulated Amortization of CIAC should be increased by \$10,635, as per Audit Exception No. 16.
13. Depreciation expense should be increased by \$5,432, as per Audit Exception No. 27.
14. The utility's depreciation rates should be adjusted as set forth in Rule 25-30.140, Florida Administrative Code. Depreciation expense should be reduced by \$8,802, and accumulated depreciation should be reduced by \$3,564.
15. Plant in service should be reduced by \$12,665, as per Audit Exception No. 6.

In addition to the above, St. George stipulated to, and neither OPC nor the District took a position on, the following:

16. Plant in service should be increased by \$1,941, as shown in Audit Exception No. 11, for the utility's new generator.

17. Advances for Construction should be decreased by \$9,257, as stated in Audit Exception No. 20.
18. The cost rate for customer deposits should be reduced in accordance with Rule 25-30.111, Florida Administrative Code.
19. The cost of common equity should be set using the leverage formula in effect at the time of the Agenda Conference for the final order in this proceeding. The range for the cost of equity should be plus or minus 100 basis points.
20. Used and useful shall be determined in the following manner:
  - a. All Source of Supply, Treatment and General Plant is considered 100 percent used and useful.
  - b. All Transmission and Distribution Plant is considered 100 percent used and useful except for the distribution mains (less than 8" diameter) in Account 331.4 Transmission & Distribution Mains serving certain subdivisions within the area known as the Plantation, which lines were constructed for the benefit of the developer. The cost of distribution lines (less than 8" diameter) within the following subdivisions will be subject to a used & useful factor equal to used lots divided by total lots, as follows:

	<u>Used, 8/92</u>	<u>Total</u>
Oyster Bay Village	2	27
Heron Bay Village	5	23
Bay Cove Village	9	34
Pelican Beach Village	28	58
Dolphin Beach Village	26	43
Indian Bay Village	8	30
Bay View Village	7	27
Windjammer Village	14	40
Treasure Beach Village	23	52
Plantation Beach Village	32	67
Turtle Beach Village	26	58
Pebble Beach Village	33	75
Sea Palm Village	32	75
Bay Palm Village	5	22
Sandpiper Village	8	34
Sea Pine Village	11	40
Sea Dune Village	18	34
Osprey Village	10	22
Bay Pine Village	<u>3</u>	<u>11</u>
	300	772
Less '93 additions	<u>(15)</u>	
Used lots - 1992	285	

$$\text{Used and useful factor} = \frac{285}{772} = .369$$

The used and useful factor will be applied to the original cost of two-inch and six-inch mains, valves and fittings in the designated Plantation areas per the inventory on the 1992 Baskerville Donovan system drawings. See Attachment A, which details the mains and valves. The appropriate test year average balance in Account 331.4 will be reduced by the non-used and useful amount of designated Plantation area original cost.

- c. Accumulated depreciation and depreciation expense for Acct 331.4 will be adjusted to reflect the net used and useful factor in Plant Account 331.4 after accounting for the used and useful in the designated Plantation areas.
- d. Allowance for funds prudently invested (AFPI) charges will be calculated and collected from new customers in the above designated Plantation areas.
- e. The term "used lots" in this stipulation includes all lots in the designated Plantation areas for which a) the

fully applicable service availability charge has been paid or b) a \$500 service availability charge has been prepaid and a base facility charge is being paid in accordance with the terms of the settlement agreement under Order No. 23649, whether or not there is a meter.

Finally, St. George and OPC stipulated to, and the District took no position on, the following:

21. Test year contractual services-other should be reduced by \$3,873, per Audit Exception No. 24. (The adjustment suggested in Audit Exception No. 24 was actually \$4,373. However, in its response to the audit, the utility provided support for \$500 of that amount.)

Upon consideration, we find that the stipulations are reasonable. They are, therefore, approved.

#### FINDINGS OF FACT, LAW, AND POLICY

Having heard the evidence and considered the parties' briefs and posthearing filings, the following represents our findings of fact, law, and policy.

#### QUALITY OF SERVICE

In accordance with Rule 25-30.433(1), Florida Administrative Code, our evaluation of quality of service is based upon three separate components of water operations: the water quality; the operational conditions of the plant and facilities; and the utility's efforts to address customer concerns.

#### Water Quality

Staff Witness McKeown, of the Department of Environmental Protection (DEP) testified that the water system is meeting or exceeding primary drinking water standards; however, he noted some deviations on secondary standards. Primary drinking water standards are based upon health concerns. Secondary drinking water standards are not as critical to human health, and are based primarily upon aesthetics. The deviations in secondary standards include excessive levels of copper and excessive turbidity levels in the ground storage tank. In addition, Well No. 3 initially exceeded the maximum contaminant level (MCL) for color, and hydrogen sulfide (H<sub>2</sub>S) is an inherent problem in this area of the state.

With regard to H<sub>2</sub>S, DEP rejected a report submitted by the utility that was required under a Partial Final Judgment (PFJ) dated April 30, 1992. Using the utility's values for dissolved and un-ionized sulfides, DEP calculated that a lower percentage of the H<sub>2</sub>S is being removed than required under the PFJ. Utility witness Bidy testified that he does not believe that the aerator analysis was deficient or defective. Mr. Bidy reported that there is no MCL for H<sub>2</sub>S. He also discussed the history of the aerator report, and stated that a response to DEP's November 18, 1993 letter would be submitted to no later than July 31, 1994. Mr. Bidy also stated that an addendum to the aerator report was furnished to the utility on July 31, 1994. Utility witness Brown testified that the aerator analysis report, as well as updated maps, have been completed and delivered to DEP. Mr. Brown stated that the problem on St. George Island is not so much the H<sub>2</sub>S level in the water when it leaves the plant, but H<sub>2</sub>S buildup in the lines. He stated that the only way to solve that is to flush the lines on a daily basis.

Utility witness Garrett testified that St. George has not failed a water quality test since he took over as operations manager in December, 1990. Because the utility is meeting or exceeding primary drinking water standards, as reported by Mr. McKeown, we find that the water quality is satisfactory.

#### Operational Conditions

In St. George's last rate case, by Order No. 21122, issued April 24, 1989, the Commission identified a number of plant and operational improvements that needed to be made. Mr. Brown testified that these improvements were necessary and proper. The utility has completed most of these improvements. For instance, St. George has installed an elevated storage tank, a third well capable of producing 500 gallons per minute (gpm), a backup chlorination system to provide redundancy, and a new generator.

St. George is currently maintaining the required chlorine residual throughout the distribution system. In addition, although it has had system pressure problems in the recent past, the utility has installed an altitude valve and two new variable speed high service pumps, such that it can now maintain a pressure of 65 pounds per square inch (psi) or higher throughout its system. These improvements were not mandated, but initiated by the utility itself. According to Mr. Brown "that's probably the first time recently that we have gotten ahead of the curve in terms of doing something because we know it needs to be done rather than doing it because DEP or somebody suggested it."



Mr. McKeown testified that the utility's wells are located in compliance with Rule 62-555.312, Florida Administrative Code, and that it has certified operators as required by Rule 62-602, Florida Administrative Code. Mr. McKeown also stated that the overall maintenance of the wells is satisfactory, although he expressed concern over a residue which he believes might emanate from Well No. 2. Mr. Bidy testified that "[t]he more likely source of the light gray to white clay like material found in the aerator is the residue of granular chlorination of the ground storage tank...."

Mr. McKeown noted that DEP did not receive acceptable system maps by September 1, 1992, as required by the PFJ. Mr. Bidy estimated that the maps would be completed no later than July 31, 1994. He further testified that maps were initially submitted on August 31, 1992, based upon the best engineering information available at the time. He testified that it is normal for large systems to file a map and then update and revise at a later date.

Mr. McKeown further testified that, during an August 1993 inspection, he found two deficiencies - leaks in the ground storage tank and a need to clean the aerator. He also noted that the utility failed to obtain a permit before modifying the aerator and that it has not increased supply to meet system demand.

Since it replaced the generator at the treatment plant and included a generator at the third well, the utility now has full emergency supply capability. The record also shows that the Florida Rural Water Association (FRWA) has been assisting the utility in its leak detection program for some time. Mr. McKeown believes that this should be an ongoing program.

The utility has established a cross-connection control program in accordance with Rule 62-555.360, Florida Administrative Code. Mr. McKeown testified that "[t]he last inspection identified one minor area of concern which was that all reports required to be generated by the PFJ were not being sent to us." He further stated that "[w]e should note that cross-connection control programs are difficult to manage, especially with a person who does not spend 100 percent of their time on this program. We expect minor oversight to occur, but will continue to judge the program by its overall effectiveness...."

Based upon the discussion above, we find that the operational conditions of the plant and facilities are satisfactory.

Customer Satisfaction

Messrs. Coloney and Brown testified that there have been few billing complaints and that customer response indicates general satisfaction with the quality of service. In its proposed findings of fact, St. George states that personnel are available for emergency situations twenty-four hours a day, seven days a week.

We received customer testimony on this matter on Wednesday, July 20, 1994. In total, sixteen customers provided testimony. In addition to the testimony, twenty-one names were read into the record as opposing the proposed rate increase and we received a number of letters from customers who could not attend, also opposing the proposed rate increase. One customer stated that he represented ninety-nine units at 300 Ocean Mile who were concerned about the proposed rate increase.

Several customers complained that the water was too chlorinated, had an unpleasant odor, or left deposits on fixtures. One customer stated that the water had corroded his copper piping. Two customers stated that they filter the water, one customer distills the water and one customer stated that she buys bottled water. One customer stated that he had to replace water heater elements, but was not sure if that was the utility's fault. In fact, he stated that "[i]t's the type of water that we get down here." Several customers complained about the water pressure. While some acknowledged that the pressure had improved, others were skeptical about how long that would last. One customer testified about a recent water outage which, apparently, was caused by the fire department using water at both ends of the island. In addition, four customers addressed their concern over the lack of fire protection service.

Mr. Garrett testified that, since he took over as operations manager, the utility has only had one overall outage, lasting approximately fifteen to twenty minutes, when the chlorination system blew up. Mr. Garrett further testified that "over the recent Memorial Day weekend, wells 1 and 2 operating together could not keep up with the demand. I then manually switched over to well no. 3 until the Memorial Day weekend demand went down, and well no. 3 was able to consistently keep up with the demand without calling on our reserve storage on the island." Mr. Garrett also stated that there are no specific operational problems. In fact, according to Mr. McKeown, since Mr. Garrett took over operations, the treatment plant has been well maintained.

Although there is room for improvement, the record indicates that the utility has made strides towards reliable and efficient

service. Mr. Coloney stated that St. George is in "substantial" compliance with DEP's statutes and rules. He also stated that once certain improvements have been completed, St. George would be in full compliance. Mr. Brown testified that St. George "is now in full compliance with all PSC and ... [DEP] requirements." We find that the utility is still deficient with certain requirements, but note that such areas are being addressed. Accordingly, we find that the overall quality of service is marginally satisfactory.

#### RATE BASE

Our calculation of rate base is depicted on Schedule No. 1-A. Our adjustments are itemized on Schedule No. 1-B. 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. A schedule of year end plant balances by primary account number for the 1992 test year is attached as Schedule No. 1-C. Our calculations of original cost are attached as Schedule No. 1-D.

#### Original Cost

In the utility's last rate case, St. George reported that it had lost or discarded virtually all original source documentation for the water system. Accordingly, by Order No. 21122, issued April 24, 1989, the Commission stated that:

The appropriate method to determine the original cost of a system is by analysis of the utility's books and records and the original source documentation in support thereof. During the audit of SGIU, the staff auditor was informed that the original records had been lost, thrown away or had simply disappeared. Since SGIU could not locate its books and records and supporting documentation, it submitted instead an original cost study in support of its proposed rate base.

We have, historically, been extremely cautious in the application of an original cost study to determine a utility's investment in plant. The majority of cases in which we have allowed an original cost study to be used in lieu of original source documents have been in instances involving very small utilities. A few examples of such instances are when very small utilities have just come under the jurisdiction of this Commission and the required documentation was not previously required, where a small utility was not sophisticated enough to maintain the required books and records or when an owner/operator

of a very small system has died and the subsequent owner could not obtain the records required to establish rate base.

Given the size of SGIU, the fact that its owner is also a developer and that it has consistently remained under the same ownership, its failure to maintain original source documentation for review by this Commission or any other governmental agency is unacceptable. We cannot help but wonder how the records were available for independent accounting firms to perform annual audits and consistently issue unqualified opinions, when the same records are unavailable for this proceeding.

In the absence of original source documentation, there appear to be two options available to determine the original cost of SGIU's system. The first would be for us to conclude that, due to the suspect circumstances surrounding the absence of the records, SGIU has not met its burden to prove its investment. Accordingly, we could conclude that SGIU has no investment in utility plant until such time as it provides original source documentation. This solution does not, however, appear to be fair and just since the record does indicate that the utility has some level of investment in the system.

The second option is for us to accept SGIU's original cost study, subject to any adjustments that we determine to be appropriate. This appears to be the only reasonable approach under the circumstances. However, although we will use SGIU's original cost study, we stress that our action should not be construed to imply that a utility can justify investment unsupported by original source documentation with an original cost study. Further, if at any time in the future, evidence is produced which reflects that our analysis of SGIU's investment is incorrect, we may, of course, readdress the issue of SGIU's level of investment. (Order No. 21122, pp. 6-7)

OPC and the District believe that new evidence has been presented in this case which indicates that even with the 16 percent reduction to Mr. Coloney's costs, the amount of plant was still overstated. This new evidence includes a 1979 financial statement for Leisure Properties, Ltd. (Leisure), a 1978 engineering appraisal by William Bishop, a 1982 engineering appraisal by William Bishop, and a 1976 appraisal by Ed Sayers.

The utility contends that there is no new evidence in this proceeding which invalidates Mr. Coloney's original cost study. Mr. Coloney testified that, even after reviewing the 1978 Bishop study, he still believes that his study is accurate to within ten percent. According to Mr. Coloney, nothing is more accurate than knowing what is in the ground. Mr. Seidman testified that the determination of original cost must be based on the assets in the ground and that numbers from annual reports and financial statements do not provide this information.

#### Res Judicata/Collateral Estoppel

In addition to the above, the utility argues that we are prohibited from revisiting the issue of original cost under the doctrines of res judicata and collateral estoppel. Since this is a threshold issue, we will deal with the res judicata/collateral estoppel issue first.

Under the doctrine of res judicata, a final judgment on the merits bars all subsequent actions between the same parties involving the same claim on all matters that were, or could have been, litigated. Collateral estoppel, on the other hand, bars subsequent actions between the same parties on matters actually litigated.

St. George argues that res judicata and collateral estoppel apply in the same manner to administrative proceedings as to judicial proceedings. In support of its argument, St. George cites a number of cases that stand for the proposition. Notable among its cites is Thomson v. Department of Environmental Regulation, 511 So.2d 989, 991 (Fla. 1987). In Thomson, the Supreme Court indeed stated that the doctrine of res judicata applies to administrative proceedings; however, it also noted that "the doctrine of res judicata is applied with 'great caution' in administrative cases." Id., at 991. The Court went on to hold that "[t]he proper rule in a case where a previous permit application has been denied is that res judicata will apply only if the second application is not supported by new facts, changed circumstances, or additional submissions by the applicant."

St. George next argues that the doctrines are not merely discretionary, and that, "[w]here the elements that give rise to the doctrines, it is error not to invoke them. In support of this argument, St. George cites DeBusk v. Smith, 397 So.2d 327 (Fla. 1980), Brown v. Department of Professional Regulation, 602 So.2d 1337 (Fla. 1st DCA 1992), and Florida Export Tobacco Co. v. Department of Revenue, 510 So.2d 936 (Fla. 1st DCA 1987), rev. den., 519 So.2d 986 (Fla. 1987).

Florida Export Tobacco does not appear to stand for the proposition that it is error not to invoke res judicata. It stands for the proposition that res judicata will not act as a bar where the original tribunal, in that case the Department of Revenue, lacked subject matter jurisdiction. The Court also noted that identity of the parties, an essential element of res judicata, was also lacking. In Brown v. DPR, the Court applied the doctrine of res judicata against DPR where it found that DPR's charge of professional misconduct had been previously litigated. We were unable to locate DeBusk v. Smith, either at the prescribed cite or anywhere else.

St. George next cites a number of cases in which the Commission has declined to apply the doctrine of res judicata for various reasons, and argues that none of these reasons apply in this case. The only case cited by St. George wherein the Commission arguably invoked the doctrine was In re: Petition of the Florida Industrial Power Users Group to Discontinue Florida Power and Light Company's Oil Blackout Cost Recovery Factor, which was processed under Docket No. 890148-EI. By Order No. 22268, 89 F.P.S.C. 12:41, issued December 5, 1989, the Commission rejected the Florida Industrial Power Users Group's (FIPUG's) challenge to the use of certain factors in calculating deferred capacity savings. Although one of the reasons cited was that FIPUG had been a party in three prior proceedings in which it had not challenged the factors, the Commission also rejected FIPUG's position because, if adopted, it would have violated Rule 25-17.016, Florida Administrative Code, and would have constituted retroactive ratemaking.

Finally, St. George argues that there has been no change in circumstances between the previous rate proceeding and the instant proceeding. St. George argues that there is an identity of issues, parties, and facts. It further argues that the evidence in this proceeding is the same as that brought forward in the prior case, with the exception of a number of annual reports.

We do not agree with the utility's contentions. As noted above, the doctrines of res judicata and collateral estoppel both require an identity of the parties. The District was not a party in the last proceeding, thus there is no identity of parties. In addition, new information has been brought to our attention in this case. Accordingly, the only identity seems to be of the issue itself.

We are more persuaded by the Supreme Court's admonition in Thomson, 511 So.2d at 991, that the doctrine of res judicata be applied with great caution. There are good reasons for exercising

great caution. In St. George's last rate case, this Commission stated that there were "suspect circumstances surrounding the absence of the [original cost] records". As a result, we were forced to rely on less reliable evidence of the original cost of the water system. However, we specifically stated that "if at any time in the future, evidence is produced which reflects that our analysis of SGIU's investment is incorrect, we may, of course, readdress the issue of SGIU's level of investment." Order No. 21122, 89 F.P.S.C. 4:387 (1989). New evidence has been brought forward in this proceeding which indicates that the prior determination was incorrect. We also note that the burden of proof that any rate change is appropriate lies with St. George. Florida Power Corporation v. Cresse, 413 So.2d 1187, 1191 (Fla. 1982). Proof of a utility's investment in plant is an integral component of meeting this burden.

Based upon the discussion above, we reject St. George's argument that this Commission is foreclosed from revisiting the issue of original cost.

#### The Evidence

1979 Financial Statement - This financial statement is an unqualified opinion, prepared by Thomson, Brock & Company for Leisure for the period ended December 31, 1979. The statement indicates that the investment in the water system was \$830,145, less accumulated depreciation of \$22,660. Utility witness Withers testified that some of the labor costs associated with Leisure personnel laying the lines would not be included in the statement.

This document does not provide any description of the plant associated with this cost. All that it provides is the investment of Leisure in the water system.

Ms. Withers and Mr. Brown both claim that this statement is not new evidence because it was included in Exhibit 21 from the record for Docket No. 871177-WS. Although the transcript from the hearing in that docket indicates that the utility contemplated filing the statement as part of Exhibit 21, a review of the record for Docket No. 871177-WS reveals that St. George never actually filed the statement. After the record was closed, OPC filed the statement and requested that we take notice of it. By Order No. 20913, issued March 17, 1989, we took notice of the document, but only that the statement had been certified on a certain date, not of the substance or truth thereof.

1978 Bishop Study - This document is an appraisal of the July 1978 replacement cost of the facilities and land associated with the St. George water system. Mr. Bishop was the consulting engineer who designed this system. Thirty-six percent of the replacement costs were based upon actual contracts and invoices.

The asset descriptions in the utility's depreciation schedule are exactly the same as the descriptions in this study. In fact, Ms. Withers used the 1978 study to allocate the \$3 million purchase price of the utility to the assets that were listed in the appraisal in order to prepare the utility's depreciation schedule.

During a February 9, 1981 deposition, Mr. Brown testified that the 1978 Bishop study was based on actual costs and comes as close to the overall expense for the system as anything else available. At the hearing in this proceeding, Mr. Coloney testified that the 1978 Bishop study is accurate and complete and genuinely reflects what he found at the time that he performed his original cost study. Mr. Seidman also testified that he did not have any problems with the appraisal.

1982 Bishop Study - This document is a depreciated replacement cost appraisal which was also prepared by Mr. Bishop. This appraisal is an update of the 1978 appraisal which incorporates the extensions and improvements made to the water system in the interim. The 1982 study, like the 1978 study, is based upon what is in the ground. The amount of plant provided in this appraisal is consistent with the plant described in the 1978 appraisal.

A comparison of the quantities in the two Bishop appraisals indicates that, between 1978 and 1982, transmission and distribution lines and associated appurtenances, fire hydrants, a high service pump, and 141 customer services were the only additions to the system. The 1982 appraisal indicates the length of pipe in the ground and the unit cost of this pipe.

1977 Sayers Appraisal - This appraisal was prepared by Mr. Sayers for Leisure in 1977. This appraisal also provides an inventory of plant in the ground but, other than stating that it relied upon information supplied by Mr. Bishop, it does not describe how the unit costs of the assets were derived. There is not adequate support for this appraisal in the record. Mr. Brown was the only witness who testified about this document. Also, as noted, the Sayers Appraisal relied upon information supplied by Mr. Bishop. Accordingly, we believe that the 1978 Bishop study is a much better source to determine the original cost of plant.



The year of construction for much of the system in Mr. Coloney's study also appears questionable. For example, Mr. Coloney's study indicates that 57,545 feet of two-inch polyvinyl chloride (PVC) pipe was in the ground in 1978. The 1978 Bishop Appraisal indicates that the system did not have any two-inch PVC pipe. Further, the 1982 Bishop Appraisal shows that, at that time, 15,225 feet of two-inch PVC pipe had been installed. Mr. Coloney's study also indicates that two wells were in service in 1978. The two Bishop studies indicate that only one well was in service. A March 10, 1987 DEP sanitary survey supports the Bishop reports. It states that Well No. 2 was drilled in 1985.

Withers Affidavit/Annual Reports - Ms. Withers served as Comptroller for Leisure from 1976 through 1986 and was directly involved in keeping the utility's books and records. In her affidavit filed in Docket No. 871177-WS, Ms. Withers stated that, between year-end 1979 and 1987, the utility added \$543,705 of new plant. These additions were based upon the utility's books, and the annual reports also reflect these additions. Ms. Withers testified that the booked plant additions are accurate as far as the "hard" costs and they agree with the tax returns. Neither the affidavit nor the annual reports indicate the plant assets associated with these numbers.

At the hearing in this case, Ms. Withers discussed "hard" and "soft" costs to explain how the utility's books did not capture all of the expenses associated with plant construction. She stated that "hard" costs are the bare bones, brick and mortar or pipelines, and labor. According to Ms. Withers "soft" costs include the engineering, supervision during construction, legal fees, and property taxes, among others. Ms. Withers testified that the plant additions indicated in her tax reconciliation are only accurate for the "hard" costs.

Conclusion - Based upon our discussion above, we find that the 1978 Bishop study is the best evidence of what plant was in the ground and the cost of that plant as of 1978. We also find that the 1982 Bishop study is the best evidence of plant additions between 1978 and 1982 and the cost of that plant, and that the 1988 Coloney study is the best evidence of what plant was in the ground as of 1988. Although the remaining original cost evidence is not as probative regarding original cost, we find it useful for comparative and corroborative purposes.

#### OPC's Original Cost Proposal

OPC witness Dismukes testified that the utility's original cost of plant should be calculated by adding \$830,145, the

investment stated in the 1979 Leisure financial statement to \$543,705, the plant additions indicated by Ms. Withers in her affidavit. Using OPC's methodology would result in a \$645,038 reduction to the utility's test year plant in service.

OPC's proposed methodology is straightforward and easy to calculate. It is based on information which was prepared for or by the utility. The auditor of the financial statement issued an unqualified opinion. Mr. Brown certified by signing the utility's annual reports that the information contained therein was true, correct, and complete. Ms. Withers testified that the plant additions are accurate as far as hard costs.

Mr. Coloney testified, however, that the only thing that really matters when determining original cost is what is physically in the ground. Mr. Seidman agreed and added that there is not enough information in the annual reports, the financial statements, or Ms. Withers' tax reconciliation to identify what plant is in the ground or the amounts invested in plant in service. To support his statement, Mr. Seidman noted that the annual reports indicate that the utility had booked the \$3 million sale of the system as plant in service. Mr. Brown testified that when he certified the annual reports he believed that they were true but has since become convinced that the accounting records were not accurate. Mr. Brown also believes that Ms. Withers' reconciliation is not totally accurate and complete and that Ms. Withers failed to include all of the costs that would be properly capitalized to the plant.

OPC's proposal would require us to calculate original cost based upon recorded costs, without knowing the plant assets to which the costs relate. OPC's original cost proposal is, therefore, rejected. We agree with Messrs. Seidman and Coloney that original cost should be based upon what is in the ground.

#### District's Original Cost Proposal

The District argues that the original cost should be reduced by \$1,449,883 from the amount established in the previous rate case. The District calculated this adjustment by adding the original cost from the 1978 Bishop study, \$750,117, to \$539,735, the sum of the amounts listed for plant additions in the Withers affidavit and the utility's annual reports. The District believes that using this methodology results in a 1987 original cost of \$1,289,852. We note, however, that the District's proposed adjustment is incorrect. Schedule 4-C of Order 21122 indicates that the utility's year-end plant balance was \$2,175,331. Therefore, the adjustment to reduce gross plant from \$2,175,331 to \$1,289,852 is (\$885,479), not (\$1,449,883).

Leisure's 1978 Tax Return and IRS Audit - Schedule J of Leisure's 1978 federal income tax return indicates that the depreciable basis of the water system was \$658,584. The plant assets associated with this number are not described. In 1979, Leisure sold the water system to St. George for \$3,000,000. This transaction apparently caused the IRS to audit the tax returns of Leisure and the utility for the years 1979 through 1982. The IRS claimed that the value of the water system was \$1,550,000, while the utility maintained that it was \$3,000,000. Prior to trial, the utility and the IRS settled upon a tax basis of \$2,212,000 as of December 31, 1979.

We do not believe that the settlement with IRS is necessarily probative of the original cost for ratemaking. The IRS's reasons for settlement are not explained. There is also no information which indicates what plant assets this settlement represents. This failure to identify the plant in the ground was one of the utility's criticisms of the Withers Affidavit, discussed below, and the 1979 Leisure financial statement.

1988 Coloney Study - Mr. Coloney's original cost of plant was derived from the replacement cost for each plant component as of June 1, 1988. Mr. Coloney used a sample of 1988 construction cost data to develop prices for the system components. The cost of each component was then trended back to the year of construction utilizing the Handy-Whitman Index of Public Utility Construction Costs. Under this methodology, Mr. Coloney determined that the original cost of the system, as of June, 1988, was \$2,551,010.

At the hearing in Docket No. 871177-WS, Mr. Coloney testified that, in preparing his report, he consulted the 1978 Bishop study. In this case, Mr. Coloney testified that he did not have access to the 1978 Bishop study when he prepared his original cost study.

The Coloney Study provides an inventory for all of the plant assets as of June 1, 1988. Except for the fire hydrants, discussed below, there is no evidence which contradicts Mr. Coloney's plant inventory.

In the MFRs, the utility represented that the system has 88 fire hydrants. Staff witness Abbott, Chief of the St. George Island Volunteer Fire Department, testified that, between 1988 and 1992, the fire department paid for the installation of 8 fire hydrants. Subtracting 8 from 88 indicates that only 80 fire hydrants were connected in 1988. Mr. Coloney's study indicates that 89 fire hydrants were connected to the system in 1988.

As noted above, it does not appear that the Withers affidavit or the annual reports are an accurate source of information. In addition, neither the affidavit nor the annual reports describe what went into the ground. We, therefore, reject the District's proposal for determining original cost.

The District also recommends that we impute CIAC for some of the cost that is not reported by the utility, as we did in Docket No. 920834-WS, In Re: Petition for limited proceeding to increase rates to recover the cost of purchased assets disallowed in Docket No. 910020-WS by Utilities, Inc. of Florida, by Order PSC-93-0430-FOF-WS, issued March 22, 1993.

Ms. Withers testified that the IRS audit of Leisure and the utility between 1979 and 1982 investigated these issues. She adds that the IRS would not have allowed the labor expenses associated with the water system's construction to be written off for both companies. We agree with St. George that the labor costs would not have appeared on both sets of books without the IRS adjusting out the duplicate costs. Accordingly, we have not imputed CIAC as recommended by the District.

#### Utility's Original Cost Proposal

The utility argues that our previous decision concerning original cost should not be disturbed. Messrs. Coloney and Seidman both testified that Mr. Coloney's study is consistent with both Bishop studies. Mr. Coloney also argued that his study is accurate to within ten percent. As discussed above, the Coloney study is accurate, insofar as the amount of plant in the ground. However, we do have concerns over the costs assigned to the plant and the years to which certain plant additions were ascribed.

Mr. Seidman's original cost analysis, using the costs and quantities from the Bishop and the Coloney studies, indicated that the original cost was around \$2 million, or approximately twenty percent less than Mr. Coloney's original cost of \$2.551 million. Mr. Coloney's line costs are also considerably more than ten percent higher than the costs included in the Bishop studies. In addition, in the utility's last rate proceeding, the Commission reduced Mr. Coloney's original cost by sixteen percent because the estimates appeared inflated. Accordingly, we find that the costs in Mr. Coloney's study are not accurate to within ten percent.

#### Original Cost

As noted above, in the absence of original cost records, the appropriate method to determine original cost is through original

cost studies. Three elements are required to calculate original cost: an inventory of the plant in the ground; the date of installation of each component; and the cost of the components.

Mr. Coloney's study provides a comprehensive inventory of plant. However, the two Bishop studies are more contemporaneous with the system's initial construction than the Coloney study. Mr. Bishop, the author, was the engineer who designed the water system. Moreover, the study is based, in large part, upon contracts and invoices. In addition, none of the utility's witnesses disputed any of the facts set forth in the Bishop studies.

Our determination of original cost is based upon what is in the ground as of 1988. However, instead of using Mr. Coloney's costs, we have used, where possible, costs from the Bishop studies. The Bishop studies also provide a better estimate of when the plant was put in the ground.

A comparison of the various studies indicates that Well No. 2, a fifty horsepower high service pump, transmission and distribution (T&D) lines, gate valves and other appurtenances associated with the T&D lines, fire hydrants, customer services, meters, and an auxiliary generator were all installed after 1978.

The 1978 Bishop report indicates that Well No. 1, the supply mains, the water treatment plant, the ground storage tank, and the pumping station were constructed in 1976. As noted above, Well No. 2 was added in 1985. The fifty horsepower high service pump was placed into service during 1979. There is no mention of an auxiliary generator in either Bishop report.

To estimate when the T&D lines were laid, we have taken the difference in quantities of pipe between the three studies and distributed them equally over the time between the studies. The 1982 Bishop study establishes that the system included 15,225 feet of two-inch PVC pipe, while the 1978 study shows zero feet of two-inch PVC pipe. Dividing 15,225 feet by 4 results in yearly additions of 3,806 feet between 1978 and 1982. The remaining additions are calculated using a like methodology. We calculated the yearly additions of fire hydrants using the same methodology.

Land - In St. George's previous rate case, this Commission found that the appropriate cost of land for Wells Nos. 1 and 2, and the water treatment plant, was \$20,455. This value was based upon the testimony of utility witness Mears.

Mr. Coloney's study does not discuss land values. The 1978 Bishop study indicates that Well No. 1 is located on a 100 by 110

foot lot near East Point, and places its value at \$3,500. The study also estimates the value of the land for the treatment plant site at \$30,000.

We find it appropriate to make no adjustment for land. There is no evidence in this proceeding to dispute Mr. Mears' testimony in Docket No. 871177-WS. Mr. Coloney's study did not discuss land value and the Bishop report states that value of the land was estimated in lieu of a bona fide real estate appraisal because of the relatively small effect that the cost would have on the total replacement cost.

Wells and Pumps - Rowe Drilling Company (Rowe) drilled Well No. 1 and installed the well casing, pump, pump column, and motor. Leisure personnel installed the meter, valves, and other fittings connecting the well to the raw water supply main. The Bishop study determined the replacement cost would be \$9,500, from an estimate by Rowe. Using the Handy-Whitman index to trend back to 1976 costs results in an original cost of \$8,250 ( $9,500 \times 132/152$ ).

The estimated replacement cost of the well pump was \$7,000. Using the Handy-Whitman index to trend back to 1976 costs results in an original cost of \$6,414 ( $7,000 \times 175/191$ ).

Well No. 2 was drilled in 1985. The original cost of this well should be based upon the original cost to drill Well No. 1 in 1976 trended to 1985 using the Handy-Whitman index, because the wells are similar in size and construction. This results in an estimated original cost of \$13,812 ( $8,250 \times 221/132$ ). The estimated original cost of the well pump is \$10,299 ( $\$6,414 \times 281/175$ ).

Supply Mains - The supply mains carry raw water from the wells on the mainland to the water treatment plant on the island. The supply mains include ductile iron pipe for the two bridge crossings and six- and eight-inch PVC pipe for the remainder.

As discussed under T&D mains and appurtenances, the six-inch and eight-inch PVC line costs for the supply main should be based upon the average line prices from the two Bishop studies as of July, 1976. The 1978 Bishop report describes the appurtenances associated with these supply mains and these costs should also be trended back to July, 1976 using the Handy-Whitman index. This results in an original cost of \$88,583.

The two bridge crossings were installed by Cifer's Construction under contract for \$127,859.44. The ductile iron pipe was purchased from McWane Cast Iron Pipe Company, and cost \$80,632.

Based on the above, we find that the original cost for the supply mains is \$297,075 ( $\$88,583 + \$127,860 + \$80,632$ ). The supply mains associated with Well No. 2 are not included in this total; they are included within the T&D mains. The Coloney study did not quantify the length of PVC pipe required to connect Well No. 2 to the existing supply mains. It also failed to indicate the length of PVC supply main associated with Well No. 1. It appears, however, that the Coloney study included the PVC supply mains in the PVC pipe totals.

Water Storage - Marolf, Inc. installed the ground storage tank, roof, aerator, and building structure. The 1978 Bishop study stated that the contracted cost for this work was \$63,332. The slab for the tank bottom was provided by G.A.P. Enterprises under contract for \$27,718.67. Based on this information, we find that the original cost of the ground storage tank was \$91,050.67.

Pumping Station - The pumps were purchased from Rowe and installed by Leisure personnel. The 1978 replacement cost for the twenty horsepower high service pump was \$1,200. Using the Handy-Whitman index to trend this cost back to 1976 prices, we find that the original cost was \$1,099 ( $\$1,200 * 175 / 191$ ).

The fifty-horsepower pump was installed in 1979. The 1982 Bishop study indicates that the replacement cost for this pump was \$7,050. Using the Handy-Whitman index to trend back to 1979 costs, we find that the original cost was \$5,612 ( $\$7,050 * 203 / 255$ ).

The \$23,786 replacement cost for installing the pump station was based upon an estimate by Rowe. Using the Handy-Whitman index to trend back to 1976 costs, we find that the original cost was \$20,813 ( $\$23,786 * 154 / 176$ ). Thomas L. Cook installed the electrical wiring for the pump station under contract for \$12,000.

Chlorinator, Controls, and Altitude Valve - The 1978 replacement cost of the Wallace & Tiernan A&C gas chlorinator was \$2,600. Trending this cost back to 1976 results in an original cost of \$2,275 ( $2,600 * 154 / 176$ ).

Leisure personnel installed the controls between the storage reservoir and the well site. Rowe estimated the 1978 replacement cost for the controls to be \$1,500. Trending this cost back to 1976 results in an original cost of \$1,312 ( $1,500 * 154 / 176$ ).

Rowe also estimated the 1978 replacement cost for the altitude valve at the reservoir to be \$3,364. Trending this cost back to 1976 results in an original cost of \$2,943 ( $3,364 * 154 / 176$ ).

Office Facilities - The business office interior finish was installed by Leisure personnel. The \$19,879 replacement cost was based on the total of all invoices for material and labor associated with finishing the office multiplied by the Engineering News Record construction index, which is 1.16. Therefore, the original cost for the office facilities is \$17,093.

T&D Mains/Appurtenances - The 1978 Bishop study estimated the cost of six- and eight-inch T&D lines based upon the average cost of contractor bids from two projects. The price of the second lowest bidder was escalated by ten percent to compensate for the additional overhead associated with working on St. George Island. The 1982 study based these costs upon average unit prices from comparable projects bid on a competitive basis.

A cost comparison of line prices for the three studies is depicted on Schedule 1-D, page 4 of 6. When looking at this schedule it should be remembered that Mr. Coloney's study includes engineering and administrative costs; the Bishop numbers do not. Even if the administrative and engineering cost are added on to Mr. Bishop's costs, Mr. Coloney's prices are still much higher than either Bishop study. The cost of two-inch and four-inch PVC for the two Bishop appraisals is the same, since the 1978 appraisal did not provide the cost for either two-inch or four-inch PVC pipe.

The 1982 Bishop study does not explain why its line costs are lower than in the 1978 study. It appears that the 1978 study's methodology, in which the cost of the second low bidder was increased by ten percent, accounts for some of the difference. It does not, however, account for all of the difference.

The unit cost of the T&D lines could be calculated by using the costs from the 1978 Bishop study, the costs from the 1982 Bishop study, the average cost from both Bishop studies, or the average cost from the Bishop and the Coloney studies. Mr. Coloney's line costs are significantly higher than both Bishop studies.

As stated earlier, Leisure's employees installed the T&D lines. Since Leisure was developing the island at the same time it was installing water lines, the machinery and manpower to install the lines was readily available. An outside contractor's cost would be higher since it would have to mobilize its crew and relocate to the work site. Also, additional costs associated with construction bidding, such as bonds, would be incurred.

We find that taking the average cost from the two Bishop studies is a fair and reasonable approach for calculating the unit



cost of the lines. These calculations are depicted on Schedule No. 1-D, page 5 of 6.

A water T&D system includes many appurtenances in addition to pipe. The Coloney study provides an inventory and cost for gate valves and fittings with reaction block. The 1978 Bishop study includes the costs for gate valves, reducers, bends, tees, and plugs. The 1982 Bishop study lumps all of the appurtenances into one category called fittings. This is the one component of plant for which there is no way to easily compare the three studies.

As is the case with the T&D lines, there are several approaches available to ascertain the original cost of the appurtenances. One approach is to determine the costs using the 1978 Bishop study and the Coloney study. The problem with this method is that the Bishop studies do not include a category called fittings with reaction block as was included in Coloney's study. If the Bishop 1978 appraisal and the Coloney study are used to calculate the original cost of appurtenances, Mr. Coloney's costs for fittings with reaction block would have to be used. Mr. Coloney assigned a replacement cost of \$183,837 for the fittings with reaction block, not including gate valves.

Another method is to take the ratio of the cost of fittings to the cost of lines from the 1982 Bishop study, and multiply the cost for T&D mains by this ratio. We find that this method is a fair and reasonable approach, since over half of the T&D system was constructed by 1982. We have calculated that the ratio of the replacement cost of fittings to the replacement cost of the T&D system in the 1982 Bishop study is 11.11 percent. Multiplying the original cost of the lines by 11.11 percent, we find that the original cost for all of the appurtenances is \$92,780. The costs for the T&D system and its appurtenances within the state park are not included in this calculation.

Services - The Coloney study, with the sixteen percent reduction from Order No. 21122, should be used to determine the original cost for services. The Coloney study provides a detailed analysis of the costs to install customer services. There is no evidence in the record which conflicts with these costs. The Coloney study indicates that, as of 1982, the cost for a customer service was \$259.51. The 1982 Bishop study estimated the cost to be \$250. The Coloney study also indicates that 143 5/8-inch customer services were installed as of 1982. The 1982 Bishop study indicates that 141 5/8-inch customer services were installed.

Meters and Meter Installation - We find that the Coloney study, with the sixteen percent reduction from Order No. 21122,

should be used to determine the original cost of meters and meter installation. The Bishop studies do not provide any costs for this plant component.

Hydrants - As discussed above, the number of hydrants included in the Coloney study is incorrect. Eighty hydrants were connected to the system as of 1988. We have utilized the same methodology used to determine the original cost of the T&D lines to determine the original cost of hydrants. In other words, the unit cost of the hydrants is the average of the costs from the two Bishop studies.

Engineering and Administrative - There are also engineering and administrative costs associated with the construction of a water system. The Coloney study included such costs but did not discuss how they were determined. The 1978 Bishop study indicates that the actual engineering cost for the system was \$58,065, or 8.2 percent of the original cost. It also estimated the administrative costs to be six percent of the replacement cost, excluding land. The 1982 Bishop appraisal estimated engineering costs to be six percent of the replacement cost. It also estimated the administrative costs to be \$75,000, or 5.7 percent of the replacement cost.

Based upon the Bishop reports, we find that six percent is a reasonable allowance for engineering costs, and six percent for administrative costs. We have not included these costs for land, or for the auxiliary generator, services, meters, and meter installation, which costs are based upon the Coloney study. Mr. Coloney included or should have included these costs in his calculations.

### Conclusion

Based upon the evidence of record, the post-hearing filing of the parties, and our discussion above, we find that the original cost of the plant, as of 1988, was \$1,782,439.

### Engineering Design Fees

The auditor determined that these design fees had been previously recorded, either as an expense or capitalized, based on her analysis and review of Construction Work in Progress at December 31, 1993. Allowing this pro forma adjustment would result in either a duplication of capital investment or capitalization of previously expensed items.

In its response to the audit report, the utility stated that "[t]he Coloney Company fees are not a duplication of expenses, and have never been capitalized." In support of its argument, the utility provided an invoice, dated May 12, 1994, for services rendered by Mr. Coloney during 1988, 1989, and 1990. Mr. Seidman testified that the basis for the statement in the response to the audit report is "[f]rom discussions with Ms. Drawdy, and my understanding is that they were booked, I think, through accounts payable and never entered onto either plant or expense." In addition, the MFRs state that the amount was to "[c]apitalize the previously unrecorded engineering design fees of Wayne Coloney for the elevated storage tank."

As pointed out by OPC, the utility has the burden to prove that the fees were previously unrecorded. It did not provide adequate support. We have, therefore, removed \$21,000 in engineering design fees.

#### Leasehold Improvements

The Staff audit report indicated, in Audit Exception No. 7, that construction work was performed on the Tallahassee office, which is not owned by the utility. The report also suggested that these non-recurring improvements be amortized over the six-year life of the lease.

The utility's response to the audit report states that the leasehold improvements are a proper component of utility plant, according to the USOA - Accounting Instruction No. 18. Further, the service life of the leasehold improvements does not depend on the life of the lease and, therefore, the improvements should be treated as depreciable plant, as done by the utility. St. George agreed that the cost of the improvements should be adjusted to reflect only the portion allocated to utility use.

In its brief, the utility stated that the cost of the leasehold improvements to the building should be reduced by fifty percent to reflect non-utility use. This would result in a decrease of \$647 to leasehold improvements.

Based upon our review of the accounting instructions and the utility's response to the staff audit, we believe that the utility's capitalization of the improvements was proper. Neither OPC nor the District presented any testimony or arguments in their briefs on this issue. Therefore, we have reduced capitalized leasehold improvements by fifty percent, or \$647, to reflect non-utility use. We have made no adjustment to accumulated depreciation or depreciation expense due to the negligible amount.

Office Equipment

OPC witness Dismukes testified that, since office furniture and equipment was used by Mr. Brown's affiliates during the test year, a portion of the furniture and equipment, with the related accumulated depreciation and depreciation expense, should be allocated to the affiliates. Since there were no time records or like information upon which to objectively determine the proper allocation, Ms. Dismukes allocated ten percent of Account No. 340.5, Office Furniture and Equipment, to the affiliates. She stated that her ten percent allocation was a conservative estimate.

Utility witness Chase testified that, through its lease with the utility, Armada Bay Company (ABC) provides office space and equipment, with the exception of telephones, to St. George. Ms. Chase also explained that the utility employees used Mr. Brown's law office line when the utility's lines were not available.

Mr. Brown stated that the arrangement for the office space and furniture is more than fair. He stated that the furniture referred to by Ms. Dismukes is either located on St. George Island or in storage. Mr. Brown testified that the utility's lease of real and personal property and operating agreement shows that none of this furniture is in the Tallahassee office.

Mr. Seidman also disagreed with Ms. Dismukes' adjustment. He stated that the leasehold equipment in this account was already allocated fifty percent. He also stated that the computer and software were indisputably necessary for utility operations. As such, he believes that only the copier should be allocated to the utility's affiliates. Mr. Seidman argued that an adjustment of \$562, or 6.8 percent of the adjusted average balance of \$8,285, is an appropriate allocation.

We agree with Mr. Seidman regarding the leasehold equipment and the computer and software. Accordingly, we have made no adjustment for these items. As for the copier, OPC recommends a ten percent allocation and St. George recommends a 6.8 percent allocation. Although they are close, neither percentage is based on objective data. Accordingly, we shall accept the utility's method, which results in a decrease of \$562 to Account No. 340.5, Office Furniture and Equipment.

Adjustments to Plant and CIAC

In December 1991, the utility received a contribution of \$44,440 from Covington Properties. It was not recorded on the books until May, 1993, and is, therefore, not reflected in the

books for the test year. OPC argues that this amount should be reflected in rate base. Mr. Seidman agrees that this is a proper adjustment and should be reflected for the full twelve months of the test year. We have, therefore, reduced rate base by \$44,440.

OPC also urges that an adjustment should be made to recognize a contribution made by the St. George Homeowners Association in 1992 to settle two lawsuits between the Homeowners and Gene Brown. The settlement stated:

The Association will pay Brown and Affiliates the sum of \$100,000 as...follows: (a) \$35,000 will be paid to Stanley Bruce Powell for his legal fee in representing Brown and Affiliates in the above referenced litigation; and (b) \$65,000 will be advanced to the St. George Island Utility Company, Ltd. to be used strictly for capital improvements to enhance and increase the flow and pressure of the St. George Island water system, including the installation of a new altitude valve and high speed turbine pump pursuant to the recommendations of Baskerville-Donovan, the utility's engineers.

Ms. Dismukes testified that the \$65,000 should be treated either as cost free capital and included in the capital structure at zero cost, or as a contribution. Staff witness Gaffney agreed with Ms. Dismukes that the \$65,000 is CIAC and should have been recorded as such.

The utility disagrees with treating the \$65,000 as CIAC. It argues that, under the settlement, the \$65,000 was intended as an advance. Mr. Seidman contends that the intent was for Brown and Affiliates to advance and not donate the funds to the utility, so that it could move forward with its capital improvements.

Mr. Brown testified that when the money was received by Brown and Affiliates, it was loaned or "advanced to the St. George Island Utility Co." as specified in the agreement. He further argued that it would be unreasonable and punitive to arbitrarily treat this \$65,000 as a contribution without any demonstration that that was the intent of the parties.

Mr. Seidman noted that, under the agreement, no more than \$5,000 would have been available during the test year, because only \$40,000 was to be received by the end of 1992, and \$35,000 was committed to paying the attorney. He argued that the utility did not receive the full \$65,000 until September 1, 1993. However, Mr. Seidman acknowledged that he never consulted Mr. Brown to find out when he received the money, but derived this information from the

settlement agreement. He also testified that a letter from John Cullen indicates that, on or before January 25, 1993, Mr. Brown had assigned the right to receive payments to someone else. He also agreed that if the utility received the monies during the test year, the entire \$65,000 should be treated as an advance.

Since the utility was not a party to the lawsuit, we do not believe that it would be appropriate to treat the funds as CIAC. Mr. Seidman testified that the intent of the agreement was for Brown and Affiliates to advance the funds to the utility. As the utility failed to demonstrate that the \$65,000 was not received during the test year, we find it appropriate to treat the \$65,000 as advances in the utility's rate base.

In addition to these two adjustments, Ms. Gaffney suggested that CIAC should be increased by \$45,600 to impute CIAC on 30 lots not recorded at the required charge. Her analysis of CIAC revealed that the utility had thirty more connections listed at \$500 than in the prior audit. According to Ms. Gaffney, these connections were not recorded until October, 1991. By Order No. 21122, issued April 24, 1989, we increased the utility's service availability charge by \$2,020 per connection.

In its response to the audit, the utility states that, even though the fees were recorded on the books in 1991, the customers actually connected prior to 1987. The utility argues that its CIAC records are accurate and that there is, therefore, no basis for imputing further amounts. The utility included an exhibit in which it identified thirty lots that were not found in the prior audit.

The record supports the utility's argument that it properly recorded the correct amount of CIAC on the thirty lots in question. Accordingly, we have made no further adjustments.

#### Matching of Rate Base With Revenues and Expenses

Ms. Dismukes testified that, to be consistent with her recommended adjustment to increase revenues and expenses to a 1993 level, rate base should also be adjusted to an average 1993 level. Ms. Dismukes made her adjustments by taking the difference between the 1992 adjusted utility balances in the MFRs and the balances from the 1993 general ledger.

Ms. Dismukes testified that her proposed negative adjustment of \$190,062 to rate base is primarily based on a substantial increase to CIAC. She adjusted the following items:

Plant in Service	\$ 104,553
Land	\$ 11,086
Accumulated Depreciation	\$ (69,870)
CIAC	\$ (267,148)
Accum. Amortization of CIAC	\$ 28,542
Advances for Construction	\$ 2,775
Total	<u>\$ (190,062)</u>

Ms. Dismukes also pointed out that, even with 1993 additions to plant in service, CIAC still increased substantially. We note that Ms. Dismukes' adjustment reflects a full year for 1992 additions. The utility's rate base for this case was a beginning and end of year average, allowing only a half year for additions.

OPC further argues that, even if we do not adopt Ms. Dismukes' adjustment, we still need to make two adjustments. First, OPC argues that we should remove a \$10,875 investment in sheet metal. The utility agreed in an interrogatory response that this cost should not be included in rate base. It also contends that depreciation must be adjusted to reflect Class B rates.

Mr. Seidman testified that Ms. Dismukes' adjustments introduce substantial revenues with no regard for growth in plant or expenses. He also stated that Ms. Dismukes' recommended level of expense is below the actual level of expenses incurred in 1992. Mr. Seidman further argued that the utility's ability to provide quality service may be jeopardized if her adjustments are accepted.

We agree with OPC that rate base should be adjusted to reflect 1993 levels. This is consistent with our decision, discussed more fully below, to match 1993 revenues with 1993 and 1994 pro forma expenses. We have added \$10,875 to account for the investment in sheet metal. We have also adjusted accumulated depreciation to reflect the use of Class B depreciation rates. Accordingly, we find that the following adjustments are appropriate:

Plant in Service	\$ 115,428
Land	\$ 11,086
Accumulated Depreciation	\$ (59,543)
CIAC	\$ (267,148)
Accum. Amortization of CIAC	\$ 28,542
Advances for Construction	\$ 2,775
Total	<u>\$ (168,860)</u>

Rate Base

Using a beginning and ending year average and the adjustments discussed above, we find that the appropriate rate base, for purposes of this proceeding, is \$247,876.

CAPITAL STRUCTURE

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

Due to an accumulation of net operating losses, negative retained earnings more than offset any equity investment in the utility. This substantial amount of negative equity is offset by long-term and short-term notes from both related and unrelated entities, and a small amount of customer deposits. As a result, the capital structure is made up of long-term debt, short-term debt, and customer deposits.

Ms. Dismukes recommended that a note between the utility and Alice Melton, Mr. Brown's late mother, be removed from the capital structure. This indebtedness arose out of a suit against Leisure, the utility's general partner, and its affiliates, including the utility, by Pruitt, Humphress, Powers & Monroe Advertising Agency, for monies owed for advertising services. This lawsuit resulted in a judgement which was subsequently purchased by Ms. Melton. Ms. Dismukes argues that the note should be removed from the utility's capital structure.

According to Mr. Brown, the utility was assigned this indebtedness in exchange for Leisure reducing the amount of debt the utility owed. The interest rate on the debt owed by the utility to Leisure is six percent. The interest rate on the Melton note is twelve percent. Ms. Dismukes, therefore, recommends that if we do not adopt her primary recommendation to remove the note, we should reduce the interest rate on the note to six percent.

Although the circumstances that gave rise to the Melton note appear to be unrelated to utility operations, the utility insists that the debt exchange occurred. Therefore, we are reluctant to remove this note from the capital structure. However, we also agree with OPC that it would be unfair to require ratepayers to pay a higher overall cost of capital because the utility exchanged lower cost debt for higher cost debt owed by one of its affiliates.



Accordingly, we shall include the Melton note, but at six percent rather than twelve percent.

Ms. Dismukes also recommends that we only include the short-term debt that currently exists on the utility's books. At the hearing, Mr. Brown agreed that the utility has retired the notes to Fleet Financial and Sailfish Enterprises. After removing these two notes, the embedded cost of short-term debt drops to 9.90 percent.

The cost rate for customer deposits was specified in Stipulation 18 to be set in accordance with Rule 25-30.111, Florida Administrative Code. The rate is six percent.

While holding the customer deposit balance constant, we have made a pro rata adjustment over the remaining sources of capital to reconcile the capital structure with rate base. With the adjustments discussed above, the embedded costs of long- and short-term debt are 7.29 percent and 9.90 percent, respectively. Customer deposits are included at six percent. Accordingly, we find that the weighted average cost of capital is 7.35 percent.

Although the utility does not have a positive equity balance, a cost of common equity capital should be established. The parties agreed in Stipulation 19 that the cost of common equity capital should be set using the leverage formula in effect at the time of our decision on this matter. The stipulation also specifies that a range of plus or minus 100 basis points be established. Based on the minimum equity ratio recognized in the leverage formula approved in Order No. PSC-94-1051-FOF-WS, issued August 29, 1994, the cost of common equity capital is 11.34 percent with a range of plus or minus 100 basis points.

#### OPERATING INCOME

Our calculation of net operating income is depicted on Schedule No. 3-A. Our adjustments are itemized on Schedules Nos. 3-B and 3-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.

#### Pro Forma Adjustments

This issue arose because of a relatively large increase in operation and maintenance (O&M) expenses from Docket No. 930770-WU, which was dismissed due to procedural errors, and this case. Both were based upon the same test year. According to Ms. Dismukes' comparison of the two cases, while the utility's rate base decreased by \$12,047 and its revenues stayed the same, its O&M

expenses increased by \$207,125. Ms. Dismukes attributed most of the increase in O&M expenses to pro forma expenses.

The utility argues that, since we dismissed its application in Docket No. 930770-WU, the expenses requested therein were never determined to be appropriate. Mr. Seidman testified that the decreases in rate base were primarily related to a decision not to capitalize test year labor, a correction to a plant account, and the removal of deferred debits for rate base. He further explained that the increase in O&M expenses was due to Mr. Brown's ability to more fully evaluate and consider the ongoing expenses. Mr. Seidman admitted, however, that the difference between the two filings is due largely to the increase in pro forma adjustments.

Upon consideration, the record does not support an adjustment based only on the contrast between the adjustments in this case and the prior case.

Comparison of Expenses to Those  
of Other Class B Water Utilities

Ms. Dismukes also compared the utility's expenses to those of other Class B utilities in the state. The first comparison contrasted St. George with Jasmine Lakes Utilities Corporation and Mad Hatter Utility, Inc. The reasons for comparing these utilities were that each had recently had a rate case before this Commission and, according to Ms. Dismukes, these utilities are similar in size to St. George. Her analysis revealed that, even though St. George is the smallest of the three companies, its level of expenses is considerably higher. Her calculations disclosed that we allowed Jasmine Lakes and Mad Hatter to recover total O&M expenses of \$209 per equivalent residential connection (ERC) and \$162 per ERC, respectively, as compared to St. George's request for \$547 per ERC.

Ms. Dismukes then compared the utility's O&M expenses with all other Class B utilities regulated by this Commission. Her review demonstrated that St. George ranked significantly higher than most Class B utilities in total O&M expenses per customer. St. George's requested O&M expenses equate to \$541 per customer, compared to a \$183 per customer average. Witness Dismukes contends that while there are differences between utilities, the magnitude of the disparity should alarm this Commission.

Mr. Seidman testified that using raw data provides no information upon which to make a valid comparison of the costs to operate various systems. Further, it provides no information regarding salary levels, job descriptions, or the similarities or

dissimilarities of any other factors regarding other Class B utilities.

Ms. Dismukes admitted that other factors such as the size of the distribution and transmission system, the configuration of the territory, the number of gallons pumped and treated, the physical location, the distance of the source from the water to the customers, and the degree of compliance with DEP regulations might be relevant considerations in determining a utility's operating costs. However, witness Dismukes stated that none of her adjustments were based solely on her comparisons.

Upon consideration, it does not appear that the use of raw data to make adjustments to O&M expenses, without consideration of all factors which may differentiate this utility, is appropriate. Accordingly, we decline to make any adjustments based upon this comparison.

#### Matching of Revenue and Expenses

According to Mr. Seidman, the utility chose to use a historic test year, with pro forma adjustments that it believes are necessary to serve the existing customers. Mr. Seidman explained that the pro forma expenses were not included in test year expenses because the utility has been operating at a loss and could not afford such expenditures without corresponding revenues.

Mr. Seidman acknowledged that, even though the utility was given revenues in the last rate case to cover certain expenses, it did not always use the revenues for the intended purpose. Mr. Seidman explained that what was important was not whether the money was spent on a particular item but that the utility had an operating loss since 1987.

Ms. Dismukes testified that the utility used a 1992 test year when a 1993 test year might have been more appropriate. The utility's filing included pro forma adjustments for expenses that were not incurred in 1992 or to date. She explained that these expenses were anticipated to be incurred in 1993 or 1994. Ms. Dismukes believed that the 1992 test year should be updated to reflect 1993 revenues, expenses and rate base.

Ms. Dismukes' reason for making the above adjustments instead of completely revising the test year was two-fold. First, her methodology avoided the confusion of determining which expenses in 1993 were pro forma adjustments to 1992. Second, her approach avoided the problem of having an unaudited test year.

Ms. Dismukes argued that, unless we use her recommended growth adjustments, any revenue increase would be established based upon 1992 revenues and investment and 1993 or 1994 expenses. In other words, a mismatch would result which might significantly overstate the company's revenue requirement. Ms. Dismukes explained that the utility's revenues increased in 1993 by \$35,094. She made four adjustments to expenses to recognize the increase in customers and usage between 1992 and 1993. All the other expenses had been adjusted by the company by its pro forma adjustments to reflect a 1993 or 1994 level of expenditures.

Ms. Dismukes stated that according to the utility's response to an OPC interrogatory, the utility's customers increased by five percent between 1992 and 1993. Using the five percent growth rate and a three percent inflation rate, Ms. Dismukes increased chemicals, materials and supplies and miscellaneous expenses. This resulted in increases of \$271, \$1,246 and \$940, respectively. She increased purchased power by only five percent, or \$908, because electric rates are largely fixed. In total Ms. Dismukes increased expenses by \$3,365. Ms. Dismukes also adjusted depreciation expense to reflect average 1993 investment and Class B depreciation rates, for a reduction of \$9,801.

Mr. Brown disagreed that revenues should be adjusted to reflect 1993 levels. He stated that the pro forma adjustments had nothing to do with growth or increased demands on the system. Mr. Brown further stated that the pro forma adjustments are simply known and measurable changes which reflect expenses that should have been incurred in 1992.

Mr. Seidman argued that no growth adjustments were needed because the utility filed a historic test year with pro forma adjustments. Mr. Seidman explained that it was not the utility's intent to bring its expenses up to 1993 or 1994 levels. With the exception of a cost of living adjustment to salaries, the utility requested the pro forma adjustments to bring 1992 expenses up to the level necessary to serve the 1992 customers properly.

Mr. Seidman stated that the ability to revise a test year after the rate application might result in a dismissal, because introducing material not subject to audit or discovery may be construed as prejudicial to the parties. He further stated that Ms. Dismukes' growth adjustments add substantial revenues and inconsequential adjustments to expenses on top of an average test year, with no consideration to the additional plant necessary to serve the additional customers.

The utility in this case has relied on a historical year with numerous pro forma adjustments. If the adjustments to the test year were few and resulted from changes in treatment or regulations, we would be more willing to accept the test year as a whole. A 1993 test year would have been more reasonable given the date the rate case was filed. As such, we agree with Ms. Dismukes that a mismatch would occur if all other components such as investment, revenues and expenses are not updated.

We have already approved a growth adjustment of \$115,428 for 1993 plant. Using an composite rate of 2.86 percent, this increases depreciation expense by \$3,301. Ms. Dismukes' recommended adjustment to change the depreciation rates to Class B rates was stipulated by the parties. We have adjusted Ms. Dismukes recommended growth adjustments for material and supplies and miscellaneous expenses to reflect other adjustments made. We have also reduced materials and supplies by \$4,851 for Audit Exception No. 22. We also find that the revised growth adjustment should be \$858 instead of \$1,246. Finally, we have adjusted the miscellaneous expense balance from \$24,422 to \$15,826. The growth adjustment is \$1,266.

Based upon the record and our discussion above, we find that the 1992 test year should be updated to include growth adjustments of \$35,094 to revenues, \$3,303 to O&M expenses and \$3,301 to depreciation expense.

#### Allocation of Expenses to Affiliates

Mr. Brown, the manager and effective owner of St. George, is associated with eight other affiliates. These affiliates operate out of the same offices as the utility. Only two of the affiliates have significant operations: ABC and Mr. Brown's law practice.

Ms. Dismukes stated that, although the utility assigned a few costs to non-utility entities, additional allocations are needed to account for services performed by utility personnel for affiliates. Ms. Dismukes allocated \$3,320 in salaries and related payroll taxes for the utility's bookkeeper and office staff, a reduction of \$3,546. For health benefits, Ms. Dismukes allocated ten percent for the bookkeeper and twenty-five percent for Ms. Chase, resulting in a reduction of \$1,260. Further, Ms. Dismukes allocated ten percent of the miscellaneous and storage space expense, or \$2,165 and \$117, respectively. Finally, she allocated forty percent of the Tallahassee office rent expense, a reduction of \$3,600.

Mr. Seidman agreed to the adjustment for Ms. Chase's health benefits. He disagreed, however, with the allocation for the salaries of the bookkeeper and staff assistant. The bookkeeper and the staff assistant indicated that answering the non-utility phone were done as a courtesy and not as part of their job. In addition, Ms. Chase testified that these calls are usually utility related. Mr. Seidman stated that any errands run for affiliates were performed in conjunction with errands planned for utility purposes.

By Order No. PSC-93-0295-FOF-WS, issued February 24, 1993, the Commission found it appropriate to allocate a portion of salaries for Mad Hatter Utility, Inc., to an affiliate because the utility had not kept time records. Mr. Seidman did not take exception with that decision. However, he argued that, in this case, utility employees do not perform sufficient duties for affiliates to justify any allocation, much less an allocation of ten percent.

Ms. Chase testified that St. George is probably Mr. Brown's largest client in his law practice. Accordingly, she agreed that a portion of the telephone bill should be allocated to his law practice.

Mr. Brown testified that affiliates do not use any utility assets or personnel except as set forth in an operating lease agreement. The agreement requires that St. George provide ABC and its affiliates use of its fax and copy machines. In addition, the agreement states that utility employees shall answer affiliates' telephone calls when needed. Any other incidental services provided to ABC and other affiliates are covered by the considerations provided under the lease.

Mr. Brown's law office is located upstairs from the utility office. Although Ms. Chase occupies a portion of the upstairs space, Ms. Dismukes believes that there is sufficient room for Ms. Chase downstairs. Ms. Dismukes also testified that Mr. Brown's office includes a fireplace and dormer windows, which should call for a higher rental fee.

The utility's share of the Tallahassee office rent is \$750 of a total of \$900 per month, which implies that seventeen percent is being charged to the affiliates. Ms. Dismukes believes that forty percent of the utility's \$750 monthly rental expense should be allocated to affiliates. Ms. Dismukes testified that the utility would have four desks available for utility employees in an area of 750 square feet. In addition to the desks, there is a copier, filing cabinets, and a fax machine. Ms. Chase testified that there is only enough space downstairs for three utility employees and a consultant, who works part time. In addition, she stated that

there is only one telephone line to handle utility business and that the law office line is also used for utility business.

Ms. Dismukes admitted that the utility paid for maintenance of the building but the expense was not in her allocation. She also stated that she did not perform an analysis of the market rate for office space similar to the space occupied by the utility. She agreed that the rent per square foot under her scenario would run a little over \$7 per month. She also stated that the lease-purchase option would cost an extra \$6 per month per square foot.

Mr. Seidman disagreed with allocating fifty percent of the total rental amount because that amount would include fifty percent of the estimated ad valorem taxes, one-twelfth of the Owners Association dues, plus applicable sales and use taxes. He stated that such an adjustment would allocate costs contemplated under a third party lease-purchase agreement instead of the actual monthly rent expense of \$750. Mr. Seidman testified that a comparable rental rate would be \$10 to \$12 per square foot and that, Ms. Dismukes' recommended rental rate of \$7.20 per square foot was far below market rate. Mr. Seidman also suggested that a rent expense of \$7.20 per square foot would encourage Armada Bay to look for another tenant. Mr. Seidman also argued that, despite the non-arms-length nature of the lease-purchase agreement, the requested rental rate is reasonable. Mr. Seidman would apparently have us believe that ABC and the utility operate independently in the marketplace for determining the appropriate level of rent expense.

We find that an adjustment is necessary to reflect the sharing of expenses between the utility and its affiliates. The statements that these transactions may have been done on a courtesy basis is not convincing. Even if the utility has an operating lease governing these acts, it is not appropriate for utility employees to provide free services to its affiliates. Therefore, some allocation of common costs is required so that the ratepayers do not pay for non-regulated services.

Upon consideration, we find that Ms. Dismukes' ten percent allocation of salaries and wages, payroll taxes, bookkeeper's health benefits, adjusted miscellaneous expense, and storage space, is an appropriate allocation. The total reduction for these items is \$5,788. We also find that a twenty-five percent allocation to Ms. Chase's health benefits is appropriate, for a reduction of \$900. Finally, we find that forty percent of rent should be allocated to affiliates, for a reduction of \$3,600. These allocations result in a total reduction of \$10,288.

Employee Salaries and Wages

According to its MFRs, the utility requested the following salaries and wages expense:

	<u>PER</u> <u>BOOKS</u>	<u>CURRENT</u> <u>ANNUAL</u> <u>AMOUNT</u>
CHASE	5,511*	24,000
HILLS	19,800	20,000
GARRETT	25,330	32,500
SHIVER	<u>12,139</u>	<u>17,500</u>
	<u>62,780</u>	<u>94,000</u>

\*Reflects only 18 weeks during 1992

Additionally, the utility requested one part-time office staffer at \$12,480, and a second field assistant at \$16,640.

Ms. Dismukes argued that, since the test year, the utility increased the salaries of Mr. Garrett by thirty-nine percent, Mr. Shiver by five percent, Ms. Hills by seven percent, and Ms. Chase by fifty-one percent, levels which she believes are excessive. She testified that, in two recent water and wastewater cases, the Commission held pay increases to less than five percent. Ms. Dismukes adjusted salaries to reflect increases of five percent.

Since the second field assistant only worked part-time during the first part of 1994, Ms. Dismukes adjusted his salary to a part-time level. Ms. Dismukes agrees that a full-time person might be needed during summer months; however, she believes that he is only needed on a part-time basis during the remainder of the year.

Mr. Seidman agreed that pay increases should be limited to increases in the cost of living. However, he argued that Mr. Garrett's and Ms. Chase's test year salaries are not commensurate with their level of responsibilities, length of service, or knowledge of the utility.

According to Mr. Brown, the pay raises were made to keep up with the cost of living and to maintain employee morale. He added that the raises had been promised for some time, and that they were necessary to keep experienced employees. Further, he stated that the increases were actually modest, considering that these employees have not had a pay increase since they were hired.



Mr. Garrett testified that the utility has always needed a second field assistant. He stated that there are an increasing number of other duties which demand his attention, such as DEP testing, technical bookkeeping, the cross connection control program, the system audit, the leak detection program, meter testing, and updating system maps. He also stated that one of the field assistants has electrical experience and the other has experience in carpentry, which reduces the costs of repairs and maintenance to the utility.

Mr. Garrett also argued that the second field assistant is needed on a full-time basis because line flushing, which takes considerable time, is even more important in the winter months, when the system is used less, to control the buildup of H<sub>2</sub>S. He also stated that the utility emphasizes repairs and maintenance, meter testing, and updating the system maps during that time.

We agree that salary increases should be commensurate with increases in the cost of living. It appears, however, that some of the test year salaries were less than adequate, given the knowledge and responsibilities of the respective employees. We, therefore, find that the requested salary increases are reasonable. We also find that two full-time field assistants are needed to keep up with the increasing work load. Accordingly, we have made no adjustments to salaries and wages.

#### Pensions and Benefits

Mr. Brown testified that the utility has enacted a pension and profit sharing plan, effective January 1, 1994. The plan calls for contributions equal to five percent of a qualifying employee's salary. IDS Financial Service will administer the pension plan. The amount of the pro forma pension expense is \$6,156.

Ms. Dismukes recommended against allowing the pension expense. She is concerned that the utility has no legal obligation to contribute to the pension plan and that, if the pension expense is allowed, the utility will not make the appropriate contributions.

Mr. Seidman believes that the pension plan will allow St. George to retain good employees. He stated that the utility has instituted a qualified pension plan and has made the initial contribution to it.

We echo Ms. Dismukes' concern. As discussed more thoroughly elsewhere in this Order, expenses allowed in the last rate case, such as insurance and ad valorem taxes, were not always used for

their intended purposes. Accordingly, although we will allow the pro forma pension expense of \$6,156, St. George shall submit to Staff, within ninety days, evidence that it has established an externally managed pension plan. Further, it shall be written into the plan that, should the utility fail to properly fund the plan, the pension manager shall inform this Commission.

The utility also requested \$25,200, which represents \$300 per month for seven employees, for health benefits. Ms. Dismukes argues that the utility does not require any proof that the employee actually used the \$300 for health insurance. She also argued that the utility should only provide health benefits to its four full-time salaried employees. Finally, Ms. Dismukes claimed that Mr. Brown should not receive health benefits, since he is an employee of ABC, not the utility. Mr. Seidman agreed with all of Ms. Dismukes' adjustments.

We also agree with Ms. Dismukes' adjustments. Accordingly, we have reduced the utility's health benefits allowance by \$10,800.

#### Insurance Expense

OPC witness Dismukes maintains that the utility submitted only one bid to support its request of \$36,502 for general liability, workmen's compensation, and property insurance. She recommends that we disallow the entire expense because the utility has not maintained this type of insurance in the past.

Mr. Brown stated that insurance is necessary to protect the interests of the utility and its customers. He also admitted that the utility has not been continuously covered for general liability or workmen's compensation insurance since the last rate case.

Although St. George provided insufficient evidence of coverage, we believe that it is of vital importance that this utility carry insurance coverage. In its post-hearing filings, St. George stated that total insurance costs should be reduced by \$23,799 to reflect the actual costs of the insurance policies. Accordingly, we find that the appropriate amount of insurance expense is \$12,703. However, St. George shall, within ninety days, submit to this Commission copies of its insurance contracts and/or policies, as well as canceled checks. Moreover, the utility shall pay its insurance premiums in a timely manner.

#### Transportation Expenses

In its MFR's, the utility requested annual transportation expenses of \$15,600. This included an allowance of \$5,200 for Mr.

Garrett, \$2,600 for Mr. Shiver, \$2,600 for Ms. Chase, \$1,300 for Ms. Hill, and \$3,900 for Mr. Brown. Mr. Garrett and Mr. Shiver are full time field employees assigned to St. George Island. Ms. Chase, Ms. Hill and Mr. Brown all work in the Tallahassee office.

Ms. Dismukes testified that the mileage estimates for the office workers appear high. She recommended that we disallow the expense for Ms. Chase and Ms. Hill because they did not maintain records of their travel. She also argued that we should disallow the expense for Mr. Brown because he is employed by ABC, not the utility. Mr. Brown admitted that neither he nor his employees were required to document their travel. However, he argued that, in his opinion, the travel allowances are reasonable.

The utility does not own any vehicles. According to Mr. Garrett, "[Mr. Brown] promised that if I would go and buy a new 4-wheel drive truck in my name, that he would pay me an adequate transportation allowance of \$200 per week to cover the wear and tear on the truck, insurance, maintenance and other expenses of using my new truck on water company business".

Mr. Brown testified that Mr. Garrett's truck is used as a utility vehicle and that, when Mr. Garrett is not using it, other employees might. However, he agreed that, if Mr. Garrett were to leave his employ, the utility would have no interest in his truck.

Mr. Seidman argued that, if the utility owned its own vehicles, "the cost to the company would be about \$18,100, or about \$2,500 more than the amount requested". Mr. Seidman's comparison appears reasonable, except for the insurance expense, which Mr. Seidman estimated at \$1,600 per year per vehicle.

Mr. Garrett also testified that conditions on St. George Island warrant a larger transportation allowance than the standard IRS or state allowance because of salt air, sand and other adverse conditions. Mr. Garrett suggested an allowance of \$0.40 per mile. Mr. Garrett kept track of his mileage for one month prior to the hearing. From these records, it appears that Mr. Garrett drove 2,381 miles over thirty days. At \$0.40 per mile, his travel allowance for that month would be \$952. The utility requested an allowance of approximately \$400 per month.

OPC recommends that we only allow half the requested travel allowance for field employees. According to OPC, "the Commission should not reward the Company for poor management practices by allowing a travel allowance for undocumented and unsubstantiated mileage". Although OPC's argument has merit, we do not believe

that it would be fair to penalize field employees for management's decision not to require records.

Upon consideration of Mr. Garrett's testimony regarding the conditions on St. George Island and his one-month travel records, it appears that the requested transportation allowance for field employees is reasonable. However, these employees shall maintain travel records prospectively so that we may adequately consider the level of such expenses in future proceedings.

As for the requested allowances for administrative staff, the utility did not provide any evidence to support the requested amounts. In addition, Mr. Brown is an employee of ABC, not the utility. His travel costs should be borne by ABC, not the utility. We have, accordingly, reduced transportation expenses by \$7,800.

#### Maintenance Expense for Old Generator

Ms. Dismukes recommends reducing the utility's test year expenses by \$2,665 incurred to repair the old generator. She argues that, since the utility included the cost of a new generator in rate base, generator repairs should not be a recurring item.

Mr. Seidman stated that the expense "was a normal repair, the type of which can be expected to recur, regardless of whether the generator is new." He also stated that the old generator was replaced because it was struck by lightning and that the repair had nothing to do with its replacement. Mr. Brown testified that such costs were normal maintenance items, and that the utility will continue to incur maintenance expenses of this nature, whether it has a new generator or old. The utility now has two new generators, one located at the water treatment plant and the other at a well on the mainland. Only one is in rate base.

Upon consideration of the utility's testimony that maintenance can be expected on an ongoing basis, we find it appropriate to allow the provision for \$2,665 for generator maintenance.

#### Bad Debt Expense

In its MFRs, the utility reported no bad debt expense; however, it requested a pro forma amount of \$6,276. Ms. Dismukes testified that the utility's support for the requested amount was confusing. Ms. Dismukes argued that neither Mr. Brown nor his staff could explain the documentation used to support the pro forma adjustment. She stated that the 1992 bad debt adjustment appears to be cumulative and not the test year amount. Accordingly, Ms.

Dismukes recommended that we allow \$1,569 in bad debt expense, an amount comparable to that experienced by other Class B utilities.

Mr. Brown testified that, due to the transient state of many of the utility's customers, losses from uncollectibles is one of the utility's main problems. Mr. Brown admitted that he did not understand the bad debt expense exhibit. However, he explained that no rule exists to guide management in determining the amount of bad debt expense that is reasonable. He also stated that, since the utility had not adequately supported the bad debt expense requested, he could accept Ms. Dismukes recommended amount.

Although the utility did not adequately support the requested bad debt expense, the record is clear that some level of bad debt expense is necessary. We, therefore, accept Ms. Dismukes' recommended amount, which results in a reduction of \$4,707 to the requested amount.

#### Taxes Other Than Income

In its MFR's, the utility requested an allowance of \$12,719 for payroll taxes and \$7,204 for real estate taxes. The Staff audit report disclosed an error in the requested amounts, and suggested adjustments to reduce payroll taxes and property taxes by \$2,880 and \$221, respectively. The utility agrees with these adjustments. Accordingly, we find it appropriate to reduce payroll taxes by \$2,880 and property taxes by \$221.

In addition, as discussed above, we have reduced salaries by \$3,214. We have, therefore, made a corresponding reduction of \$332 to payroll taxes.

#### Miscellaneous Expenses

Ms. Dismukes argued that \$1,200 in cellular telephone charges for Mr. Brown should be removed because he is an employee of ABC, not the utility. She also stated that there is no support for the utility's claim that Mr. Brown uses the cellular telephone fifty percent for utility purposes and fifty percent for other activities.

Ms. Dismukes also recommended that we eliminate the expense of corporate filing fees associated with Leisure. She argued that Leisure does not provide any benefit to the utility or its ratepayers. In fact, OPC suggested that the sole benefit of the utility's organizational structure is to insulate Mr. Brown from creditors. She further recommended removing \$3,544 of nonutility,

nonrecurring, and unsupported expenses, and \$1,511 of nonrecurring, nonutility telephone charges.

According to Mr. Brown, one-half of his cellular telephone charges is a necessary and reasonable expense. He cited several instances in which he was only able to be reached via the cellular telephone and argued that the cellular telephone helped prevent any interruption in service. As for the filing fees connected with Leisure, Mr. Brown stated that Leisure remains in existence solely to serve as general partner of the utility. He further argues that this corporate structure saves the ratepayers on taxes.

We find that Mr. Brown's cellular telephone charges should be paid by ABC. Mr. Brown is employed by ABC and ABC draws a management fee from the utility. We also find it appropriate to remove the corporate filing fees. The utility's argument regarding the tax savings is not convincing, as other types of entities, such as S corporations, avoid taxes in a similar manner. All parties agreed to the removal of the \$3,544 in sundry expenses. We also agree that \$1,511 in telephone charges associated with Mr. Brown's law office, should be removed, as these are either nonrecurring or nonutility charges. These adjustments correspond to a \$6,831 reduction to miscellaneous expenses.

#### Adjustments for Unaccounted for Water

In the utility's last rate proceeding, it reported unaccounted for water of thirty-five percent. Unaccounted for water is treated water which is placed in the distribution system but does not show up as product sold or used for some valid, documented purpose. The utility offered a number of reasons for the high level, such as theft, unreported use by the fire department, customers flushing their own lines, and leaks. The utility was ultimately allowed fifteen percent unaccounted for water.

In this case, the utility reported test year unaccounted for water of 15.27 percent. According to the utility, during the test year it was in the process of implementing its leak detection program. It argues that a substantial amount of the unaccounted for water was due to losses through large turbine meters, and that some of the water was metered twice due to a failed check valve. The utility also claims that some of the water was used by the fire department either for practice or for actual fires.

Utility witness Baltzley, of the FRWA, testified that FRWA performed a water audit in August, 1993, and recommended that the utility: repair or replace the check valve on the high service pumps; develop a more defined plan to account for use by the fire

department; look for and prosecute water thieves; meter all connections on the water system even if the system does not charge for usage; and read and record all metered connections each month.

In response to an interrogatory, the utility cited a lost water figure of two percent, which was derived by FRWA during the water audit. OPC argues that, since the utility represented that lost water amounted to only two percent, we should make an adjustment to the utility's power and chemical expenses. It does not appear, however, that FRWA's "lost water" is the same as unaccounted for water. FRWA's methodology varies from the methodology used to prepare the MFRs. For instance, FRWA adjusts for meter inaccuracies, both on source meters and distribution meters. It also adjusts total gallons pumped. In fact, using FRWA's numbers and our methodology, the level of unaccounted for water from July 1, 1992, through July 31, 1993, was 18.6 percent.

OPC also recommends that we adjust chemical and purchased power expenses for water lost due to tank overflows. The utility did not address this matter on the record, other than including it in the MFRs. It appears that the amount, 435,000 gallons, is correctly identified under "Other Uses". Accordingly, we do not believe that it is appropriate to make this adjustment. Even if this water is considered as unaccounted for water, it would only increase the total from 15.27 to 15.8 percent.

Upon consideration, we find that the level of unaccounted for water for the test year was 15.27 percent. We also find that the utility has made positive strides toward reducing unaccounted for water to a reasonable level, though there is room for improvement. Accordingly, we have made no adjustments for unaccounted for water.

#### Management Fees

In its MFRs the utility requested a management fee of \$48,000. At the hearing, Mr. Brown revised the request to \$42,000. Ms. Dismukes stated that we should adjust the fee because: Mr. Brown did not start keeping time records until 1994; he did not bill the utility for ABC's management services; and a portion of Mr. Brown's time was spent dealing with problems that were caused by poor management practices. She argued that the time needed to resolve problems resulting from poor management should be absorbed by the shareholders, not the ratepayers.

It appears that Mr. Brown's past actions have contributed to the financial problems of the utility. For instance, there were a number of instances in which Mr. Brown used utility property as collateral to secure loans for non-utility purposes. Mr. Brown

agreed that a portion of a \$1,600,000 loan from Regional Investment to the utility was used for non-utility purposes. He also characterized a \$1,250,000 loan between Peoples First Bank and Covington Properties as follows:

The purpose of the loan was to pay a large debt that Leisure and I had at Peoples First, and they agreed that if we would come in and pay off the debt, they would refinance provided we put up additional collateral, including the mortgage on the utility company. Which turned out to be a fourth or fifth mortgage. I believe.

He also tried to explain why the utility should be held liable for Covington's debt:

Because at the time Armada Bay was managing Covington, and we had a 10 percent interest in Covington, and Covington requested that we sign this loan, and in return they would pay Leisure's debt off and Covington would receive additional funds, as well. But as far as why the utility company should do it, the utility company did it because it owed considerable money to Leisure on a first mortgage, as well as several hundred thousand dollars of advances since the mortgage, none of which had been paid, and Leisure asked for its assistance in return for Leisure not taking any action against the utility company on those valid utility company debts.

Mr. Brown tried to justify mortgaging the utility by stating that "if Leisure loses the ability to operate financially and goes into bankruptcy or somebody takes over, then they could go against the utility company, and probably would." However, he was never able to demonstrate a direct correlation between the utility and the debt owed by Covington to Peoples First Bank. Consequently, we believe that Mr. Brown placed the utility in needless financial jeopardy when he used it as collateral for non-utility debt.

Mr. Brown testified that the utility had not paid ad valorem taxes since 1989. He also admitted that the utility has not been continuously covered for general liability or workers compensation insurance, even though the Commission provided an allowance for these items in the last rate case. The utility also received an allowance for a management fee of \$29,765. However, the utility has been paying Mr. Brown, through ABC, a management fee of \$48,000. In other words, Mr. Brown chose to pay himself in lieu of taxes and insurance. We note that Order No. 21122, also required



SGI to maintain or acquire the services of a manager that has experience in water or sewer operations, or is otherwise skilled in management. If the utility does not comply with this requirement within a 60-day period, we intend to initiate an investigation to remove the costs of the manager's salary from rates.

Mr. Brown argued that he complied with Order No. 21122 because he hired several managers but that, for various reasons none of them worked out. He also discussed a proposal with Ben Johnson and Associates "to take over management of the utility company." Nevertheless, Mr. Brown rejected the proposal and, through ABC, took over all of the management responsibilities.

Mr. Brown admitted that ABC's sole purpose is to manage the utility. He also acknowledged that he is the ultimate decision maker for all of his entities irrespective of which one is being dealt with at the time. He further stated that it has been that way since 1981 when the other general partner left Leisure.

The utility also had problems getting Well No. 3 on line. Mr. Coloney stated that the utility initially intended to have Well No. 3 on line by June, 1989. Mr. Brown testified that Well No. 3 was originally intended to provide 250 gpm, but that he and Mr. Garrett determined it would be more prudent to construct a 500 gpm well. According to Mr. Brown, "[b]ecause of this design change and the resulting permitting delays, construction of the third well was not completed until approximately one month after the March 1, 1993 date originally agreed upon by the Commission and the utility."

By Order No. PSC-93-1352-FOF, issued September 15, 1993, the Commission stated that "[b]ased upon the utility's recent effort to complete the well, and the fact that the well is now complete, we find that no show cause for the utility's failure to meet the March 1st, 1993 deadline in previous Order No. PSC-92-1284-FOF-WU, is appropriate." Well No. 3 was not finally approved by DEP until February 25, 1994. Mr. McKeown stated that "[i]t was delayed due to the utility submitting incomplete test results which are required during the normal clearance process."

Mr. McKeown testified that the utility is subject to a Consent Order, dated November 17, 1989, and the PFJ, dated April 30, 1992. Mr. McKeown further stated that "the utility has not complied with due dates or technical content contained in the PFJ in all cases." On January 13, 1994, the utility submitted a proposed final judgment to DEP, to which DEP replied:

The proposed stipulation contemplating entry of a final judgment is not acceptable. As you briefly state in the proposed stipulation language, the defendants in this litigation (yourself in particular) have not performed the obligations devolving upon them under the previous partial judgment.

Mr. Coloney testified that, in his opinion, Mr. Brown is "a very effective, efficient, competent and capable manager of St. George Island Utility Company." Mr. Coloney stated that, since Mr. Brown took over as general manager in 1991, he has brought the utility up to an efficient and effective level while providing safe and reliable water service. However, he agreed that we can look to Mr. Brown to explain conditions that have prevailed since 1981.

Mr. Brown testified that he has tried to remove himself from the equation. However, Mr. Brown is still acting as manager and still is in complete control of the utility company. The majority of the problems identified above, as well as with the books and records, could have been avoided if a qualified manager had been in control of the utility. Accordingly, we find it appropriate to reduce the revised requested management fee by \$10,000, or a \$16,000 reduction to the amount requested in the MFRs.

#### Contractual Services - Accounting

Mr. Seidman testified that, in the MFRs, an adjustment was made to reduce test year accounting contractual services by \$8,796. This adjustment resulted in the requested pro forma provision of \$22,640 for the accounting services of Ms. Drawdy and Ms. Withers. According to the record, Ms. Drawdy handled the daily accounting matters, oversaw the general ledgers, filed the utility's annual reports, and assured compliance with the USOA. Ms. Drawdy worked 16 hours a week at \$20 a hour for a yearly salary of \$16,640.

Mr. Seidman testified that Ms. Withers provides expertise on accounting and tax matters related to limited partnerships. Mr. Brown stated that the utility has a retainer agreement with Ms. Withers, effective January 1, 1993, for 5 hours per month, at \$100 per hour, for a total of \$6,000 per year. Any excess time spent by Ms. Withers is billed at a rate of \$100 per hour.

Although the utility did not provide any bills for Ms. Withers for the 1992 test year, Mr. Brown stated that she provided services during the test year. The utility submitted bills totalling \$3,450 for the first quarter of 1994; however, Mr. Brown admitted that these included only \$200 in utility related accounting expenses. Notwithstanding the above, Mr. Brown argued that there was a prior

retainer agreement with Ms. Withers, dated July 23, 1991, for \$1,000 a month. The agreement, however, was backdated to reflect an effective date of September 1, 1990.

Mr. Brown agreed that the current retainer agreement is not dated. He stated that the agreement was reduced to writing at the suggestion of the Staff auditor. He agreed that a contemporaneous written agreement would have been better, but argued that the retainer agreement should still be accepted.

Ms. Dismukes testified that we should disallow the entire amount. She argued that the utility did not utilize Ms. Withers' services in 1992 or 1993, and only made its first payment to Ms. Withers on January 30, 1994. Ms. Dismukes further pointed out that, even though the retainer agreement was purportedly effective January 1, 1993, it was not prepared until February 1994.

Ms. Dismukes testified that, according to Ms. Withers' deposition, the purpose of the retainer agreement was to reimburse her for outstanding bills. She also argued that no services were rendered to the utility in 1993. Therefore, Ms. Dismukes questioned whether this expense is needed on a prospective basis.

Mr. Brown stated that he was present at Ms. Withers' deposition and that she did not testify that she had failed to bill the utility for previously rendered services. He recalled that Ms. Withers stated that she and the utility were operating under a retainer agreement executed several years earlier. That agreement did not require Ms. Withers to bill the utility each month.

Mr. Seidman also disagreed that the retainer was designed to reimburse Ms. Withers for services rendered in the past. He agreed that the utility owes Ms. Withers \$22,000 for previously rendered services but argued that, in order to recover that amount, Ms. Withers would have to accept the \$6,000 annual payment and perform no additional services for 3.5 years. He pointed out that Ms. Withers has already billed the utility for \$3,400 in 1994, of which \$200 was for utility accounting expenses.

Mr. Seidman stated that what is important is not whether Ms. Withers actually performed services in 1992 or 1993, but that her services have been and continue to be available and used by the utility on a regular basis. Mr. Seidman believes that Ms. Withers did perform services in 1992 and 1993 and that not billing for these services was merely poor record keeping on her part. He testified that Ms. Withers now keeps track of her time and has billed the utility in 1994.

Mr. Brown testified that, during 1992, the utility incurred over \$31,000 for accounting fees, yet the utility is faced with allegations that its books and records are still not in compliance with our requirements. He also testified that St. George has hired an experienced accountant for \$40,000 per year plus benefits and that this should reduce its need for Ms. Withers' services.

Upon consideration, we find that St. George has not adequately supported the \$6,000 expense for Ms. Withers' services. It has provided no documentation for any services performed in 1992 or 1993. Moreover, Ms. Withers's bills for the first three months in 1994 document only \$200 in utility accounting expenses. In addition, the prudence of the utility's hiring a new accountant is questionable, as no supporting documentation was provided. We have, therefore, reduced contractual services-accounting by \$6,000. We note that, by Order No. 92-0122-FOF-WU, issued March 31, 1992, this Commission found that the utility's books and records were in substantial compliance with Rules 25-30.110(1)(a) and 25-30.115(1), Florida Administrative Code. However, we also stated that if the utility failed to properly record its accounting activities and preserve its records, we would likely disallow unsupported expenses in subsequent rate proceedings.

#### Contractual Services - Legal

The utility originally requested \$24,000 for legal contractual services, based upon a retainer agreement between the utility and Mr. Brown. The terms include \$2,000 per month with a waiver of any fees in excess of \$24,000 per year. Mr. Brown later revised the request to \$12,000 per year. He argued that, even without the utility's past legal problems, legal services are needed to deal with everyday problems. He also stated that, in the past, he has hired outside lawyers, with fees ranging from \$3,000 to \$100,000.

Ms. Dismukes questioned the utility's support of the expenses. The utility provided documentation of services performed during a four- to six-week period in 1993; however, no records were provided for 1992. Ms. Dismukes argued that many of the 1993 services did not appear to require legal expertise, and that it was difficult to determine the hours devoted to legal, as opposed to strictly utility, matters. She also noted that substantial time claimed for 1994 was related to the utility's DEP problems and show cause proceedings before this Commission. In her opinion, the costs associated with these problems should not be allowed.

Ms. Dismukes also argued that third-party legal fees during the test year were likely nonrecurring, as they concerned revocation proceedings before this Commission. Other charges were

related to hiring outside counsel to represent Mr. Brown's mother. Ms. Dismukes further testified that, in a recent Class B water and wastewater rate proceeding, the Commission found that \$2,854 per year was a reasonable figure for recurring legal expenses. She also reported that her analysis of other Class B water utilities suggested a level of \$3 per customer per year for legal expenses.

We find that St. George has not adequately supported the requested legal expense. Accordingly, we accept Ms. Dismukes' recommendation and will allow \$3,000 per year for legal contractual services, which results in a \$21,000 reduction to the utility's original request.

#### Contractual Services - Engineering

According to the MFRs, test year engineering services total \$4,151. In addition, the utility is requesting a pro forma increase of \$1,849, for a total of \$6,000, to recognize a \$500 per month retainer agreement with Mr. Coloney. Of the \$4,151, \$110.75 is for interest on a past-due bill, which is not a prudent expense that should be borne by the utility's ratepayers. Deducting that amount yields reported test year engineering expenses of \$4,041.

Mr. Coloney testified that he has been utilized by the utility on an as-needed basis since 1990, and has been on a retainer since January 1, 1992. He admitted, however, that St. George did not pay him as required under the agreement during 1992. Mr. Coloney stated that his fee is \$200 per hour and that he bills the utility after 2.5 hours per month. Mr. Coloney testified that the retainer agreement has nothing to do with the fact that the utility owes him approximately \$75,000 for services rendered in the past, but that he would probably subtract the retainer amounts from amounts owed if he wound up putting less than 2.5 hours per month into utility matters. Mr. Coloney also stated that if we disallow the retainer, there would be no difference in the way he would bill the utility.

Although the agreement was effective January 1, 1992, only \$1,500 of test year engineering expenses pertained to services rendered by Mr. Coloney. The \$4,041 in engineering expenses are also not supported by invoices. In fact, the \$1,500 recorded for Mr. Coloney's services is not supported by a cancelled check.

The utility recently hired Les Thomas, a professional engineer, who charges \$75 per hour. Mr. Garrett testified that, if he has an engineering question, most of the time he contacts Mr. Thomas. The utility also indicated that it uses Mr. Coloney on a very limited basis. Although there was testimony that Mr. Coloney will be utilized to review Mr. Thomas' work, we do not believe that

cost should be borne by the ratepayers. In fact, Mr. Brown testified that Mr. Coloney's fee is generally outside the utility's financial ability.

Upon consideration, we find that neither the utility nor its ratepayers derive sufficient benefit from the retainer agreement to justify the pro forma expense requested by St. George. We have, therefore, reduced engineering contractual services by \$1,959.

#### Contractual Services - Other

The utility also requested to recover the following expenses: \$22,409 for annual maintenance of the ground and elevated storage tanks, \$37,493 for annual cleaning of the distribution system, \$23,909 annually for laboratory testing, and \$1,280 for uniforms for field personnel. With the exception of testing expenses, none of these expenses was incurred during either the test year or 1993. As discussed below, we have approved some level of expense for each of these items. The utility shall provide proof, by January 10, 1995, that the items have been completed or are under contract.

#### Tank Maintenance

According to the record, the ground storage tank is leaking and needs repairs. The utility received a bid from Eagle Tank Technology Corporation (Eagle), for six years of maintenance of both the ground storage tank and the elevated tank, at an annual cost of \$20,493. The bid also stated that "[a]s we discussed before, we have to return these tanks to a certain order to place them on our maintenance program." Ms. Dismukes interpreted this statement to mean that remedial work was needed before Eagle could properly maintain the tanks. Ms. Dismukes concluded that the remedial work was occasioned by poor management and the utility's failure to properly maintain the equipment in the past. Therefore, she argued that the proforma allowance should be reduced by \$8,660 annually to hold the utility accountable for this past neglect.

Mr. Brown testified that the utility has always maintained the ground storage tank, but that the roof is nearly twenty years old and needs to be repaired. In addition, the tank's precast siding is beginning to leak and needs to be sealed. Mr. Garrett added that the utility periodically drains and cleans the ground storage tank. In a June 24, 1994, letter, Eagle notified the utility that the condition of the ground storage tank was not uncommon for that particular structure.

We believe that the tank maintenance expense is prudent; however, we find that a reduction of \$1,916 is required to reflect the \$20,493 bid from Eagle.

#### Distribution System Cleaning

According to the utility a "continuous distribution cleaning program is necessary to maximize pressure, detect leaks and control turbidity." The utility's estimate for pipe cleaning is based upon a bid from Professional Piping Services, Inc. (PPS). According to the bid, over a ten-year period, the cost of the pipe cleaning would be \$350,880, or \$35,040 annually. The utility also requested \$2,453 to clean the transmission line across the bridge.

At the hearing, Mr. Brown revised the utility's request to only ask for funds to clean the supply line across the bridge. PPS provided a \$21,183 bid to clean just the supply main. Ms. Dismukes recommends not allowing this expense since the utility only obtained one bid and has no signed contract. Alternatively, Ms. Dismukes proposes to reduce this expense by half, since the utility has applied for a grant to fund fifty percent of this expense. OPC also proposes that this expense be amortized over ten years.

Upon consideration of all the evidence, we find that this is a prudent expense which will improve the quality of service. In addition, since this is an energy saving measure and because the utility is likely to receive the grant, we find that the utility's revised pro forma request should be reduced by fifty percent. In accordance with Rule 25-30.433(8), Florida Administrative Code, it shall be amortized over five years. These adjustments result in a \$2,118 ( $\$21,183 \div 5 \div 2$ ) annual allowance for supply main cleaning.

#### Testing

The utility claims that this adjustment is required since DEP requirements for increased and more reliable water quality testing necessitated contracting for testing services with a different laboratory and arranging for pickup and transportation of samples. As support for this expense, the utility provided a bid from Savannah Laboratories for the testing.

Ms. Dismukes' primary recommendation is to disallow this expense, since the utility only obtained one quote for this service and has no signed contract. In the alternative, Ms. Dismukes recommends that this expense be reduced by \$1,870 since the utility included in its cost estimate as an annual expense testing for six items that are only required triennially.

Mr. Brown testified that only one quote was provided since there are only two testing labs in this area and the one which they are currently using has lost water samples and is not as reliable as Savannah Labs. Mr. Brown agreed with Ms. Dismukes' \$1,870 adjustment for triennial testing. Mr. Brown also agreed that duplicative transportation charges of \$3,876 should be removed.

Upon consideration, we find that the testing costs should be allowed, subject to the adjustments to remove duplicative charges for testing and pickup of the samples.

#### Uniforms

The utility indicates that uniforms are required because of complaints that customers cannot tell if personnel are authorized to come onto their property. There was no other evidence presented on this expense. It is, therefore, approved.

#### Escrow

Ms. Dismukes proposed that any increased rates associated with the expenses allowed under contractual services-other should be put into escrow, since the utility may never incur the expenses. We disagree. However, the utility shall provide proof that the expenses are under contract or have been incurred, on or before January 10, 1995. If the utility fails to proceed with the work, we shall initiate show cause proceedings.

#### Amortization Expense for Studies

The utility has requested to recover the costs of a system analysis, system mapping, an aerator analysis, a hydrological study and a fire protection study. The utility originally requested \$41,452 in annual amortization expense for all of these studies. In its Proposed Findings of Fact, the utility states that the total expense should be reduced by \$28,370. Its Posthearing Position Statement shows a reduction of \$22,209. The difference appears to be reflected, and will be discussed, in the section dealing with the system analysis.

#### System Mapping

No party took issue with the requested annual amount of \$6,310, which is the amortized expense for an initial system map and its update; however, the utility has implied an annual expense of \$4,166. We believe that the utility calculated this amount by taking the original system mapping cost of \$18,150, adding the update cost of \$2,680, and amortizing the total over five years.



Since there is no evidence in the record to dispute the originally requested amount, we have allowed the entire \$6,310.

### System Analysis

The original system analysis cost \$31,705. However, DEP rejected it because it concluded that the supply of water to the island would be adequate for the next ten years. DEP believes that the utility will be out of capacity almost immediately unless it constructs a parallel supply line from the well field to the island. Accordingly, Mr. Brown decided that it would be prudent to obtain an updated engineering analysis. Mr. Brown obtained bids from three engineering firms. The lowest was for \$12,000.

Mr. Brown testified that another engineering analysis probably will not have to be performed for two to three years. The utility originally requested to amortize this expense over two years, for an annual expense of \$15,852. The utility has, however, revised its requested amortization period to five years.

As noted above, there was a conflict between the utility's positions in its Proposed Findings of Fact and its Posthearing Position Statement. The amount stated in the Proposed Findings of Fact apparently does not include \$31,705 for the original system analysis, only \$12,000 for the update, amortized over five years. In its Posthearing Position Statement, the utility included both amounts and amortized the total amount over five years.

Ms. Dismukes testified that her reading of correspondence between the DEP and the utility, which the utility supplied in response to a Staff audit request, indicated that DEP was not requesting an entirely revised analysis. Ms. Dismukes further stated that the utility failed to support the proposed adjustment or the amortization period. OPC, therefore, recommends a five-year amortization for only the initial system analysis, or a reduction of \$9,511 to the proforma adjustment. Ms. Dismukes also recommends that, if we allow this expense, it should be deposited into an escrow account for distribution when services are rendered.

Since the utility must address the issue of capacity, \$12,000 for an updated analysis appears reasonable. It would also be difficult to determine that the original report was not reasonable. We have, therefore, allowed the costs for both studies, as amortized over five years, for an annual amount of \$8,741. In addition, since the system analysis update is currently being completed, we do not believe that it is necessary or appropriate to require that the funds be escrowed.

### Aerator Analysis

The utility also included a request for revising the aerator analysis required by DEP in 1992. It requested \$5,280 for the initial aerator analysis and \$3,300 for the revision, to be amortized over two-years, for a total annual expense of \$4,290. It has since agreed to a five-year amortization period.

The utility believes that the original aerator analysis was complete and thorough. Mr. McKeown testified that the Baskerville-Donovan report did not consider all the H<sub>2</sub>S data, but only one set of data. Based on the lack of suitable supporting materials for the H<sub>2</sub>S data, and that the report improperly used total sulfides in the percent removal formula, DEP rejected the report.

OPC's review of DEP correspondence leads it to the conclusion that the revised study is necessary. However, it believes that, since the first analysis was deficient, the cost to revise it should not be born by the ratepayers. Ms. Dismukes recommends that the cost of the initial analysis should be amortized over five years, for an annual amount of \$1,056. Ms. Dismukes also noted that the utility did not bid the work out.

It would be difficult for this Commission to state that the utility acted imprudently in hiring Baskerville-Donovan, a respected engineering firm, to conduct the initial study. We, therefore, approve both the cost of the original study, \$5,280, and the cost of the revised study, \$3,300, amortized over a five-year period, for an annual cost of \$1,716. As with the system analysis, we do not believe that these funds should be escrowed; the initial analysis is complete and the revised analysis was underway during this proceeding.

### Hydrology Study

The Northwest Florida Water Management District (NFWFMD) required a hydrology study as a condition to the continued withdrawal of water. The utility initially requested \$45,000 for the study, to be amortized over five years. It subsequently amended its request to \$12,000, amortized over five years. The study is complete and paid in full.

OPC believes that we would be justified in disallowing this expense because documentation was inadequate. However, OPC is amenable to the \$12,000 expense, amortized over five years.

Upon consideration, we find it appropriate to allow the expense, amortized over five years, for an annual cost of \$2,400.

Fire Protection Study

The utility initially requested \$30,000 for a fire protection study, with an amortization period of five years. It subsequently modified its request to \$12,000. Mr. Brown testified that "...the utility's engineers must first analyze the current system, determine what level of fire protection is reasonable and necessary on the island, determine the most efficient and cost effective method of providing such protection, and determine whether there is a consensus among the ratepayers and the agencies, including the PSC, to provide the Utility with a means of recovering its investment in the necessary fire protection improvements."

Mr. Coloney argued that the utility system was not designed to provide fire protection. He also stated that it would only be prudent for the utility to commission a report "...if there was a source of funds to pay for such a report, and only if there was a reasonable probability that funds would be available to act upon the report once it was completed."

OPC recommends that we disallow the entire amount because the utility only provided one bid of \$12,000, although it purportedly obtained three. OPC argues that there is no way for this Commission to be assured that the utility accepted the lowest bid.

All customers who testified regarding fire protection service were in favor of implementing or improving such service. Although most agreed that the ratepayers should pay a return on any infrastructure constructed to provide fire protection service, one customer objected to paying for a fire protection study. This customer also stated that everyone on the island, whether a customer or not, would benefit from investment in fire protection.

Upon consideration, we find that it would be prudent for the utility to commission a fire protection study in order to determine the appropriate course of action. We, therefore, approve the \$12,000 study, amortized over a five-year period, for an annual cost of \$2,400. The utility shall complete the fire protection study by January 1, 1995. It shall also file a copy of the study with this Commission, and send notice to its customers that the study is available at the utility's offices for review.

Rate Case Expense

The projected provision for rate case expense, per the MFRs, was \$105,039, which consisted of \$68,402 in accounting fees, \$13,000 in engineering fees, \$20,000 in legal fees, \$2,000 for filing fees, and \$1,637 in miscellaneous charges. During the hearing, Mr. Seidman introduced an exhibit detailing actual rate case expense of \$90,502, and an estimate of \$40,840 through the end of this case. Subsequently, the utility filed a late filed exhibit which included \$9,020 of actual charges. Following the hearing, the utility filed another exhibit which reflected \$154,739 in actual and projected rate case expense, as follows:

Accounting Consultants	\$ 82,289
Engineering Fees	7,432
Legal Fees	45,811
Rate Case Consultant (TMB)	6,850
Filing Fees	2,000
Miscellaneous	<u>10,353</u>
Total	<u>\$ 154,735</u>

In its brief, OPC stated that the utility was supposed to provide additional supporting documentation for all its rate case expense on August 25, 1994. However, the utility failed to comply with this deadline and did not produce any late-filed exhibits to OPC, the St. George Island Water-Sewer District or Staff Counsel on that date. Hence, according to OPC, the utility failed to meet its burden of proof with respect to any additional rate case expense.

We do not believe that the revised exhibit should be disallowed in its entirety. It was filed with this Commission on the date due although it was not received by OPC until a day later. In addition, OPC did not seem overly prejudiced by the utility's tardiness, since the exhibit was addressed in its brief. Nevertheless, since this is our first examination of some of charges, we have made certain adjustments, discussed below.

Accounting Fees

In its MFR's, the utility requested \$68,402 in accounting fees. This included \$50,000 for Management and Regulatory Consultants, Inc. (Frank Seidman), \$14,402 for Rhema Business Service, and \$4,000 for Barbara Withers and Jeanie Drawdy.

Management & Regulatory Consultants, Inc. (M&R) - In Exhibit 43, the utility requested \$53,975 for work performed by M&R, including \$19,794 for work performed in Docket No. 930770-WU, which was dismissed. Ms. Dismukes testified that we should not

allow rate case expense associated with that case. She also stated that the utility and its consultants should have known the approximate cost of litigating a rate case for this utility and that the utility should have obtained a firm bid from Mr. Seidman. Ms. Dismukes contends that the utility should be held to its original estimate of \$25,000 from Docket No. 930770-WU.

Mr. Seidman argued that there was no valid basis to limit the fees to anything other than the actual costs. He contended that the \$50,000 shown in the MFRs was an estimate, and should not be compared with the prior docket. He stated that this Commission does not allow rate case expense based on estimates, but on the actual costs reasonably incurred to the hearing plus an estimate of reasonable hearing and post hearing costs. He also argued that he was able to use a substantial amount of the work from the last case in preparation of the MFRs. He contended that he would not work under a firm bid in a case that was being litigated, because the applicant has no control over circumstances that might increase costs. He also stated that he knows of no other consultants that would work under a firm bid under similar circumstances.

Upon consideration, we find that it would be inappropriate to limit costs to the estimates in either this case or the dismissed case. However, we find that \$19,794 in costs from the prior docket were not reasonably and prudently incurred in this proceeding. We have, therefore, reduced the M&R allowance by \$19,794.

Rhema Business Service (Rhema) - The utility also asked to recover \$18,792 in fees for services rendered by Rhema. \$14,402 of the total was for work associated with Docket No. 930770-WS. Ms. Dismukes recommended that we disallow seventy-five percent, or \$10,802 of these fees because, although Mr. Seidman used information provided by Rhema, there was information that would not have been usable due to the difference in test years. In Ms. Dismukes' opinion, much of the work that was prepared by Rhema was duplicated by M&R Consultants.

Mr. Seidman agreed that some of his work was duplicative, but he estimated only twenty-five percent based upon his examination of the bills. He admitted that he was not able to use the schedules prepared by Mr. Mears, because they were not interactive. Upon consideration, we agree with OPC that \$10,802 in charges for Rhema should be disallowed. Mr. Seidman's argument is not convincing, since he derived his percentage from the Rhema bills, not from the percentage of the material he actually used.

Barbara Withers and Jeanie Drawdy - In its original request, the utility estimated the fees for both Ms. Withers and Ms. Drawdy

to be \$4,000. Exhibit 43 reflects charges, for Ms. Withers alone, of \$6,350. We have analyzed the bills and found that they include \$600 to "Meet with IRS regarding Audit." This charge does not appear to relate to this rate case. Accordingly, we have reduced the charge for Ms. Withers by \$600.

Ms. Drawdy's charges totaled \$3,172; however, only \$442 of the bill was itemized. Mr. Seidman conceded that Ms. Drawdy's bills only included the time, date, and hours worked. The bills neither indicate what she was working on nor if it was rate case related. He also assented that it is normal practice for an accountant to submit bills for services. We find that the utility has not adequately supported the bills. We have, therefore, removed all charges that were not itemized, resulting in a reduction of \$3,330.

#### Engineering Fees

In its MFRs, the utility estimated that its engineering fees would be \$13,000. Late-filed Exhibit 43 reflects engineering fees incurred of \$7,432 for Coloney & Company and Baskerville-Donovan. This total is \$5,568 less than the original estimate in the MFRs. Moreover, the invoices support the requested fees. Accordingly, we find that no adjustments are necessary.

#### Legal Fees

In its MFRs, the utility estimated legal fees at \$125 an hour for a total of \$20,000. In late-filed Exhibit 43, the utility is requesting legal fees of \$45,811, charged at the rate of \$175 an hour for the firm of Apgar, Pelham, Pfeiffer & Theriaque.

OPC argues that the rate of \$175 an hour for the services of Mr. Pfeiffer is excessive, since Mr. Pfeiffer lacks significant experience in water and wastewater ratemaking. OPC contends that the going rate for water and wastewater attorneys in Tallahassee is significantly less than \$175 an hour. OPC argues that \$135 per hour is a more reasonable rate, and more reflective of the going rate as well as the capabilities and experience of Mr. Pfeiffer.

Mr. Seidman testified that his estimate of \$125 per hour in the MFRs was based on his working with other firms like Gatlin, Woods, Carlson & Cowdery and Rose, Sunstrom & Bentley. He added that he thought Mr. Girtman's firm charged \$150 per hour. Mr. Seidman also stated that he didn't know whether Mr. Pfeiffer had appeared before the Commission, but that he had an outstanding reputation as an administrative attorney.

Mr. Brown testified that he had discussed the rate case with Mr. Girtman and his fee was \$135 an hour. He also acknowledged that Mr. Girtman was familiar with utility matters as well as St. George because he had represented it on other matters before the Commission. Mr. Brown stated that he did not hire Mr. Girtman because he would not commit to a set price. However, he admitted that Mr. Seidman did not agree to a set fee either. He also stated that Mr. Pfeiffer made an estimate of \$30,000, but he didn't know if that included the issue of original cost.

There is insufficient evidence to support reducing Mr. Pfeiffer's rate to \$135 an hour. Accordingly, we have made no adjustment to Mr. Pfeiffer's hourly fee.

OPC also argues that an adjustment should be made for Mr. Pfeiffer's attendance at several depositions at which Mr. Brown conducted the questioning. OPC argues that the customers of the utility should not be required to pay for legal services of Mr. Pfeiffer when his attendance at these depositions was either unnecessary or served only to acclimate him to the issues in the case. Mr. Brown agreed that the cost of attending the deposition of Dr. Ben Johnson should not be charged to the ratepayers. We have, therefore, reduced rate case expense by \$700 for Mr. Pfeiffer's attendance at Dr. Johnson's deposition.

Mr. Seidman agreed to file a late-filed exhibit detailing actual costs through the final day of the hearing. Upon review of the exhibit, we discovered that the utility included an estimate for legal fees for the final three days of the hearing rather than actual fees. The utility had sufficient time to file the actual fees through the last day of the hearing. Further, the utility failed to include a detailed description by hour of its estimate to complete the rate case. Therefore, we have estimated the time necessary to complete the hearing and for preparing post-hearing filings to be approximately forty hours. Accordingly, we have reduced the utility's estimate by \$8,900.

#### Rate Case Consultant

Mr. Brown specifically testified that he was not including the charges for TMB Associates (TMB) because he believed that they were not directly related to the rate case. However, in its late-filed exhibit, the utility reflected \$6,850 in fees for TMB. The utility also included \$305 for Mr. Beard's lodging and meals at the hearing. Upon consideration, we find it appropriate to remove \$6,850 in charges for TMB and \$305 in miscellaneous charges.

Miscellaneous Charges

The utility's late-filed rate case expense exhibit also reflected \$1,715 for a bond premium. We do not believe that the ratepayers should be charged for something that was exclusively the fault of the utility. Were it not for the utility's failure to follow our orders, pay its bills, make timely filings, and comply with our rules and regulations, there would have been no need for the utility to obtain a bond. Accordingly, we have removed the bond charge of \$1,715.

Operating Income

Based on the previous adjustments, the appropriate test year operating loss is \$91,590. The operating statement is attached as Schedule No. 3-A and the adjustments are shown on Schedule No. 3-B. A breakdown of operation and maintenance expenses, by primary account, is shown on Schedule No. 3-C.

REVENUE REQUIREMENT

Based upon the adjustments discussed heretofore, the revenue requirement is \$464,923. This will allow the utility the opportunity to recover its expenses and to earn a 7.35 percent return on its investment in rate base.

RATES AND CHARGES

Monthly Service Rates

St. George proposed a rate design more heavily weighted towards the base facility charge in order to increase cash flow to cover fixed expenses during the off-season. We agree with its methodology.

The rates approved hereunder are designed to produce revenues of \$464,923, which represents an increase of \$114,974 (33.53 percent), excluding miscellaneous service revenues. The approved rates will be effective for meter readings on or after the stamped approval effective date on the revised tariff pages, provided customers have received notice of the increased rates and the reasons therefor. The utility shall provide proof of the date notice was given within ten days of such notice.

A comparison of the utility's original rates, interim rates, requested rates, and the rates approved herein is depicted on Schedule No. 4.



Service Availability Charges

Rule 25-30.580 (1)(a), Florida Administrative Code, states that the maximum amount of contributions in aid of construction, net of amortization, should not exceed seventy-five percent of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their design capacity. The purpose of this requirement is to ensure that a utility has some investment so that it will maintain an interest in the facilities. St. George's CIAC level, as of December 31, 1993, was seventy-six percent of net plant in service.

There is significant potential for growth on St. George Island. If we do not adjust its service availability charges, St. George could become seriously over-contributed. However, the utility also needs additional capacity in order to connect new customers, which may require substantial capital investment. We are also mindful that, in the past, the utility has relied heavily on service availability charges to fund plant improvements.

When faced with a situation such as this, we would normally eliminate service availability charges altogether. However, in consideration of the above, this does not appear to be an option at this time. A reduction in the plant capacity charge will force the utility to make more of an investment in plant. Accordingly, we find it appropriate to reduce the plant capacity charge, as set forth below. We will continue to monitor this situation and may readdress the issue of service availability at a later date.

	<u>CURRENT</u>	<u>APPROVED</u>
Plant Capacity Charge		
Residential-per ERC (350 gpd)	\$ 1,245.00	\$ 845.00
All others-per gallon	\$ 3.5571	\$ 2.4143

Escrow of Service Availability Charges

St. George has been required to escrow funds, in order to ensure that monies were available for capital improvements, on numerous occasions by this Commission as well as by developers, banks, and others. As noted elsewhere in this Order, it appears that additional capacity will be required. Since we have reduced the utility's service availability charges, we believe that it is appropriate to require St. George to place such monies in escrow, in order to assure their availability for capital improvements.

Accordingly, St. George shall establish a commercial escrow account for service availability charges. Before funds may be released, the account administrator shall receive:

1. a written request for release of such funds from St. George;
2. written approval of each disbursement and the amount thereof from this Commission;
3. an affidavit from St. George stating the names of all parties owed, the amount owed to each and a lien waiver from each, and;
4. evidence of the proper payment of all prior disbursements.

St. George shall file a monthly report with this Commission detailing the monthly collections, as well as the aggregate amount. The escrow requirement shall remain in effect until the utility's next rate case or any modification in its service availability policies or charges.

#### Reduction of Rates Following Amortization Period

Section 367.0816, Florida Statutes, requires that rate case expense be amortized over four years. After the amortization period, the rates must be reduced by the amount of rate case expense included in rates. Pursuant to Section 367.0816, Florida Statutes, St. George's revenues should be reduced by \$25,585 at the conclusion of the four-year amortization period, as depicted on Schedule No. 5. The revenue reduction reflects the annual amortization amount, grossed-up for regulatory assessment fees.

The utility shall file revised tariffs no later than one month prior to the actual date of the required rate reduction. The utility shall also file a proposed customer notice setting forth the revised 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 removal of rate case expense.

#### Refund of Interim Rates

Under Section 367.082, Florida Statutes, and Rule 35-30.360, Florida Administrative Code, any interim revenues collected in excess of final approved revenues must be refunded, with interest.

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In this case, the final approved revenues exceed the interim revenues. Accordingly, no refund is required and the utility's bond may be released.

#### AFPI Charges

According to Stipulation No. 20d, AFPI charges will be calculated and collected from new customers in the designated Plantation areas. The amount of plant and the number of connections included in the calculation are \$127,175 and 457 ERCs, respectively. There is no non-used and useful plant outside of the Plantation. The appropriate AFPI charges are depicted on Schedule No. 6, which is appended to this Order.

#### MISCELLANEOUS

##### Books and Records

By Order No. 21122, issued April 24, 1989, the Commission found St. George in violation of rules regarding the preservation and maintenance of records. The order gave the utility time to improve its recordkeeping, instead of imposing a fine at the time. It also specifically required St. George to make a reasonable effort to gather all of its books and records since its inception and to maintain its books in substantial compliance with the USOA.

By Order No. 23038, issued June 6, 1990, we required St. George to show cause why it should not be fined for failure to keep its CIAC and plant records in compliance with the USOA. By Order No. 23649, issued October 22, 1990, we required the utility to continue to maintain its books and records in accordance with the USOA. By Order No. 24458, issued May 1, 1991, we again required St. George to bring its books and records into and maintain them in compliance with our rules and regulations. Finally, by Order No. 24807, issued July 11, 1991, we required the utility to show cause why it should not be fined for failure to maintain its books.

In Order No. PSC-92-0122-FOF-WU, issued March 31, 1992, we found that St. George was in substantial compliance with our orders and rules. However, we cautioned it that failure to properly record its accounting activities and preserve its records for audit inspection might result in disallowance of expenses in subsequent rate proceedings.

Ms. Gaffney testified that her audit report included twenty-eight audit exceptions and sixteen audit disclosures. An audit exception is a deviation from the USOA, Commission rule or order, Staff Accounting Bulletin, or a generally accepted accounting

principle. The exceptions ranged from monthly posting of accounts, condition of records, improper plant retirements, lack of supporting documentation and required summary schedules for depreciation and amortization. The utility stipulated to many of the exceptions.

In Audit Exception No. 2, Ms. Gaffney found two discrepancies from the USOA: supporting documentation was not readily available for any item included in any account, and books and records were not consistently kept on a monthly basis. In addition, the books were kept on a cash, as opposed to an accrual basis, the accountant's journal entries were not supported, source documentation was missing, the accountant was not readily available during the audit, the bookkeeper could not interpret the accountant's workpapers, and the 1992 books were not closed until September 1993. Ms. Gaffney did note better control of documents after the utility obtained an additional office worker.

Ms. Drawdy testified that the utility's books and records and were in substantial compliance with the USOA. She stated that she had no responsibility for records established before her engagement. She also stated that she assisted St. George in accumulating and verifying supporting documentation since the last rate case. When asked whether support for entries was readily available to the auditors, Ms. Drawdy stated that it was available. She testified that, since the utility had limited funds, she could not be there full-time. She also stated that copies of invoices that were missing during the audit were filed several weeks after the conclusion of the audit.

By memo dated February 4, 1994, Mr. Seidman informed Mr. Brown that twenty-two of the requested pro forma adjustments needed supporting documentation. The official filing date for the MFRs was February 1, 1994. The record is replete with instances in which the utility could or did not provide sufficient supporting documentation, such as insurance and travel expenses, affiliate transactions, employee benefits.

The utility, by its own admission, continues to have difficulty maintaining its records in compliance. For a Class B utility, the number of times the issue of books and record has arisen in the last four years is exasperating. Although the utility may have improved its record keeping from the prior rate case, we are not convinced that St. George will consistently comply with our recordkeeping requirements.

The majority of the problem appears to lie with management. Obtaining sufficient accounting staff is only one part of the

solution. The other requirement is that management provide the appropriate guidance and resources to allow the employees to apply the correct USOA requirements. We would order St. George to maintain its books in compliance, but this has been done so many times that it does not appear to be effective. Our only other recourse is to reduce the management fee, which is discussed elsewhere in this Order.

#### Capacity

DEP - Mr. Kintz testified that the maximum number of allowable ERCs for the utility is 1,346, based upon the consumptive use permit restriction to 700,000 gpd, the maximum day usage of 533,000 gallons, and the number of users on the system that day. Mr. Kintz's determination included Well No. 3 on line and the altitude valve, controls, and high service pump being completed and on line. DEP does not consider that storage adds capacity to a system.

Mr. Kintz argued that the utility must provide an additional raw water line in order to supply additional development in excess of the 1,346 connections. Mr. Kintz further testified that, if fire flow were required by Franklin County, the size of the distribution mains would need to be increased.

Les Thomas - St. George has applied to NFWFMD to modify its maximum day withdrawal allowance to 939,640 gpd. Mr. Thomas conducted an analysis for the utility and concluded that, if the application is approved, the utility could supply 1,807 ERCs at 520 gpd/ERC. Mr. Thomas' analysis DEP's ERC methodology, even though the utility disagrees with that methodology. According to Mr. Thomas, the system is adequate to meet needs over the next five years, provided that the utility's application for amendment of its consumptive use permit is approved.

Baskerville-Donovan - Mr. Bidy, a regional manager of Baskerville-Donovan, derived a maximum number of 1,541 ERCs, based on maintaining no less than 20 psi throughout the distribution system. In the Baskerville-Donovan Report, an ERC is defined as 300 gpd, which is based on an average daily flow, but also includes a peaking factor. The utility's commercial customers are equated to 140 ERCs. The report also assumes the altitude valve, controls and high service pump modifications are on line.

Mr. Bidy pointed out that, even at 520 gpd/ERC, his 1,541 ERCs would require 801,320 gallons. He stated that operating Wells Nos. 1 and 2 for twelve hours, then Well No. 3 for another twelve hours, would yield 806,400 gallons, which would more than satisfy the requirement. However, this amount is greater than the current

withdrawal limit of 700,000 gpd. Mr. Bidy also contends that storage should be considered when determining capacity.

Mr. Bidy stated that capacity could be increased by increasing the utility's NFWFMD withdrawal rates, constructing additional wells, installing plant to increase flows through the existing mains, and increasing storage to accommodate demand. Mr. Bidy believes that, when the utility serves 1,541 ERCs, elevated storage on either extreme end of the island would be advisable.

Mr. Bidy also stated that there is effective storage of 400,000 gallons, and that, in combination with a withdrawal rate of 700,000 gpd, the utility has 1.1 million gallons of available water. When questioned regarding the day after a peak day, when storage would need to be replenished yet the utility could only pump 700,000 gpd, Mr. Bidy argued there is only one spike during high usage periods. Although the peaks for 1991 and 1992 did not exceed 449,000 gallons, the peak on Memorial Day for 1993 was 533,000 gallons. It is reasonable to deduce that, as the utility grows, peak usage will increase. In fact, the trend in the data shows that spikes do not last one day, but for two to four days.

Wayne Coloney - Mr. Coloney believes that, with certain improvements, the utility has adequate capacity through the year 2002. He endorsed additions proposed in the Baskerville-Donovan Report, including the addition of a 50,000 gallon ground storage tank and booster pumps in 1995 to 1998, and an elevated storage tank near Windjammer Village between 1999 and 2002. He also suggested elevated storage near Bob Sikes Cut. Mr. Coloney believes that, between the current pumping capabilities and on-site storage, 1.1 million gpd is available.

Gene Brown - Mr. Brown stated that the utility may construct parallels to its eight-inch raw water line. Specifically, Mr. Brown is concerned with sections of the raw water main that are binding against rocks, and implies that paralleling those sections would alleviate an outage if a section broke. The utility does not plan to parallel the entire length of ductile iron line across the bridge, as that would cost \$800,000. Mr. Brown endorsed a new elevated storage tank in the Plantation. He also stated that additional elevated storage would increase fire flow capability on the island. Mr. Brown also endorsed another elevated storage tank on the island, near the entrance to the state park. He stated that increased storage and pumping capacity at locations remote from the central plant will stabilize pressure throughout the system. Mr. Brown also believes that the requested modification to the consumptive use permit would suffice through 1995.

Conclusion - The utility argues that its only peak periods occur on Memorial Day, July 4, and Labor Day, and that, for the balance of the year, demand is one-third of the peak. Mr. Coloney believes that DEP gives far greater weight to peak demand than justified. However, even Mr. Coloney agreed that the system must be designed for peak usage. Mr. Kintz, Mr. Thomas, and Mr. Bidy all considered peak demand when formulating capacity. We defer to DEP, and find that the maximum number of ERCs that St. George should be allowed to connect is 1,346 ERCs at 520 gpd/ERC.

In the event that St. George is successful in modifying its consumptive use permit, the maximum number of ERCs may change. Accordingly, the utility shall submit a copy of NFWFMD's decision and, if the allowed withdrawal rate is increased, it shall also report the revised maximum number of ERCs. This report shall include a reconciliation of Mr. Bidy's limitation of 1,541 ERCs, what Mr. Thomas supports based on his current hydraulic analysis of the distribution system, and DEP's raw water methodology.

As of February 17, 1994, only 86 of the 1,346 connections remained available, with 15 connections reserved for emergencies. According to Mr. Thomas' preliminary analysis, as of July 20, 1994, St. George was committed to serving 1,347 ERCs. Thus, St. George's ability to properly serve future customers within its service territory is questionable, at best.

Once Mr. Thomas' system analysis is completed, the utility shall file a copy with both DEP and this Commission, including a detailed plan to add capacity. In addition, the utility shall prepare and submit a complete permit application to the DEP, with a copy to this Commission, by January 1, 1995, to address the issue of additional capacity. If the utility is unable to meet this requirement, it shall notify us, by January 1, 1995, of the reasons therefor and the expected date of completion. The consumptive use permit modification currently before the NFWFMD should be resolved by then and the maximum number of ERCs, reconciled as discussed above, should be incorporated in the prescribed procedures above.

#### Fire Flow

Mr. Coloney stated that St. George was not designed to provide fire protection. However, he also testified that its ability to provide fire has improved. He believes that the utility is capable of providing fire flow for a significant period of time, other than at maximum peak usage. Mr. Coloney also testified that it would be desirable to provide increased elevated storage and a supplemental main dedicated to fire protection. He also believes the system is up to standards at this point in time, and that the hydrants are

functional and provide a high degree of protection. Finally, he agreed that the two-inch pipe is inadequate and would need to be replaced with at least six-inch main for fire protection.

Mr. Biddy testified that there are several alternatives available to the utility to be able to provide fire flow. "One would be a totally dedicated fire flow system, with its own storage tank, high service pump, and distribution system. He also stated that, with such a dedicated system, you could even use non-potable water. Another alternative is to increase the size of the mains in the distribution system. All of the alternatives would require extensive additional storage and more pumping capacity.

Mr. Abbott recognizes that the utility accepts no responsibility for fire protection on St. George Island, but hopes that the utility and the fire department can work together in achieving better fire flow. According to Mr. Pierce, the utility is the only entity poised to address fire protection on the island.

Since the utility must address the issue of capacity, we find that it would be prudent for the utility and the utility is hereby ordered to incorporate fire flow in its consideration.

RULINGS ON PROPOSED FINDINGS OF FACT

1. The following proposed findings of fact are adopted in substance, as modified below: 1, 3, 4, 5, 39, 40, 50, 51, 52, 58, 60, 61, 67, 77, 86, 87, 89, and 90.

1. The quality of service provided by SGIU is satisfactory and has improved in recent years.

3. Since the last rate case, SGIU has brought about the following programs and improvements: (A) A third well has been brought into service; (B) A 150,000 gallon elevated storage tank has been added; (C) A chlorine booster has been added; (D) A regular flushing program has been implemented; (E) A regular program for detection and repair of leaks has been implemented; (F) Testing programs for chlorine residuals and hydrogen sulfide have been implemented; (G) A cross connection prevention program has been implemented; (H) Fencing and security have been developed and implemented at the wells and at the plant; (I) Personnel have been made available to deal with emergencies on a 24-hours a day, seven days a week basis; (J) The old generator has been replaced and a backup generator has been added; (K) A new 50 horsepower high efficiency motor and pump together with a 50



horsepower high efficiency replacement motor have been installed; (L) Variable speed drives needed for each new motor to avoid the "water hammer" problem have been installed; (M) Additional pumps are maintained in order to allow complete redundancy in the pumping system; (N) A new butterfly valve and a new altitude valve with necessary piping configuration have been installed.

4. These improvements have increased the capacity of the system and improved its reliability. Hydrogen sulfide or sulphur water complaints have been reduced. There has only been one unscheduled service outage, since the beginning of 1991, and then only for fifteen minutes, except in connection with testing by the volunteer fire fighters.

5. The system now operates at a consistent pressure of 65 pounds per square inch throughout the system. The company has taken required samples in a timely manner, except for the third well, and has passed all water quality tests.

39. "Plant in service" should be reduced by \$647 for leasehold improvements. SGIU and the law offices of Gene Brown, P.A. share a leasehold, each occupying 50 percent of the space. Leasehold improvements attributed to plant in service in the amount of \$1,295 should be adjusted to reflect only the portion of the leasehold allocated to utility use.

40. Affiliated companies use space at the law firm of Gene Brown, P.A. All of the furniture and some equipment used by SGIU belongs to an affiliate.

50. Pro forma adjustments should be determined based upon the merits of the programs they are designed to implement.

51. SGIU expenses are not comparable to the expenses of most other Class B utilities. There are many reasons why this is true. SGIU has some unusual features that add to the cost of providing service, such as:

A. SGIU's service area is on a barrier island. Its water source is on the mainland, miles from its nearest customer. The service area itself is long and narrow. SGIU has a long

distribution system for a utility of its customer base.

- B. The volume of water that SGIU needs to provide is cyclical. There are three peak demand days. The rest of the time the capacity of the system is used only to a fraction of its capacity. Thus, SGIU needs to maintain facilities and capacity that are needed only a few days each year.
- C. SGIU does not have an exclusive service area. Residents can use private wells for water service and many of them do. SGIU is required to provide service to customers within its service area who request it, and therefore must extend lines for long distances, passing by developed properties with potential customers who do not choose to use the system.
- D. Because of the number of private wells, SGIU has significant cross-connection problems, necessitating a costly program to ensure that private wells do not endanger the integrity of the system and the safety of the product.
- E. SGIU's service area is a barrier island. Its equipment is subject to the corrosive effects of a coastal environment.
- F. SGIU serves a developing area. There is a need for negotiation of and execution of contracts such as developer agreements that increase the cost of legal services for SGIU as compared to utilities that serve built-out communities.

52. All of these factors add to the cost of maintaining the infrastructure of the utility and operating the utility. There are few other utilities that share this range of features.

58. Many witnesses acknowledged the importance of its operations manager, Hank Garrett, and the desirability of keeping him there. SGIU needs all of its present full-time employees to in order to continue providing adequate service and in order to continue improving its service.

60. Mr. Garrett and a single assistant operated the utility without the second assistant for a period of time. These two employees are now on call seven days every week, 24 hours every day.

61. The list of duties of these employees has increased in recent years on account of Department of Environmental Protection testing requirements; increased bookkeeping responsibilities; maintaining the cross-connect program; leak detection and repair; on going maintenance; and flushing of the distribution system, which takes several hours every day. This daily flushing becomes even more important and time consuming in winter months when less water is pumped to customers.

67. SGIU needs legal assistance to ensure that legal matters and legal documents are adequately drafted. It also needs ongoing legal support to ensure that responsibilities imposed by regulatory agencies are met.

77. SGIU's unaccounted for water is not excessive. It is within normal ranges. No adjustment for "chemical, purchased power" expense item is justified.

86. All of these studies are important to maintaining and improving service provided by SGIU.

87. At the conclusion of the last rate case, the Commission directed SGIU to implement new programs. SGIU undertook to implement improvements on its own initiative in addition to improvements mandated by the Commission.

89. Many SGIU customers want SGIU to provide a level of service that would meet fire protection standards.

90. A study is needed so that SGIU can determine the most effective means of providing fire protection service.

2. The following proposed findings of fact are adopted: 42, 47, 55 (1st sentence), and 91.
3. The following proposed findings of fact are rejected for the reasons stated:
  - a. Unnecessary or immaterial: 2, 8, 10, 11, 20-24, and 26.

- b. Unsupported by the competent, substantial evidence: 2, 6, 7, 14, 15, 17, 19, 25, 27, 28, 33, 34, 35, 36, 37, 38, 41, 43, 44, 45, 55 (2nd sentence); 62, 64, 65, 70, 71, 72, 73, 74, 75, 76, 78, 79, 80, 82, 83, 85, 92, 93, 94, 95, 96, 97, 98, 99, 100, 101, 102, 103, and 104.
- c. Argumentative: 9, 12, 13, 16, 18, 27, 29, 30, 31, 32, 33, 49, 53, 56, 57, 59, 63, 68, 69, 81, 84, and 88.
- d. Conclusory: 29, 46, 48, 54, and 66.

CONCLUSIONS OF LAW

1. The Commission has the jurisdiction to determine the appropriate rates and charges for St. George Island Utility Company, Ltd., under Sections 367.081 and 367.101, Florida Statutes.
2. As the applicant, St. George Island Utility Company, Ltd., has the burden to prove its investment in utility plant and that its proposed rates and charges are justified.
3. The doctrines of administrative res judicata and collateral estoppel do not foreclose the Commission from reevaluating the issue of original cost.
4. The rates and charges approved herein are just, reasonable, compensatory, not unfairly discriminatory, and in accordance with Sections 367.081 and 367.101, Florida Statutes.
5. Pursuant to Rule 25-9.001(3), Florida Administrative Code, the rates and charges approved herein shall not be effective until filed with and approved by this Commission.

Upon consideration, it is

ORDERED by the Florida Public Service Commission that the application of St. George Island Utility Company, Ltd., for increased rates, is granted, in part, as set forth in the body of this Order. It is further

ORDERED that St. George Island Utility Company, Ltd., shall be authorized to collect the rates and charges approved herein for service rendered on or after the stamped approval date on the

revised tariff pages, provided that its customers have received notice of the revised rates and charges and the reasons therefor. It is further

ORDERED that, prior to its implementation of the rates and charges approved herein, St. George Island Utility Company, Ltd., shall submit tariff pages revised to reflect the rates and charges approved herein. It is further

ORDERED that, prior to its implementation of the rates and charges approved herein, St. George Island Utility Company, Ltd., shall submit to Staff a proposed notice to its customers of the revised rates and charges and the reasons therefor. It is further

ORDERED that the revised tariff pages will be approved upon Staff's verification that they are consistent with our decision and upon Staff's approval of the proposed customer notice. It is further

ORDERED that St. George Island Utility Company, Ltd., shall provide proof that notice was given to its customers no later than ten (10) days after notice is served. It is further

ORDERED that St. George Island Utility Company, Ltd., shall establish, and place all service availability charges hereafter collected into, a commercial escrow account. It is further

ORDERED that, before funds may be released from the service availability charge escrow account, the account administrator shall receive: a written request for release of such funds from St. George Island Utility Company, Ltd.; written approval of each disbursement and the amount thereof from this Commission; an affidavit from St. George Island Utility Company, Ltd., stating the names of all parties owed and the amount owed to each; a lien waiver from each party owed, and; evidence of proper payment of all prior disbursements. It is further

ORDERED that St. George Island Utility Company, Ltd., shall file a monthly report with this Commission detailing the monthly collections of service availability charges as well as the aggregate amount. It is further

ORDERED that St. George Island Utility Company, Ltd., shall submit to Staff, on or before January 5, 1995, evidence that it has established an externally managed pension plan. It is further

ORDERED that St. George Island Utility Company, Ltd.'s pension plan shall explicitly provide that, should St. George Island

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Utility Company, Ltd., fail to properly fund the plan, the pension manager shall inform this Commission. It is further

ORDERED that St. George Island Utility Company, Ltd., shall submit to this Commission, on or before January 5, 1995, copies of its insurance contracts and/or policies, as well as canceled checks for the premiums. It is further

ORDERED that St. George Island Utility Company, Ltd., shall keep general liability and workers compensation insurance in effect and pay its insurance premiums in a timely manner. It is further

ORDERED that St. George Island Utility Company, Ltd., shall hereinafter keep accurate mileage records. It is further

ORDERED that St. George Island Utility Company, Ltd., shall submit a copy of the Northwest Florida Water Management District's decision on its application for a revised consumptive use permit. It is further

ORDERED that, if the Northwest Florida Water Management District approves its application for a revised consumptive use permit, St. George Island Utility Company, Ltd., shall report the revised maximum number of equivalent residential connections. The report shall include a reconciliation of Mr. Bidy's, Mr. Thomas', and the Department of Environmental Protection's positions on the maximum number of equivalent residential connections. It is further

ORDERED that, once Mr. Thomas' system analysis is completed, St. George Island Utility Company, Ltd., shall file a copy with both the Department of Environmental Protection and this Commission, including a detailed plan to add capacity. It is further

ORDERED that St. George Island Utility Company, Ltd., shall prepare and submit a complete permit application addressing the issue of capacity to the Department of Environmental Protection, with a copy to this Commission, by January 1, 1995. If St. George Island Utility Company, Ltd., is not able to meet this deadline, it shall notify this Commission, by January 1, 1995, of the reasons therefor and the expected date of completion. It is further

ORDERED that, since its consumptive use permit application should be resolved soon, St. George Island Utility Company, Ltd., shall incorporate a discussion of the maximum number of equivalent residential connections, reconciled as discussed above, in its capacity plan and permit application. It is further

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ORDERED that St. George Island Utility Company, Ltd., shall incorporate a discussion of fire flow in its capacity plan and permit application. It is further

ORDERED that St. George Island Utility Company, Ltd., shall complete its fire protection study by January 1, 1995. It is further

ORDERED that St. George Island Utility Company, Ltd., shall file a copy of its fire protection study with this Commission, and provide notice to its customers that the study is available at its offices for review. It is further

ORDERED that, no later than one month prior to the expiration of the four-year rate case expense amortization period, St. George Island Utility Company, Ltd., shall file revised tariff pages reflecting the removal of rate case expense from the approved rates. It is further

ORDERED that, no later than one month prior to the expiration of the four-year rate case expense amortization period, St. George Island Utility Company, Ltd., shall file a proposed customer notice setting forth the revised rates and the reason for the reduction. It is further

ORDERED that, if St. George Island Utility Company, Ltd., files for the rate case expense 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 removal of rate case expense. It is further

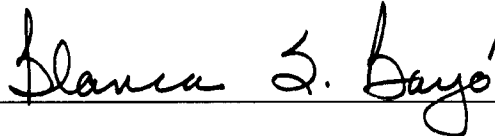
ORDERED that the bond to guarantee any interim rate refund is hereby released. It is further

ORDERED that all schedules attached hereto are, by reference, expressly incorporated herein. It is further

ORDERED that this docket shall remain open until St. George Island Utility Company, Ltd., submits the required pension plan documentation, insurance documentation, the fire protection study, proof that the tank maintenance and pipe cleaning are completed or under contract, its revised consumptive use permit, and its capacity plan and Department of Environmental Protection permit application, as required by this Order. This docket shall also remain open until the service availability charge escrow requirement has been released.

ORDER NO. PSC-94-1383-FOF-WU  
DOCKET NO. 940109-WU  
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By ORDER of the Florida Public Service Commission, this 14th  
day of November, 1994.



BLANCA S. BAYÓ, Director  
Division of Records and Reporting

( S E A L )

RJP

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



ORDER NO. PSC-94-1383-FOF-WU  
 DOCKET NO. 940109-WU  
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ST. GEORGE ISLAND UTILITY CO. SCHEDULE OF WATER RATE BASE TEST YEAR ENDED DECEMBER 31, 1992			SCHEDULE NO. 1-A DOCKET NO. 940109-WU			
COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	
1 UTILITY PLANT IN SERVICE	\$ 2,475,081	\$ 110,261	\$ 2,585,342	(\$ 324,345)	2,260,997	
2 LAND	31,542	23,276	54,818	10,516	65,334	
3 NON-USED & USEFUL COMPONENTS	0	0	0	(82,285)	(82,285)	
4 CWIP	105,828	(105,828)	0	0	0	
5 ACCUMULATED DEPRECIATION	(736,847)	223	(736,624)	(57,460)	(794,084)	
6 CIAC	(988,742)	(11,110)	(999,852)	(296,907)	(1,296,759)	
7 ACCUM AMORT OF CIAC	132,277	6,556	138,833	41,879	180,712	
8 ADVANCES FOR CONSTRUCTION	(78,862)	0	(78,862)	(52,968)	(131,830)	
10 DEFERRED EXPENSES	0	0	0	0	0	
11 WORKING CAPITAL ALLOWANCE	35,113	30,508	65,621	(19,830)	45,791	
<b>RATE BASE</b>	<b>\$ 975,390</b>	<b>\$ 53,886</b>	<b>1,029,276</b>	<b>(781,400)</b>	<b>247,876</b>	

ST. GEORGE ISLAND UTILITY CO. ADJUSTMENTS TO RATE BASE TEST YEAR ENDED DECEMBER 31, 1992		SCHEDULE NO. 1-B DOCKET NO. 940109-WU PAGE 1 OF 2
EXPLANATION	WATER	
<b>PLANT IN SERVICE</b>		
A. To reduce for lack of support (AE # 5) Stip No. 1		(2,067)
B. To reduce for lack of support for 3rd well (AE #9) Stip No. 2		(876)
C. To reduce for duplicative recording (AE #10 acct 330.4) Stip No. 3		(2,370)
D. To remove costs associated with storage tank (AE #10) Stip No. 4		(12,518)
E. To increase for non recording of retired copier (AE #8) Stip No. 5		1,675
F. To reduce for pump retirement Well #1 (AE #8) Stip No. 5		(7,029)
G. To reduce for pump retirement Well #2 (AE #8) Stip No. 5		(10,378)
H. To reduce for retirement of copier (AE #8) Stip No. 5		(3,654)
I. To reduce for transportation expenses and cost reductions (AE #7) Stip No. 6		(3,098)
J. To increase for fire hydrants not recorded Stip No. 10		13,423
K. To decrease for non support (AE #6) Stip No. 15		(12,665)
L. To increase for utility's new generator (AE #11) Stip No. 16		1,941
M. To reduce for original cost adjustment in Issue No. 2		(379,948)
N. Reduce engineering design fees (AE #14) Issue No. 3		(21,000)
O. To reduce for leasehold improvements Issue No. 4		(647)
P. To reduce general plant for use by affiliates Issue No. 5		(562)
Q. To increase for 1993 growth Issue No. 7		115,428
<b>NET ADJUSTMENT</b>	<b>\$</b>	<b><u>(324,345)</u></b>
<b>LAND</b>		
A. To reduce for non related charges (AE #4) Stip #7		(570)
B. To increase for growth adjustment Issue No. 7		11,086
<b>NET ADJUSTMENT</b>	<b>\$</b>	<b><u>10,516</u></b>
<b>NON-USED AND USEFUL COMPONENTS</b>		
To increase for lines in plantation Stip No. 20	<b>\$</b>	<b><u>(82,285)</u></b>
<b>ACCUMULATED DEPRECIATION</b>		
A. To reduce for removal of storage tank (AE #12) Stip 4		629
B. To increase for retirement of copier (AE #8) Stip 5		(168)
C. To decrease for retirement of pump for well no.1 (AE #8) Stip 5		3,866
D. To decrease for retirement of pump for well no. 2 (AE #8) Stip 5		2,077
E. To decrease for retirement of copier (AE #8) Stip 5		972
F. To correct depreciation error (AE #15) Stip 11		(10,327)
G. To decrease for adjustment eng fees (AE #14) Issue No. 3		1,470
H. To increase for growth adjustment Issue No. 7		(59,543)
I. To decrease for rate change (Stip #14)		3,564
<b>NET ADJUSTMENT</b>	<b>\$</b>	<b><u>(57,460)</u></b>

ST. GEORGE ISLAND UTILITY CO. ADJUSTMENTS TO RATE BASE TEST YEAR ENDED DECEMBER 31, 1992	SCHEDULE NO. 1-B DOCKET NO. 940109-WU PAGE 2 OF 2
EXPLANATION	WATER
<b>C.I.A.C.</b>	
-----	
A. Increase for funds received from Volunteer Fire Dept - Stip No. 10	(29,759)
B. To increase per growth adjustment Issue No 7	(267,148)
<b>NET ADJUSTMENT</b>	<b>\$ <u>(296,907)</u></b>
<b>ACCUMULATED AMORTIZATION OF C.I.A.C.</b>	
-----	
A. To reflect adjustment for funds received from Volunteer Fire Dept - Stip No. 10	2,702
B. To reflect correction to summary records (AE #16) Stip No. 12	10,635
C. To increase per growth adjustment Issue No. 7	28,542
<b>NET ADJUSTMENT</b>	<b>\$ <u>41,879</u></b>
<b>ADVANCES FOR CONSTRUCTION</b>	
-----	
A. To reflect correction to DNR balance (AE #20) Stip No. 10	9,257
B. To increase for funds received from Homeowners Issue No. 6	(65,000)
C. To decrease per growth adjustment Issue No. 7	2,775
<b>NET ADJUSTMENT</b>	<b>\$ <u>(52,968)</u></b>
<b>WORKING CAPITAL ALLOWANCE</b>	
-----	
To reflect adjustment to O&M Expenses	<b>\$ <u>(19,830)</u></b>

ST. GEORGE ISLAND UTILITY CO.  
TEST YEAR ENDED DECEMBER 31, 1992  
SCHEDULE OF PLANT BY PRIMARY ACCOUNT  
YEAR-ENDED BALANCES

SCHEDULE NO. 1-C  
DOCKET NO. 940109

ACCT NO.	ACCOUNT TITLE	UTILITY PER BOOKS	ORIGINAL COSTS ADJUSTMENTS	OTHER COMMISSION ADJUSTMENTS	ADJUSTED PER BOOK BALANCE
304.2	Structures & Improv.	47,801	10,667		58,468
307.2	Wells & Springs	187,356	(31,872)	(11,247)	144,237
309.2	Supply Mains	227,326	129,326	(2,687)	353,965
310.2	Power Generation Equipment	60,661		1,756	62,417
311.2	Pumping Equipment	63,920	(4,286)	(17,522)	42,112
303.3	Land & Land Rights	5,000			5,000
320.3	Water Treatment Equip.	23,270	(9,619)	(919)	12,732
303.4	Land & Land Rights	60,904		(570)	60,334
330.4	Distr. Res. & Standpipes	371,741	(49,568)	(33,945)	288,228
331.4	Trans. & Distr. Mains	1,368,508	(430,289)		938,219
333.4	Services	168,776	(961)	(521)	167,294
334.4	Meters & Meter Inst.	88,095	(349)	(487)	87,259
335.4	Hydrants	74,274	2,237	13,372	89,883
339.4	Other Plant & Misc. Eq.	51	4,767		4,818
340.5	Office Furniture & Eq.	13,986		(3,188)	10,798
343.5	Tools, Shop & Garage Eq.	441			441
347.5	Miscellaneous Equipment	5,302		(4,137)	1,165
<b>TOTAL</b>		<b>2,767,412</b>	<b>(379,947)</b>	<b>(60,095)</b>	<b>2,327,370</b>

Comparison of Plant from the Bishop 1978, Bishop 1982, and Coloney 1988 Studies

	1978 Bishop	1982 Bishop	1988 Coloney
Well #1	Yes	Yes	Yes
Well #2	No	No	Yes
PVC Supply Mains	Yes	Yes	Yes
Ductile Iron Pipe Supply Main	13,078	13,078	13,078
Water Treatment Plant	Yes	Yes	Yes
Ground Storage Tank	Yes	Yes	Yes
Pumping Station	Yes	Yes	Yes
20 hp High Service Pump	Yes	Yes	Yes
50 hp High Service Pump	No	Yes	Yes
PVC Water Main (Excluding supply mains)			
2"	0	15,225	69,375
4"	0	4,590	7,477
6"	23,617	59,092	96,381
8"	24,394	49,891	49,891
10"	0	0	0
12"	155		1,095
Gate Valves			
2"		N/A	63
4"		N/A	11
6"	30	N/A	57
8"	15	N/A	78
10"		N/A	
12"	1	N/A	4
Fire Hydrants	9	45	89
Flush Stand			
2"			3
6"			16
Services			
5/8"	0	141	646
1"	0	0	3
1.5"	0	0	1
2"	0	0	2
3"	0	0	1
4"	0	1	1
6"	0	1	1
Auxilliary Generator	0	0	1

**Estimated Length of PVC Pipe (ft) (Excluding the supply mains for Well #1)**

(The length of pipe for the years 1979-1981 was estimated by taking the difference in pipe length between 1978 and 1982 and dividing by four so that equal increments of pipe was added in those years. This same methodology was used to estimate pipe length for the years 1983-1987.)

Year Handy-Whitman Index #	1976 104	1977 107	1978 111	1979 121	1980 131	1981 141	1982 133
2"	0	0	0	3,806	7,613	11,419	15,225
4"	0	0	0	1,148	2,295	3,443	4,590
6"	0	0	23,617	32,486	41,355	50,223	59,092
8"	0	0	24,394	30,768	37,143	43,517	49,891
10"	0	0	0	0	0	0	0
12"	0	0	155	155	155	155	155
Total	0	0	48,166	68,363	88,560	108,756	128,953
Fire Hydrants	0	0	9	18	27	36	45

Year Handy-Whitman #	1983 157	1984 146	1985 144	1986 142	1987 144	1988 144
2"	24,250	33,275	42,300	51,325	60,350	69,375
4"	5,071	5,552	6,034	6,515	6,996	7,477
6"	65,307	71,522	77,737	83,951	90,166	96,381
8"	49,891	49,891	49,891	49,891	49,891	49,891
10"	0	0	0	0	0	0
12"	312	468	625	782	938	1,095
Total	144,831	160,708	176,586	192,464	208,341	224,219
Fire Hydrants	51	56	62	68	74	80

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Schedule 1-D  
 Page 3 of 6

ORIGINAL COST AS OF 1978 BISHOP APPRAISAL

ITEM	QTY	UNIT PRICE	1978 REPLACE COST	HANDY WHITMAN # (7/78)	HANDY WHITMAN # (7/76)	1978 ORIGINAL COST	NARUC ACCOUNT	
<b>Production Well &amp; Site</b>								
263', 8" Well	1	\$9,500	\$9,500	152	132	\$8,250	307.2	
10 HP Turbine Pump	1	\$7,000	\$7,000	191	175	\$6,414	311.2	
Land	1	\$3,500	\$3,500	N/A	N/A	\$3,500	303.2	
Well House Slab	0		\$0					
			\$20,000			\$18,163.61		
<b>Raw Water Transmission Main</b>								
Prod. Well to no. end bridge								
6" PVC Pipe (Avg. of Bishop's studies)	2365	\$2.82	\$6,661	111	104	\$6,241	309.2	
8" PVC Pipe (Avg. of Bishop's studies)	3911	\$4.72	\$18,442	111	104	\$17,279	309.2	
8" Ductile Iron	58	\$14.50	\$841	176	158	\$755	309.2	
6" Gate Valve	1	\$220.00	\$220	176	158	\$198	309.2	
8" Gate Valve	2	\$291.50	\$583	176	158	\$523	309.2	
6" 45 Deg. Bend	1	\$107.25	\$107	176	158	\$96	309.2	
6" 90 Deg. Bend	1	\$123.75	\$124	176	158	\$111	309.2	
8" 90 Deg. Bend	2	\$181.50	\$363	176	158	\$326	309.2	
			\$27,341			\$25,529.41	309.2	
No. End of Bridge to Reserv.								
8" PVC Pipe (Avg. of Bishop's studies)	12209	\$4.72	\$57,571	111	104	\$53,940	309.2	
8" Ductile Iron	232	\$14.50	\$3,364	176	158	\$3,020	309.2	
8" Gate Valve	3	\$291.50	\$875	176	158	\$785	309.2	
8" Dress. Coupling	4	\$1,400.00	\$5,600	176	158	\$5,027	309.2	
8" 45 Deg. Bend	2	\$156.75	\$314	176	158	\$281	309.2	
			\$67,723			\$63,053.96	309.2	
<b>Two Bridge Crossings</b>								
Cifer's Contract								
8" Ductile Iron	13078	\$5.75	\$87,456					
Freight	6793	\$0.80	\$6,320					
			\$242,477			\$208,492 *	309.2	
<b>TOTAL RAW WATER MAIN</b>			\$337,541					
<b>Reservoir, Pumps, Office, Etc.</b>								
Marolf, Inc. (reservoir, structure, etc.)			\$73,655			\$63,332 *	330.4	
G.A.P. Enterp. (concrete slab)			\$32,237			\$27,719 *	330.4	
Pumping Station			\$23,786	176	154	\$20,813	304.3	
20 hp High Service Pump			\$1,200	191	175	\$1,099	311.2	
W&T Gas Chlorin.			\$2,600	176	154	\$2,275	320.3	
50 hp High Service Pump			(NOT INCLUDED IN TOTAL. INSTALLED IN 1979)			\$5,612	311.2	
T.L. Cook (electric)			\$13,956			\$12,000 *	311.2	
Interior			\$19,879			\$17,093 *	304.3	
Controls			\$1,500	176	154	\$1,313	339.3	
Altitude Valve			\$3,364	176	154	\$2,944	339.3	
Land			6	\$5,000		\$30,000	\$12,455	303.3
New Equipment						\$14,406	310.2	
Auxiliary Power						\$14,406	310.2	
<b>TOTAL RESERVOIR, PUMPS, ETC.</b>			\$202,177			\$181,060.53		
<b>PVC PIPE</b>								
	2"	0	\$1.43	\$0		\$0	330.4	
	4"	0	\$1.88	\$0		\$0	330.4	
	6"	23,617	\$2.82	\$66,520		\$66,520	330.4	
	8"	24,394	\$4.72	\$115,028		\$115,028	330.4	
	10"	0	\$0.00	\$0		\$0	330.4	
	12"	155	\$13.65	\$2,116		\$2,116	330.4	
			\$183,665			\$183,665	330.4	
Appurtenances (11.1% of T&D)			\$20,410			\$20,410	330.4	
<b>TOTAL TRANSMISSION &amp; DISTRIBUTION SYSTEM</b>			\$204,074			\$204,074	330.4	
<b>SERVICES &amp; METERS (From the Coloney Study)</b>						\$6,919	333.4	
<b>HYDRANTS</b>						\$5,732	335.4	
<b>SUBTOTAL (Not including Admin. &amp; Engineering)</b>						\$707,413		
Administration						\$40,208		
Engineering						\$40,208		
<b>TOTAL ORIGINAL COST</b>						\$787,829		

\* Cost is based on a contract or invoice.

Comparison of line and hydrant costs from the Bishop 1978 and 1982 appraisals and Coloney's study

Year	1976	1977	1978	1979	1980	1981	1982
2"							
Bishop 1978 (Used 1982 since not specified)	\$1.34	\$1.38	\$1.43	\$1.56	\$1.69	\$1.81	\$1.75
Bishop 1982	\$1.34	\$1.38	\$1.43	\$1.56	\$1.69	\$1.81	\$1.75
Coloney	\$2.71	\$2.79	\$2.89	\$3.15	\$3.41	\$3.67	\$3.46
Average of Bishop's '78 and '82	\$1.34	\$1.38	\$1.43	\$1.56	\$1.69	\$1.81	\$1.75
4"							
Bishop 1978 (Used 1982 since not specified)	\$1.76	\$1.81	\$1.88	\$2.05	\$2.22	\$2.38	\$2.30
Bishop 1982	\$1.76	\$1.81	\$1.88	\$2.05	\$2.22	\$2.38	\$2.30
Coloney	\$4.51	\$4.64	\$4.82	\$5.25	\$5.69	\$6.12	\$5.77
Average of Bishop's '78 and '82	\$1.76	\$1.81	\$1.88	\$2.05	\$2.22	\$2.38	\$2.30
6"							
Bishop 1978	\$3.05	\$3.13	\$3.25	\$3.54	\$3.84	\$4.13	\$3.89
Bishop 1982	\$2.23	\$2.30	\$2.38	\$2.60	\$2.81	\$3.03	\$2.92
Coloney	\$5.96	\$6.13	\$6.36	\$6.93	\$7.51	\$8.08	\$7.62
Average of Bishop's '78 and '82	\$2.64	\$2.72	\$2.82	\$3.07	\$3.32	\$3.58	\$3.41
8"							
Bishop 1978	\$5.01	\$5.16	\$5.35	\$5.83	\$6.31	\$6.80	\$6.41
Bishop 1982	\$3.82	\$3.93	\$4.08	\$4.45	\$4.82	\$5.18	\$5.00
Coloney	\$7.40	\$7.62	\$7.90	\$8.61	\$9.32	\$10.04	\$9.47
Average of Bishop's '78 and '82	\$4.42	\$4.55	\$4.72	\$5.14	\$5.57	\$5.99	\$5.71
10"							
Bishop 1978	Not Applicable						
Bishop 1982	Not Applicable						
Coloney	Not Applicable						
Average of Bishop's '78 and '82	Not Applicable						
12"							
Bishop 1978	\$12.79	\$13.16	\$13.65	\$14.88	\$16.11	\$17.34	\$16.36
Bishop 1982 (Used 1978 since not specified)	\$12.79	\$13.16	\$13.65	\$14.88	\$16.11	\$17.34	\$16.36
Coloney	\$13.02	\$13.40	\$13.90	\$15.15	\$16.40	\$17.65	\$16.65
Average of Bishop's '78 and '82	\$12.79	\$13.16	\$13.65	\$14.88	\$16.11	\$17.34	\$16.36
Hydrants							
Bishop 1978	\$0	\$0	\$725	\$759	\$817	\$894	\$924
Bishop 1982	\$0	\$0	\$549	\$575	\$619	\$677	\$700
Coloney	\$0	\$0	\$822	\$861	\$926	\$1,013	\$1,048
Average of Bishop's '78 and '82	\$0	\$0	\$637	\$667	\$718	\$785	\$812
Year	1983	1984	1985	1986	1987	1988	
2"							
Bishop 1978 (Used 1982 since not specified)	\$2.02	\$1.88	\$1.85	\$1.83	\$1.85	\$1.85	
Bishop 1982	\$2.02	\$1.88	\$1.85	\$1.83	\$1.85	\$1.85	
Coloney	\$4.09	\$3.80	\$3.75	\$3.70	\$3.75	\$3.75	
Average of Bishop's '78 and '82	\$2.02	\$1.88	\$1.85	\$1.83	\$1.85	\$1.85	
4"							
Bishop 1978 (Used 1982 since not specified)	\$2.66	\$2.47	\$2.44	\$2.40	\$2.44	\$2.44	
Bishop 1982	\$2.66	\$2.47	\$2.44	\$2.40	\$2.44	\$2.44	
Coloney	\$6.81	\$6.34	\$6.25	\$6.16	\$6.25	\$6.25	
Average of Bishop's '78 and '82	\$2.66	\$2.47	\$2.44	\$2.40	\$2.44	\$2.44	
6"							
Bishop 1978	\$4.60	\$4.27	\$4.22	\$4.16	\$4.22	\$4.22	
Bishop 1982	\$3.37	\$3.13	\$3.09	\$3.05	\$3.09	\$3.09	
Coloney	\$8.99	\$8.36	\$8.25	\$8.14	\$8.25	\$8.25	
Average of Bishop's '78 and '82	\$3.98	\$3.70	\$3.65	\$3.60	\$3.65	\$3.65	
8"							
Bishop 1978	\$7.57	\$7.04	\$6.94	\$6.84	\$6.94	\$6.94	
Bishop 1982	\$5.77	\$5.37	\$5.29	\$5.22	\$5.29	\$5.29	
Coloney	\$11.18	\$10.39	\$10.25	\$10.11	\$10.25	\$10.25	
Average of Bishop's '78 and '82	\$6.67	\$6.20	\$6.12	\$6.03	\$6.12	\$6.12	
10"							
Bishop 1978	Not Applicable						
Bishop 1982	Not Applicable						
Coloney	Not Applicable						
Average of Bishop's '78 and '82	Not Applicable						
12"							
Bishop 1978	\$19.31	\$17.95	\$17.71	\$17.46	\$17.71	\$17.71	
Bishop 1982 (Used 1978 since not specified)	\$19.31	\$17.96	\$17.71	\$17.47	\$17.71	\$17.71	
Coloney	\$19.66	\$18.28	\$18.03	\$17.78	\$18.03	\$18.03	
Average of Bishop's '78 and '82	\$19.31	\$17.96	\$17.71	\$17.46	\$17.71	\$17.71	
Hydrants							
Bishop 1978	\$1,039	\$1,024	\$1,070	\$1,116	\$1,147	\$1,147	
Bishop 1982	\$787	\$776	\$810	\$845	\$868	\$868	
Coloney	\$1,178	\$1,161	\$1,213	\$1,265	\$1,300	\$1,300	
Average of Bishop's '78 and '82	\$913	\$900	\$940	\$981	\$1,008	\$1,008	



**Estimated Original Cost of T&D System and Fire Hydrants**

PVC Pipe (No appurtenances)	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
<b>2"</b>													
Bishop 1978	0	0	0	5,926	6,416	6,906	6,661	18,232	16,955	16,723	16,491	16,723	16,723
Bishop 1982	0	0	0	5,926	6,416	6,906	6,661	18,232	16,955	16,723	16,491	16,723	16,723
Coloney	0	0	0	11,994	12,985	13,976	13,183	36,899	34,314	33,844	33,374	33,844	33,844
Average of Bishop 1978 and 1982	0	0	0	5,926	6,416	6,906	6,661	18,232	16,955	16,723	16,491	16,723	16,723
<b>4"</b>													
Bishop 1978	0	0	0	2,348	2,542	2,736	2,639	1,278	1,188	1,172	1,156	1,172	1,172
Bishop 1982	0	0	0	2,348	2,542	2,736	2,639	1,278	1,188	1,172	1,156	1,172	1,172
Coloney	0	0	0	6,026	6,524	7,022	6,624	3,279	3,049	3,007	2,966	3,007	3,007
Average of Bishop 1978 and 1982	0	0	0	2,348	2,542	2,736	2,639	1,278	1,188	1,172	1,156	1,172	1,172
<b>6"</b>													
Bishop 1978	0	0	76,755	31,420	34,017	36,614	34,536	28,569	26,567	26,203	25,839	26,203	26,203
Bishop 1982	0	0	56,285	23,040	24,945	26,849	25,897	20,949	19,482	19,215	18,948	19,215	19,215
Coloney	0	0	150,189	61,481	66,562	71,643	67,578	55,901	51,984	51,272	50,560	51,272	51,272
Average of Bishop 1978 and 1982	0	0	66,520	27,230	29,481	31,731	30,216	24,759	23,024	22,709	22,394	22,709	22,709
<b>8"</b>													
Bishop 1978	0	0	130,508	37,175	40,247	43,319	40,861	0	0	0	0	0	0
Bishop 1982	0	0	99,549	28,356	30,700	33,043	31,871	0	0	0	0	0	0
Coloney	0	0	192,738	54,900	59,438	63,975	60,345	0	0	0	0	0	0
Average of Bishop 1978 and 1982	0	0	115,028	32,765	35,473	38,181	36,366	0	0	0	0	0	0
<b>10"</b>													
Bishop 1978	0	0	0	0	0	0	0	0	0	0	0	0	0
Bishop 1982	0	0	0	0	0	0	0	0	0	0	0	0	0
Coloney	0	0	0	0	0	0	0	0	0	0	0	0	0
Average of Bishop 1978 and 1982	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>12"</b>													
Bishop 1978	0	0	2,116	0	0	0	0	3,025	2,813	2,774	2,736	2,774	2,774
Bishop 1982	0	0	2,116	0	0	0	0	3,026	2,814	2,775	2,737	2,775	2,775
Coloney	0	0	2,154	0	0	0	0	3,080	2,864	2,825	2,785	2,825	2,825
Average of Bishop 1978 and 1982	0	0	2,116	0	0	0	0	3,025	2,813	2,775	2,736	2,775	2,775

**Estimated Original Cost for T&D mains (including the 11% for appurtenances. Bishop's costs don't include the engineering and administrative soft costs.)**

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	Total
Bishop 1978	0	0	232,646	85,411	92,470	99,529	94,110	56,782	52,804	52,081	51,357	52,081	52,081	921,351
Bishop 1982	0	0	175,502	66,302	71,781	77,261	74,521	48,317	44,932	44,317	43,701	44,317	44,317	735,268
Coloney	0	0	383,429	149,337	161,678	174,020	164,147	110,178	102,458	101,055	99,651	101,055	101,055	1,648,062
Average of Bishop's 1978 and 1982	0	0	204,074	75,857	82,126	88,395	84,315	52,550	48,868	48,199	47,529	48,199	48,199	828,309

**Estimated Original Cost of Hydrants (Bishop costs do not include engineering and administrative soft costs)**

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	Total
Bishop 1978	0	0	6,524	6,835	7,353	8,043	8,319	6,236	5,120	6,421	6,697	6,881	6,881	75,309
Bishop 1982	0	0	4,941	5,176	5,568	6,091	6,300	4,723	3,878	4,862	5,071	5,211	5,211	57,031
Coloney	0	0	7,396	7,748	8,335	9,117	9,430	7,070	5,804	7,278	7,591	7,800	7,800	85,370
Average of Bishop 1978 and 1982	0	0	5,732	6,005	6,460	7,067	7,310	5,480	4,499	5,641	5,884	6,046	6,046	66,170

**ESTIMATED PLANT ADDITIONS BY YEAR**

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	TOTAL
<b>INTANGIBLE PLANT</b>														
301.1 Organization														
302.1 Franchises														
339.1 Other Plant & Misc.														
<b>SOURCE OF SUPPLY &amp; PUMPING</b>														
303.2 Land & Land Rights	3,500									4,500				8,000
304.2 Structures & Improv.														
305.2 Collect & Impound. Res.														
306.2 Lake, River & Other														
307.2 Wells & Springs	9,240									15,470				24,710
308.2 Infiltr. Gall. /Tunnels														
309.2 Supply Mains	332,724													332,724
310.2 Power Generation Equipment	14,406													14,406
311.2 Pumping Equipment	21,855		6,286							11,534				39,675
339.2 Other Plant & Misc. Eq.														
<b>WATER TREATMENT PLANT</b>														
303.3 Land & Land Rights	12,455													12,455
304.3 Structures & Improv.	42,455													42,455
320.3 Water Treatment Equip.	2,548													2,548
339.3 Other Plant & Misc. Eq.	4,767													4,767
<b>TRANSMISSION &amp; DISTRIBUTION</b>														
303.4 Land & Land Rights														
304.4 Structures & Improv.														
330.4 Distr. Res. & Standpipes	101,977													101,977
331.4 Trans. & Distr. Mains	0	0	228,563	84,959	91,981	99,002	94,433	58,856	54,732	53,982	53,233	53,982	53,982	927,706
333.4 Services	0	0	5,102	6,743	6,108	10,565	11,959	23,230	30,531	15,831	19,426	11,088	2,541	143,123
334.4 Meters & Meter Inst	0	0	1,818	3,556	2,178	4,342	4,152	8,782	11,865	6,740	7,621	4,032	924	56,010
335.4 Hydrants	0	0	6,420	6,726	7,236	7,915	8,187	6,137	5,039	6,318	6,590	6,771	6,771	74,110
339.4 Other Plant & Misc. Eq.														
<b>GENERAL PLANT</b>														
303.5 Land & Land Rights														
304.5 Structures & Improv.														
340.5 Office Furniture & Eq.														
340.51 Computer Equip.														
341.5 Transportation Equip.												10,717		10,717
342.5 Stores Equipment														
343.5 Tools, Shop & Garage Eq.														
344.5 Laboratory Equipment														
345.5 Power Operated Equipment														
346.5 Communication Equipment														
347.5 Miscellaneous Equipment														
348.5 Other Tangible Plant														
<b>ADDITIONS DURING YEAR</b>	545,926	0	241,903	108,270	107,502	121,824	118,731	97,005	102,167	114,376	86,870	86,591	64,219	
<b>TOTAL PLANT IN SERVICE</b>	545,926	545,926	787,829	896,099	1,003,601	1,125,425	1,244,156	1,341,162	1,443,328	1,557,704	1,644,574	1,731,164	1,795,383	1,795,383

ST. GEORGE ISLAND UTILITY CO.  
 CAPITAL STRUCTURE  
 TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 2-A  
 DOCKET NO. 940109-WU

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	\$ 3,940,451	90.94%	7.68%	6.98%	\$ (3,720,916)	\$ 219,535	88.57%	7.29%	6.46%
2 SHORT-TERM DEBT	377,116	8.70%	12.17%	1.06%	(364,160)	12,956	5.23%	9.90%	0.52%
3 PREFERRED STOCK	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
4 COMMON EQUITY	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
5 CUSTOMER DEPOSITS	15,386	0.36%	8.00%	0.03%	0	15,386	6.21%	6.00%	0.37%
7 DEFERRED ITC'S	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
8 ADD NEG EQUITY	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
9 TOTAL CAPITAL	\$ 4,332,953	100.00%		8.07%	\$ (4,085,077)	\$ 247,876	100.00%		7.35%

ST. GEORGE ISLAND UTILITY CO.  
ADJUSTMENTS TO CAPITAL STRUCTURE  
TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 2-B  
DOCKET NO. 940109-WU

	DESCRIPTION	SPECIFIC ADJUSTMENT (1)	SPECIFIC ADJUSTMENT (2)	PRO RATA RECONCILE	NET ADJUSTMENT
1	LONG TERM DEBT	\$ (118,996)	\$ 0	\$ (3,601,920)	\$ (3,720,916)
2	SHORT-TERM DEBT	(151,593)	0	(212,567)	(364,160)
3	PREFERRED STOCK	0	0	0	0
4	COMMON EQUITY	0	0	0	0
5	CUSTOMER DEPOSITS	0	0	0	0
6	ACCUM. DEFERRED INCOME TAX	0	0	0	0
7	OTHER (Explain)	0	0	0	0
8	TOTAL CAPITAL	\$ (270,589)	\$ 0	\$ (3,814,488)	\$ (4,085,077)

ST. GEORGE ISLAND UTILITY CO.  
STATEMENT OF WATER OPERATIONS  
TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 3-A  
DOCKET NO. 940109-WU

ORDER NO. PSC-94-1383-FOF-WU  
DOCKET NO. 940109-WU  
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DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 317,843	\$ 424,875	\$ 742,718	(\$ 392,769)	\$ 349,949	114,974	\$ 464,923
OPERATING EXPENSES:						32.85%	
2 OPERATION AND MAINTENANCE	\$ 280,907	\$ 244,066	\$ 524,973	(\$ 158,642)	\$ 366,331	\$	366,331
3 DEPRECIATION	39,026	(398)	38,628	(17,225)	21,403		21,403
4 AMORTIZATION	0	41,452	41,452	(19,885)	21,567	0	21,567
5 TAXES OTHER THAN INCOME	29,326	24,020	53,346	(21,108)	32,238	5,174	37,412
6 INCOME TAXES	0	0	0	0	0	0	0
7 TOTAL OPERATING EXPENSES	\$ 349,259	\$ 309,140	\$ 658,399	(\$ 216,860)	\$ 441,539	5,174	\$ 446,713
8 OPERATING INCOME	\$ (31,416)	\$ 115,735	\$ 84,319	(\$ 175,909)	(\$ 91,590)	109,800	\$ 18,210
9 RATE BASE	\$ 975,390	\$	1,029,276	\$	247,876	\$	247,876
RATE OF RETURN	-3.22%		8.19%		-36.95%		7.35%

**ST. GEORGE ISLAND UTILITY CO.  
ADJUSTMENTS TO OPERATING STATEMENTS  
TEST YEAR ENDED DECEMBER 31, 1992**

**SCHEDULE NO. 3-B  
DOCKET NO. 940109-WU  
PAGE 1 OF 2**

EXPLANATION	WATER
<b>OPERATING REVENUES</b>	
-----	
A. To remove the utility's test year revenue request	(428,201)
B. To reflect growth adjustment	35,094
C. To increase miscellaneous service charges for growth	338
<b>NET ADJUSTMENT</b>	<b>\$ <u>(392,769)</u></b>
<b>OPERATION AND MAINTENANCE EXPENSES</b>	
-----	
A. To reduce salaries for allocation to affiliates (Issue 13)	(3,214)
B. To reduce health benefits for allowance for only full time employees (Issue 15)	(10,800)
C. To also reduce health benefits for allocation to affiliates (Issue 13)	(1,260)
D. To reverse allowance for pension plan (Issue 15)	0
E. Increase purchase power for growth adjustment (Issue 30)	908
F. To increase chemicals for growth adjustment (Issue 30)	271
G. To reduce test year chemical expense (AE 21) Stip No. 9	(657)
H. To increase materials and supplies for growth adjustment (Issue 30)	858
I. To reduce materials and supplies (AE 22) Stip 8	(4,851)
J. To reduce contract services—other for non support (AE 24) Stip 21	(3,873)
K. To reduce contract services—eng to disallow retainer (Issue 16)	(1,959)
L. To reduce contract services—acct to disallow retainer (Issue 17)	(6,000)
M. To reduce contract services—legal to decrease retainer (Issue 18)	(21,000)
N. To reduce contract services—mgt for retainer (Issue 19)	(16,000)
O. To decrease contract services—other for tank cleaning (Issue 20)	(1,916)
P. To decrease contract services—other for supply main cleaning (Issue 20)	(35,375)
Q. To decrease contract services—other for testing (Issue 20)	(5,746)
R. To decrease rent for allocation to affiliates (Issue 13)	(3,717)
S. To decrease transportation expense (Issue 21)	(7,800)
T. To decrease insurance expense (Issue 22)	(23,799)
U. To reduce rate case expense (Issue 26)	(675)
V. To reduce bad debt expense (Issue 24)	(4,707)
W. To reduce misc expenses for allocation to non affiliates (Issue 13)	(1,765)
X. To reduce misc expenses for disallowance of cellular phone (Issue 25)	(1,200)
Y. To reduce misc expenses for disallowance on non recurring charges (Issue 25)	(5,055)
Z. To reduce misc expenses for corporate filing fees (Issue 25)	(576)
AA. To increase misc expenses for growth adjustment (Issue 30)	1,266
<b>NET ADJUSTMENT</b>	<b>\$ <u>(158,642)</u></b>
<b>DEPRECIATION</b>	
-----	
A. To reflect adjustment for removal of storage tank (Stip # 4)	(358)
B. To reflect adjustment to retire pump for Well #1 (Stip #5)	(351)
C. To reflect adjustment to retire pump for Well #2 (Stip #5)	(519)
D. To reflect adjustment to retire copier (Stip #5)	(244)
F. To reflect adjustment to record contributions from fire dept (Stip #10)	298
G. To reflect the correction of an error (AE 27) Stip # 13	5,432
H. To reflect the change in rates (Stip # 14)	(8,802)
I. To reflect adjustment to non used and useful plant (Stip #20)	(3,658)
J. To reflect adjustment to plant for original cost (Issue 2)	(9,385)
K. To reflect adjustment for removal of eng design fees (Issue 3)	(2,939)
L. To reflect adjustment for growth (Issue 30)	3,301
<b>NET ADJUSTMENT</b>	<b>\$ <u>(17,225)</u></b>

**ST. GEORGE ISLAND UTILITY CO.  
 ADJUSTMENTS TO OPERATING STATEMENTS  
 TEST YEAR ENDED DECEMBER 31, 1992**

**SCHEDULE NO. 3-B  
 DOCKET NO. 940109-WU  
 PAGE 2 OF 2**

EXPLANATION	WATER
<b>AMORTIZATION</b>	
-----	
A. To reduce request for system analysis	(7,111)
B. To reduce request for aerator analysis	(2,574)
C. To reduce request for hydrological analysis	(6,600)
D. To reduce request for fire protection study	(3,600)
<b>NET ADJUSTMENT</b>	<b>\$ <u>(19,885)</u></b>
<b>TAXES OTHER THAN INCOME</b>	
-----	
A. To remove requested provision for RAF's	(17,675)
B. To adjust payroll taxes to reflect salary adjustment	(332)
C. To adjust for per audit except 28	(3,101)
<b>NET ADJUSTMENT</b>	<b>\$ <u>(21,108)</u></b>
<b>OPERATING REVENUES</b>	
-----	
Adjustment to reflect recommended revenues	<b>\$ <u>114,974</u></b>
<b>TAXES OTHER THAN INCOME</b>	
-----	
To reflect RAF's related to adjustment to revenues.	<b>\$ <u>5,174</u></b>

ST. GEORGE ISLAND UTILITY CO.  
 OPERATION AND MAINTENANCE EXPENSES - WATER  
 TEST YEAR ENDED DECEMBER 31, 1992

DOCKET NO. 940109-WU  
 SCHEDULE NO. 3-C

ACCT NO.	ACCOUNT TITLE	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
601	SALARIES AND WAGES - EMPLOYEES	\$ 62,879	\$ 60,241	\$ 123,120	\$(3,214)	119,906
603	SALARIES AND WAGES - OFFICERS, DIRECTORS, ETC.	0	0	0	0	0
604	EMPLOYEE PENSIONS AND BENEFITS	4,359	29,997	34,356	(18,216)	16,140
610	PURCHASED WATER	0	0	0	0	0
615	PURCHASED POWER	20,522	404	20,926	908	21,834
616	FUEL FOR POWER PRODUCTION	0	0	0	0	0
618	CHEMICALS	3,899	0	3,899	(386)	3,513
620	MATERIALS AND SUPPLIES	15,573	0	15,573	(3,993)	11,580
631	CONTRACTUAL SERVICES - ENGR.	4,151	1,849	6,000	(1,959)	4,041
632	CONTRACTUAL SERVICES - ACCT.	31,436	(8,796)	22,640	(6,000)	16,640
633	CONTRACTUAL SERVICES - LEGAL	21,818	2,182	24,000	(21,000)	3,000
634	CONTRACTUAL SERVICES - MGMT. FEES	48,000	0	48,000	(16,000)	32,000
635	CONTRACTUAL SERVICES - OTHER	12,344	85,091	97,435	(46,910)	50,525
641	RENTAL OF BUILDING/REAL PROPERTY	9,092	1,076	10,168	(3,717)	6,451
642	RENTAL OF EQUIPMENT	7,163	2,633	9,796	0	9,796
650	TRANSPORTATION EXPENSES	18,022	(2,422)	15,600	(7,800)	7,800
656	INSURANCE - VEHICLE	0	0	0	0	0
657	INSURANCE - GENERAL LIABILITY	0	17,000	17,000	(17,000)	0
658	INSURANCE - WORKMAN'S COMP.	0	4,000	4,000	(4,000)	0
659	INSURANCE - OTHER	0	15,502	15,502	(15,502)	0
660	ADVERTISING EXPENSE	0	0	0	0	0
666	REGULATORY COMMISSION EXPENSES - AMORT. OF RATE CASE EXPENSE	0	26,260	26,260	(789)	25,471
667	REG. COMMISSION EXPENSES - OTHER	0	0	0	0	0
670	BAD DEBT EXPENSE	0	6,276	6,276	(4,707)	1,569
675	MISCELLANEOUS EXPENSES	21,649	2,773	24,422	(7,330)	17,092
	TOTAL OPERATION AND MAINTENANCE	\$ 280,907	\$ 244,066	\$ 524,973	\$(177,615)	347,358



ORDER NO. PSC-94-1383-FOF-WU  
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ST. GEORGE ISLAND UTILITY COMPANY, LTD.  
 COUNTY: FRANKLIN  
 DOCKET NO. 940109-WU  
 TEST YEAR ENDED: DECEMBER 31, 1992

SCHEDULE NO. 4

WATER  
 RATE SCHEDULE

	<u>Current</u>	<u>Commission Approved Interim</u>	<u>Utility Requested Final</u>	<u>Commission Approved Final</u>
<b><u>Residential and General Service</u></b>				
<b>Base Facility Charge:</b>				
<b>Meter Size:</b>				
5/8" X 3/4"	\$14.05	\$15.61	\$30.91	\$21.49
1"	\$35.11	\$39.00	\$77.27	\$53.72
1 1/2"	\$70.24	\$78.03	\$154.54	\$107.44
2"	\$112.37	\$124.83	\$247.27	\$171.90
3" Compound	\$224.74	\$249.67	\$494.54	\$343.79
3" Turbine	\$245.81	\$273.08	\$540.91	\$376.03
4" Compound	\$351.16	\$390.11		\$537.18
4" Turbine	\$421.39	\$468.13	\$927.27	\$644.62
6" Compound	\$702.31	\$780.21		\$1,074.36
6" Turbine	\$877.89	\$975.27	\$1,931.81	\$1,342.95
8" Compound	\$1,123.70	\$1,248.34		\$1,718.97
8" Turbine	\$1,264.17	\$1,404.39		\$1,933.85
10" Compound	\$1,615.33	\$1,794.50		\$2,471.03
10" Turbine	\$2,036.72	\$2,262.63		\$3,115.64
12" Compound	\$3,019.96	\$3,354.93		\$4,619.74
<b>GALLONAGE CHARGE PER MG (1,000)</b>	\$1.67	\$1.86	\$2.84	\$2.03

Typical Residential Bills

RESIDENTIAL BILLS - 5/8" x 3/4"

3,000 gallons	\$19.06 \$	\$21.19	\$39.43	\$27.58
5,000 gallons	\$22.40 \$	\$24.91	\$45.11	\$31.64
10,000 gallons	\$30.75 \$	\$34.21	\$59.31	\$41.79

ORDER NO. PSC-94-1383-FOF-WU  
 DOCKET NO. 940109-WU  
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ST. GEORGE ISLAND UTILITY COMPANY, LTD.  
 COUNTY: FRANKLIN  
 DOCKET NO. 940109-WU  
 TEST YEAR ENDED DECEMBER 31, 1992

Schedule 5

RATE SCHEDULE

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

Water

Monthly Rates

<u>Residential and General Service</u>	<u>Commission Approved Rates</u>	<u>Rate Decrease</u>
Base Facility Charge (meter size):		
5/8" X 3/4"	\$21.49	\$1.20
1"	\$53.72	\$3.00
1 1/2"	\$107.44	\$6.01
2"	\$171.90	\$9.61
3" Compound	\$343.79	\$19.22
3" Turbine	\$376.03	\$21.02
4" Compound	\$537.18	\$30.03
4" Turbine	\$644.62	\$36.03
6" Compound	\$1,074.36	\$60.05
6" Turbine	\$1,342.95	\$75.06
8" Compound	\$1,718.97	\$96.08
8" Turbine	\$1,933.85	\$108.09
10" Compound	\$2,471.03	\$138.12
10" Turbine	\$3,115.64	\$174.15
12" Compound	\$4,619.74	\$258.22
Gallorage Charge, per 1,000 gallons	\$2.03	\$0.11

COMPANY: ST. GEORGE ISLAND UTILITY CO.  
 WATER DISTRIBUTION PLANT  
 TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 6  
 PAGE 1 OF 5  
 DOCKET NO. 940109-WU

St. George Island Utility Company, Ltd.  
 Used and Useful-Plantation Distribution Lines

ORDER NO. PSC-94-1383-FOF-WU  
 DOCKET NO. 940109-WU  
 PAGE 99

Plantation Subdivision and Time Period* Used	Map		Price Used Per Ft	Dollar Amount	Map		Price Used Per Ft	Dollar Amount	Total Lots Available	Lots Connected
	Inches of 6" Main	Linear Feet of 6" Main			Inches of 2" Main	Linear Feet of 2" Main				
OYSTER BAY-A	8	1,600	\$3.67	\$0.00	0	0	1.86		27	2
HERON BAY-A	7.75	1,550	\$3.67	\$5,688.50	0	0	1.86		23	5
BAY COVE-A	9	1,800	\$3.67	\$6,606.00	2.5	500	\$1.86	\$930.00	34	9
PELICAN BEACH-A	14	2,800	\$3.67	\$10,276.00	6.75	1,350	\$1.86	\$2,511.00	58	28
DOLPHIN BEACH-A	11.75	2,350	\$3.67	\$8,624.50	2.5	500	\$1.86	\$930.00	43	26
INDIAN BAY-A	6.75	1,350	\$3.67	\$4,954.50	3	600	\$1.86	\$1,116.00	30	8
BAY VIEW-A	6	1,200	\$3.67	\$4,404.00	0.75	150	\$1.86	\$279.00	27	7
WINDJAMMER-B	9.25	1,850	\$3.24	\$5,994.00	5	1,000	\$1.65	\$1,650.00	40	14
TREASURE BEACH-A	13	2,600	\$3.67	\$9,542.00	7	1,400	\$1.86	\$2,604.00	52	23
PLANTATION BEACH-A	15	3,000	\$3.67	\$11,010.00	7.75	1,550	\$1.86	\$2,883.00	67	32
TURTLE BEACH-B	24.75	4,950	\$3.24	\$16,038.00	0	0	\$1.65		58	26
PEBBLE BEACH-B	18.5	3,700	\$3.24	\$11,988.00	0	0	\$1.65		75	33
SEA PALM-C & B	32	6,400	\$2.82	\$18,048.00	1.75	350	\$1.65	\$577.50	75	32
BAY PALM-B	4.75	950	\$3.24	\$3,078.00	10	2,000	\$1.65	\$3,300.00	22	5
SANDPIPER-B	11.25	2,250	\$3.24	\$7,290.00	4	800	\$1.65	\$1,320.00	34	8
SEA PINE-C	16.25	3,250	\$2.82	\$9,165.00	0	0	\$1.38		40	11
SEA DUNE-C	10.5	2,100	\$2.82	\$5,922.00	0	0	\$1.38		34	18
OSPREY VILLAGE-B	6	1,200	\$3.24	\$3,888.00	0	0	\$1.65		22	10
BAY PINE-B	0	0	\$3.24	\$0.00	9.5	1,900	\$1.65	\$3,135.00	11	3
TOTALS		44,900		\$142,516.50		12,100		\$21,235.50	772	300
								(Less 93 Addus)	-15	285

Used & Useful % On Distribution Mains in Plantation = 285/772 = 36.9%

TOTAL PLANTATION \$ IN DISTRIBUTION

6" Main \$142,516.50  
 2" Main \$21,235.50  
\$163,752.00  
 Appertances @ 11.11249% of total \$18,196.92  
 Add 6% for Engineering \$9,825.12  
 Add 6% for Admin. \$9,825.12  
\$201,599.16

Used and Useful 36.9% \$74,424.56

Non-used & Useful Adjustment  
 to Account 331.4 (\$127,174.60)

Time Periods Induced From Review of Bishop Reports as Follows:

- A = Installed after 1982, used average \$/ft from period 1982-1988
- B = Installed between 1978 and 1982, used average \$/ft from period 1978-1982
- C = Installed by 1978, used 1978 \$/ft

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COMPANY: ST. GEORGE ISLAND UTILITY CO.  
WATER DISTRIBUTION PLANT  
TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 6  
PAGE 2 OF 5  
DOCKET NO. 940109-WU

**Allowance for Funds Prudently Invested  
Calculation of Carrying Costs for Each ERC  
Information Needed**

1.	Non-used Plant - Net	\$82,285
2.	Future ERCs	457
3.	Annual Depreciation Expense	\$3,658
4.	Rate of Return	7.35%
5.	Weighted Cost of Equity	0.00%
6.	Federal Income Tax Rate	0.00%
7.	State Income Tax Rate	0.00%
8.	Annual Property Tax	\$0
9.	Other Costs	\$0
10.	Test Year	1993

COMPANY: ST. GEORGE ISLAND UTILITY CO.  
 WATER DISTRIBUTION PLANT  
 TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 6  
 PAGE 3 OF 5  
 DOCKET NO. 940109-WU

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

Cost of Qualifying Assets:	\$82,285	Annual Depreciation Expense:	\$ 3,658
Divided By Future ERC:	457	Future ERC's:	457
	-----		-----
Cost/ERC:	\$180.05	Annual Depr. Cost per ERC:	\$ 8.00
Multiply By Rate of Return:	7.35%		=====
	-----		-----
Annual Return Per ERC:	\$13.23	Annual Property Tax Expense:	\$ 0
	=====	Future ERC's:	457
Annual Reduction in Return:	\$0.59		-----
(Annual Depreciation Expense	=====	Annual Prop. Tax per ERC:	\$ 0.00
per ERC Times Rate of Return)	-----		=====
	-----		-----
Federal Tax Rate:	0.00%	Weighted Cost of Equity:	0.00%
Effective State Tax Rate:	0.00%	Divided by Rate of Return:	7.35%
	-----		-----
Total Tax Rate:	0.00%	% of Equity in Return:	0.00%
	=====		=====
	-----		-----
Effective Tax on Return:	0.00%	Other Costs:	\$ 0
(Equity % Times Tax Rate)	=====	Future ERC's:	457
	-----		-----
Provision For Tax:	0.00%	Cost per ERC:	\$ 0.00
(Tax on Return/(1-Total Tax Rate))	=====		=====

COMPANY: ST. GEORGE ISLAND UTILITY CO.  
 WATER DISTRIBUTION PLANT  
 TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 6  
 PAGE 4 OF 5  
 DOCKET NO. 940109-WU

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

	1993	1994	1995	1996	1997
Unfunded Other Costs:	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Unfunded Annual Depreciation:	8.00	8.00	8.00	8.00	8.00
Unfunded Property Tax:	0.00	0.00	0.00	0.00	0.00
Subtotal Unfunded Annual Expense:	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00
Unfunded Expenses Prior Year:	0.00	8.00	16.01	24.01	32.02
Total Unfunded Expenses:	\$ 8.00	\$ 16.01	\$ 24.01	\$ 32.02	\$ 40.02
Return on Expenses Current Year:	0.59	0.59	0.59	0.59	0.59
Return on Expenses Prior Year:	0.00	0.59	1.18	1.76	2.35
Return on Plant Current Year	13.23	12.65	12.06	11.47	10.88
Earnings Prior Year:	0.00	13.23	27.44	42.69	59.06
Compound Earnings from Prior Year:	0.00	0.97	2.02	3.14	4.34
Total Compounded Earnings:	\$ 13.82	\$ 28.03	\$ 43.28	\$ 59.65	\$ 77.23
Earnings Expansion Factor for Tax:	1.00	1.00	1.00	1.00	1.00
Revenue Required to Fund Earnings:	\$ 13.82	\$ 28.03	\$ 43.28	\$ 59.65	\$ 77.23
Revenue Required to Fund Expenses:	8.00	16.01	24.01	32.02	40.02
Subtotal:	\$ 21.83	\$ 44.04	\$ 67.29	\$ 91.67	\$ 117.25
Divided by Factor for Gross Receipts Tax:	0.955	0.955	0.955	0.955	0.955
ERC Carrying Cost for 1 Year:	\$ 22.86	\$ 46.11	\$ 70.46	\$ 95.99	\$ 122.77

COMPANY: ST. GEORGE ISLAND UTILITY CO.  
 WATER DISTRIBUTION PLANT  
 TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 6  
 PAGE 5 OF 5  
 DOCKET NO. 940109-WU

**Allowance for Funds Prudently Invested  
 Schedule of Charges:**

	1993	1994	1995	1996	1997	1998	1999
January	1.90	24.79	48.14	72.59	98.22	122.77	122.77
February	3.81	26.73	50.17	74.72	100.45	122.77	122.77
March	5.71	28.67	52.20	76.85	102.69	122.77	122.77
April	7.62	30.61	54.23	78.97	104.92	122.77	122.77
May	9.52	32.55	56.26	81.10	107.15	122.77	122.77
June	11.43	34.48	58.29	83.23	109.38	122.77	122.77
July	13.33	36.42	60.32	85.35	111.61	122.77	122.77
August	15.24	38.36	62.35	87.48	113.85	122.77	122.77
September	17.14	40.30	64.38	89.61	116.08	122.77	122.77
October	19.05	42.24	66.41	91.73	118.31	122.77	122.77
November	20.95	44.17	68.43	93.86	120.54	122.77	122.77
December	22.86	46.11	70.46	95.99	122.77	122.77	122.77

M E M O R A N D U M

November 14, 1994

**RECEIVED**  
NOV 14 1994  
FPSC-RECORDS/REPORTING

TO: DIVISION OF RECORDS AND REPORTING  
FROM: DIVISION OF LEGAL SERVICES (PIERSON) *RP*  
RE: DOCKET NO. 940109-WU- Petition for interim and permanent  
rate increase in Franklin County by St. George Island  
Utility Company, Ltd.

*1383 - Fof*

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Attached is an Final Order Revising Rates and Charges, with  
attachments, to be issued in the above-referenced docket. (Number  
of pages in Order - 103)

RJP/dp

Attachment

cc: Division of Water and Wastewater

I: 940109.RJP