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November 7, 1996

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FPSC-RECORDS/REPORTING

TO: DIVISION OF RECORDS AND REPORTING
FROM: DIVISION OF LEGAL SERVICES (REYES) *BLR AS*
RE: DOCKET NO. 951056-WS - Application for rate increase in
Flagler County by Palm Coast Utility Corporation

PSC-96-1338-FOF-WS

Attached is a FINAL ORDER SETTING RATES AND CHARGES, with attachments, to be issued in the above-referenced docket. (Number of pages in Order - 114)

*attachments
not on-line*

*mailed 8/11/96
2/11/96*

BLR/dp

Attachment

cc: Division of Water and Wastewater (Willis, Crouch, Merchant, Moniz, Rendell, Starling, Washington, Webb)

I: 951056OR.BLR

Doc. #11906-96

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for rate) DOCKET NO. 951056-WS
increase in Flagler County by) ORDER NO. PSC-96-1338-FOF-WS
Palm Coast Utility Corporation) ISSUED: November 7, 1996
_____)

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON
JULIA L. JOHNSON
DIANE K. KIESLING

APPEARANCES:

Wayne L. Schiefelbein, Esquire, Gatlin, Woods & Carlson,
1709-D Mahan Drive, Tallahassee, Florida 32308
On behalf of Palm Coast Utility Corporation.

Richard D. Melson, Esquire, Hopping, Green, Sams & Smith,
123 South Calhoun Street, Tallahassee, Florida 32314
On behalf of Dunes Community Development District.

Albert J. Hadeed, County Attorney, 1200 E. Moody
Boulevard #11, Bunnell, Florida 32110
On behalf of Flagler County.

Stephen C. Reilly, Associate Public Counsel, Office of
Public Counsel, c/o The Florida Legislature, 111 West
Madison Street, Room 812, Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida.

Scott K. Edmonds and Bobbie Reyes, Esquires, Florida
Public Service Commission, Gerald L. Gunter Building,
2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-
0850
On behalf of the Commission Staff.

FINAL ORDER SETTING RATES AND CHARGES

BY THE COMMISSION:

BACKGROUND

Palm Coast Utility Corporation (PCUC or utility) is a utility, which provides water and wastewater service to the public in Flagler County. Palm Coast is located in a critical use area as

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designated by the St. Johns River Water Management District (SJRWMD). During the twelve months ending December 31, 1994 (the historical test year), the utility recorded operating revenues of \$5,007,702 for water service and \$2,951,217 for wastewater service. During the same period, Palm Coast reported a net operating loss of \$2,247 for water and net operating income of \$281,533 for wastewater.

On December 27, 1995, the utility filed an application for increased rates pursuant to Sections 367.081 and 367.082, Florida Statutes. The utility satisfied the minimum filing requirements (MFRs) on February 12, 1996 for a rate increase, and that date was designated as the official filing date pursuant to Section 367.083, Florida Statutes.

The utility's requested test year for interim purposes is the historical period ending December 31, 1994. Its requested test period for final rates is the projected year ending December 31, 1995. For interim, the utility requested total revenues of \$5,515,503 and \$3,432,636 for water and wastewater, respectively. This represents revenue increases of \$457,694 (8.30%) for water and \$442,999 (12.9%) for wastewater, designed to produce a rate of return of 7.70%.

By Order No. PSC-96-0493-FOF-WS, issued April 9, 1996, the Commission approved interim rates for PCUC based upon a historic test year, designed to generate \$5,491,319 in annual water revenues and \$3,432,636 in annual wastewater revenues, subject to refund with interest. This represents a \$483,617 (9.66%) increase over water test year revenues, and a \$481,419 (16.31%) increase over wastewater test year revenues.

For final purposes, the utility has requested total revenue of \$6,971,647 for water and \$4,906,850 for wastewater. These revenues reflect revenue increases of \$1,479,626 (26.94%) for water and \$1,575,817 (47.31%) for wastewater. The utility's final revenues are based on the utility's requested overall rate of return of 8.84%.

The utility contends that the necessity for a rate increase arises from the fact that as adjusted for the test year ending December 31, 1995, it will have a rate of return of only 2.64% on a rate base of \$21,328,433 for its water operations and a rate of return of only 3.54% on a rate base of \$16,031,209 for its wastewater operations.

The utility did not request that this case be processed pursuant to the proposed agency action procedure as provided in

Section 367.081(8), Florida Statutes. The prehearing was held in Tallahassee on June 20, 1996. The hearing was held at the Knights of Columbus building in Palm Coast on July 1 and 2, 1996 and continued and concluded in Tallahassee on July 19, 1996.

The Office of Public Counsel (OPC), Dunes Community Development District (Dunes or DCDD), and Flagler County (Flagler) have intervened in this docket.

FINDINGS OF FACT, LAW, AND POLICY

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

STIPULATIONS

In Prehearing Order No. PSC-96-0825-PHO-WS, issued June 26, 1996, the parties proposed stipulations for five issues. We have reviewed the stipulations, which are set forth below, and find them to be reasonable. Accordingly, the stipulations are approved.

1. The cost of common equity capital should be established using the leverage formula in effect at the time of the Commission decision in this case.
2. The following adjustments in Staff Audit Exception No. 4 are accepted by the Commission:
 - a. Water materials and supplies (Account 620) should be reduced by \$1,194 for undocumented expenses.
 - b. Water miscellaneous expenses (Account 675) should be reduced by \$6,406 for the following:
 - \$3,200 ($\$10,000 \times 32\%$) for the lobbying portion of Florida Waterworks Association Dues.
 - \$706 for employee travel expenses for speaking at a conference.
 - \$2,500 for Christmas lights on the water tanks.
 - c. Water Contractual Services-Accounting (Account 632) should be increased by \$4,000 for a final billing adjustment.

- d. Water Contractual Services-Legal (Account 633) should be reduced by \$1,780 for costs incurred for the sale of the utility.
3. Rental expenses should be reduced by \$36,981 and Chamber of Commerce dues should be reduced by \$828 in accordance with the miscellaneous expense adjustments reflected on witness Dismukes' Schedule 16.
 4. Non-used plant, non-used accumulated depreciation, non-used CIAC or non-used accumulated amortization of CIAC should not be included in rate base.

QUALITY OF SERVICE

OPC pointed out in its brief that the bulk of the customer testimony during the hearing dealt with the unreasonably high rate charged by PCUC. In fact, two customers complimented PCUC for the quality and reliability of the water they receive from the utility. One customer testified that PCUC was not user friendly, while others testified about the "arrogant" attitude displayed by ITT personnel. In summary, OPC thought that the Commission should heed the customers' call for reasonable rates, and the utility should be required to respond to the specific quality of service concerns expressed by the customers in the public testimony portion of the hearing.

PCUC replied that compliance with all Florida Department of Environmental Protection (FDEP) regulations was established by the testimony of two FDEP officials. According to FDEP testimony, both water treatment plants and the wastewater system are properly permitted, and the overall maintenance of the water and wastewater treatment plants and the distribution, collection and disposal facilities is satisfactory. Water Treatment Plant # 1 received the FDEP Water Treatment Operation Award in 1995, recognizing the "effective operation and maintenance program and . . . commitment to maintaining and protecting the drinking water quality and treatment facilities."

We believe the record supports PCUC's position that they are responsive to reported problems. Therefore, we find that the quality of service provided by PCUC is satisfactory.

RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is depicted on Schedule No. 1, and our adjustments are itemized on Schedule No. 1-A. Those adjustments

which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

13-MONTH AVERAGE TEST YEAR

In the MFRs, the utility requested use of a projected year-end rate base and capital structure. The test year ended December 31, 1995 involves 6-months of actual and 6-months of projected data. Utility witness Seidman testified that substantial water and wastewater plant additions of \$7 million were made during 1995, with most of the additions not being completed until at least the middle of the year. He testified that, for this reason, there is a \$4.8 million dollar difference between using average versus year-end treatment.

OPC witness Dismukes testified that a 13-month average rate base for the water system should be used. She testified that Rule 25-30.433(4), Florida Administrative Code, requires the use of a 13-month average rate base unless the applicant can demonstrate an unreasonable burden. Ms. Dismukes further testified that, with respect to the water system, the utility has not demonstrated any unusual or extenuating circumstances that would warrant year-end treatment. During cross-examination, Ms. Dismukes testified that the utility did add a substantial amount of plant to the wastewater system during the test year, so she utilized a year-end rate base for her analysis of this system. She further testified that she would not consider a 13% increase in plant or a 5% increase in customer growth extraordinary.

Utility witness Seidman rebutted Ms. Dismukes' proposal with regard to the water operations. He testified that her reliance on Rule 25-30.433(4), Florida Administrative Code, is incorrect. Mr. Seidman further testified that the purpose of the rule is to establish separate averaging methods for Class A, B, and C utilities, not to require that rate base only be presented on an average test year. He testified that it is the utility's choice to file average or year-end and for the Commission to consider which method is more appropriate. Further, in its brief, PCUC contends that using an average test year would deny the utility the opportunity to earn a rate of return on about \$4.8 million dollars of plant additions.

We find that Rule 25-30.433(4), Florida Administrative Code, does nothing more than establish the averaging method for a utility to use depending on whether it is Class A, B, or C. The rule does not require the use of a 13-month average rate base; it just states

that if average treatment is used, it shall be a 13-month average for Class A utilities.

The issue is not whether a utility may file for year-end treatment, but instead whether year-end treatment is appropriate. In Citizens of Florida v. Hawkins, 356 So.2d 254, 257 (Fla. 1978), the Court found that, in the absence of the most extraordinary conditions, the Commission should apply average investment during the test year in determining rate base. Basically, the utility has stated that year-end treatment is appropriate because, during the test year, \$7 million dollars was spent on plant investment, and only \$2.2 million of plant has made it into rate base due to 13-month average treatment. The utility further states that to not allow year-end would impair the utility's ability to earn a rate of return on the \$4.8 million of plant left out of rate base.

We do not believe that the utility has provided the evidence necessary to warrant year-end treatment. A more solid argument is necessary on the part of the utility to prove that extraordinary conditions exist. It is insufficient for a utility to simply state that plant investment was made and, therefore, extraordinary conditions exist which warrant year-end treatment. We further believe that a more in-depth comparative analysis of the utility's rate base is an important factor in determining whether a certain dollar amount of plant investment is extraordinary. This is especially true in the instant case, based on our analysis.

The difficulty of this issue is how we measure extraordinary conditions with PCUC since the utility's rate base is largely contributed, as well as non-used and useful. It is important to determine if plant additions alone drive the need for year-end treatment, or if it should be plant net of accumulated depreciation, CIAC, advances, or even used and useful adjustments. In our analysis, we considered all of the components of rate base; thus, we referred to the utility's total rate base amounts for year-end versus 13-month average treatment.

Based on the utility's total rate base amounts in the MFRs, we calculated an approximate 4% increase going from 13-month average to year-end treatment. We do not believe that this difference represents extraordinary conditions. Therefore, we find that a 13-month average treatment for the utility's rate base and capital structure is appropriate. We have also removed the utility's year-end adjustments to annualize revenues, chemicals and purchased power expenses, and CIAC gross-up amortization.

LAND

PCUC witness Spano prepared appraisals for both the utility's 1986 purchase of the sprayfield site and 1991 purchase of the rapid infiltration basin (RIB) site. Mr. Spano's credibility and independence were raised as an issue in this proceeding.

The evidence in the record indicates that Mr. Spano possesses the proper credentials and experience. The evidence further indicates that although Mr. Spano has prepared numerous appraisals for PCUC, he also has many other clients. Mr. Spano testified that he acted in an independent manner, in compliance with standard appraisal practice. Therefore, based on the evidence presented, we find that the appraisals were performed by an independent, qualified appraiser. However, as we will discuss later, we believe that the appraised values do not accurately reflect the fair market value of the appraised properties.

The evidence in the record indicates that the sprayfield disposal site was constructed in 1979 by PCUC and that PCUC purchased the land from ITT Community Development Corporation, the related party developer, in 1986. PCUC purchased the land based upon its appraised value of \$364,500 for 83.3 acres or \$4,376 per acre. Therefore, based on the evidence presented, we find that the sprayfield site was first dedicated to public service in 1979 by PCUC.

Evidence was also presented that indicated that the RIB site was constructed in 1991 by PCUC and that PCUC purchased the land from ITT Community Development Corporation in 1991. The land's total cost of \$559,893 was entered on PCUC's books on June 30, 1995 and was based upon an October, 1990 appraisal. The appraisal recommends two values: \$7,000 per acre for the RIB Site and \$1,400 for an easement area. Based on the evidence presented, we find that the RIB site was first dedicated to public service in 1991 by PCUC.

PCUC subsequently purchased an additional 4.601 acres of land in 1995 from ITT Community Development Corporation. The land was needed to provide a buffer for the site, and the cost was the same per unit cost determined for the RIB site in October, 1990.

The calculation of PCUC's investment for the RIB land is summarized below:

<u>Description</u>	<u>Size (Acres)</u>	<u>\$/acre</u>	<u>Cost</u>
RIB site	74.262	\$7,000	\$519,760
Easement	<u>7.314</u>	<u>\$1,400</u>	<u>\$ 10,240</u>
Subtotal	81.575	\$6,497	\$530,000
Buffer	<u>4.601</u>	<u>\$6,497</u>	<u>\$ 29,893</u>
Total	<u>86.177</u>	<u>\$6,497</u>	<u>\$559,893</u>

As discussed previously, the sprayfield and RIB sites were purchased by PCUC from the related party developer for the appraised \$4,375 and \$6,497 per acre values, respectively. The RIB and sprayfield sites were first acquired by an International Telephone and Telegraph Company (ITT) related party, Lehigh Portland Cement Company, as part of a 12,777 acre land acquisition in 1968 for \$4,345,000 or \$341 per acre.

The RIB and sprayfield sites are adjacent to one another and are located on the east side of Old Kings Road between Palm Coast Parkway and State Road 100. They are located 1.5 miles (or 1.0 mile depending upon which appraisal you reference) from the nearest water and wastewater utility service. Telephone and electrical service were available along Old King's Road. Old King's Road, however, is a private road which was constructed by ITT. Even though the sites are located in an excellent location near Flagler Beach and the core of the Palm Coast development, no subdivisions have as yet been platted nor has any development occurred along this section of Old King's Road. The explanation by Mr. Spano for the failure of this area to develop is provided in the 1990 RIB appraisal as follows:

In summary, it is our opinion that demand for property similar to the subject is presently limited. It is our opinion that the site's highest and best use is for continued silviculture use on an interim basis until such time as demand warrants more intensive development. Because of the over-supply of existing sites better suited for immediate development located closer to existing service centers, it is our opinion that the highest and best use is for speculative investment with continued silviculture uses prior to more intensive residential development at a later time when economic conditions warrant.

The State of Florida has a land use plan applicable to the Palm Coast development, but the utility's appraiser, Mr. Spano, could not recall what that use was. He did know, however, that the land potentially could be developed for residential use. Neither of Mr. Spano's appraisals provide an answer to this question. The 1985 appraisal, however, does indicate that Palm Coast was divided into seven planning areas.

The basic appraisal methodology is a straight-forward comparable sales analysis in which a variety of sales of property of varying degrees of comparability are compared to the subject property and adjusted for differences where necessary to arrive at an indicated value for the subject property. Mr. Spano testified that most appraisals reflect the concept that the value estimated should reflect the highest and best use of the property. Mr. Spano discussed the impact which the following factors had on the comparability of the RIB and comparable sales: cash equivalency, market conditions, size, location, zoning, topography, and utilities. The following factors were discussed in the 1985 sprayfield appraisal: time, size, location, topography, and special conditions.

The average cost of land in the 1985 sprayfield appraisal is based upon a weighted average of the comparable sales which were used in the report. However, Mr. Spano did not explain or describe how the weighted average was derived because the figure is based solely on his subjective judgement. Mr. Spano also failed to provide any explanation or quantification of the factors used in determining the weighted average he used in the 1990 RIB appraisal. This failure to explain or quantify the impact which these differences have on his final conclusions makes it difficult to verify the reasonableness of Mr. Spano's opinion as to the appraised land values.

Mr. Spano's four comparable sales from the 1990 RIB appraisal have the following highest and best uses: commercial development, combination commercial and residential development, and two with residential development. Mr. Spano determined that the RIB had a highest and best use of speculative investment for residential development and the sprayfield had a highest and best use of residential development. Mr. Spano testified that the difference between these two highest and best uses is mainly one of semantics. We believe that the difference, however, is more than just semantics. Land which cannot be developed until some time in the future should be discounted if it is compared to land which could be developed sooner. It is notable that Mr. Spano failed to include any market absorption studies in his appraisals, which

studies would have provided objective criteria to determine the effect of adverse market conditions on his appraisals.

None of the RIB comparable sales have a highest and best use of speculative investment for potential residential development. Mr. Spano acknowledged that the comparable sales used in his RIB appraisal were more appropriately suited to development which would occur at a closer point in time than the subject properties. Mr. Spano claims to have adjusted for this factor but failed to quantify the percentage or dollar amount of the adjustment.

The comparable properties used in Mr. Spano's 1990 RIB appraisal had water and wastewater service lines located nearby. PCUC provided Mr. Spano with an estimated cost of \$434,000 to provide water and wastewater to the RIB site. This represents a cost per acre of \$5,036 ($\$434,000/86.177$), making it economically unfeasible to extend utilities to the subject sites at that point in time. Mr. Spano also claims to have adjusted for the difference in the availability of utilities in his comparative analysis. Once again, however, he failed to quantify the dollar adjustment for this difference between the comparable sales and the RIB site. Other than stating water and sewer lines would have to be extended approximately one mile to the sprayfield site, Mr. Spano's 1985 sprayfield appraisal does not include utilities as a factor in his comparative analysis.

As discussed earlier, Old King's Road is a private road. Mr. Spano agreed that it might be relevant whether a property which is being appraised has access through a highway that is not publicly maintained or dedicated. Mr. Spano claims to have adjusted for this difference in his comparative analysis but cannot quantify the dollar impact for this particular adjustment.

Mr. Spano testified that some of the sales from the 1990 appraisal are considered more useful for comparative purposes than others. Mr. Spano also testified that some of the most useful information is furnished by Sale 0391-0488. This sale was to the Flagler County Board of Commissioners, and the land was used for a jail site. The County paid \$627,273 for 82.95 acres, \$7,562 per acre. Municipal water and sewer were available to the property, but no quantification of the cost of providing utilities was provided. The jail site is located on the edge of development and had a highest and best use of residential development.

Mr. Spano prepared a matrix which summarizes the comparability factors which were discussed. This matrix indicates that the jail site was superior to the RIB for every factor discussed except market conditions. The appraisal explains that the market

condition factor represents the gradual increase in land values over time. The appraised value of the RIB site was \$7,000 per acre. Therefore, Mr. Spano, in the final result, has only discounted the jail site (the sale which has some of the most useful information) by \$562 per acre (maybe more depending on the upward adjustment for the market condition factor) for the differences in the availability of utilities, the location of the sites off of a private road, and the fact that the subject sales are more suitable for development at a closer point in time than the RIB and sprayfield sites.

Staff witness Sapp has been the Flagler County Chief Deputy Property Appraiser for 16 years and has been elected Property Appraiser for the past 4 years. Mr. Sapp testified that his main problem with the RIB appraisal is one of opinion and that his opinion of Mr. Spano's comparables is different than Mr. Spano's opinion of the RIB's comparable sales. Mr. Sapp testified that two of Mr. Spano's comparable sales were based upon abstracted values for a portion of the property and that this is something which is only done when you are desperate for sales. Mr. Sapp testified that the jail site sale was the comparable sale which Mr. Spano hung his hat on and that is the one which Mr. Sapp could not agree with because the jail site sold for \$7,000 per acre and an adjacent 15-acre tract of land sold for \$2,933 per acre during the same time period. Mr. Sapp testified that he could not accept a \$7,000 per acre cost because Mr. Spano's comparables were the four highest comparables sold in those years, and he was aware of seven other sales which are better suited to use as comparable sales for the RIB than the comparable sales from the RIB appraisal. The average of these sales is \$2,300 to \$2,400 and that is his current assessment for the RIB.

Mr. Spano reviewed the comparable sales which were provided by Mr. Sapp and provided a summary of his criticisms of these sales. Mr. Spano's only criticism of the Pellicer to Wright sale is, that even though the sale was between a willing selling and a willing buyer, its value was too low. This property is located adjacent to the jail site and was, in fact, used in the jail site appraisal simply to indicate a minimum value limit. This comparable sale consists of 15 acres and was purchased for \$44,000 or \$2,933 per acre in May, 1988.

In 1996, a 709.9550-acre site was sold by ITT Community Development Corporation to an unrelated party, Con-Cor, for \$1,600,000 (\$1,625,000 if a forfeited security deposit is included). This site is located near the RIB site. ITT thermal imaging studies indicated that only 425 acres of this land was usable. Therefore, the cost per acre ranges from \$2,253.66 to

\$3,764, if an adjustment is included for the amount of unusable land. Like the RIB and sprayfield sites, the Con-Cor site was also included in the 12,777 acres purchased in 1968.

Staff witness Dodrill testified that the cost paid for the RIB site is excessive. His opinion is based upon discussions he had with the Flagler County Tax Appraiser, staff witness Sapp, who informed Mr. Dodrill about the 1996 Con-Cor sale. Mr. Dodrill's workpapers also indicate a concern about the availability of utilities and the fact that the comparable sales could be developed sooner than the RIB site.

Mr. Dodrill testified that the \$6,497 per acre price paid for the RIB site should be revalued to reflect a trended original cost per acre of \$1,771.48. Therefore, the original trended cost for the 81.576 acres equals \$144,510. Mr. Dodrill calculated that the difference between the \$341 per acre cost of the 1968 land acquisition and the \$2,390 per acre cost of the Con-Cor site represents an annual compound rate of 7.43%. This 7.43% annual compound rate was used as the indexing factor.

Mr. Dodrill calculated a value of \$2,359.60 per acre for the 4.601 acre buffer site which was purchased in 1995 using the same indexing methodology. Using these values results in a reduction of \$385,490 to the \$559,893 booked cost of the RIB site. Mr. Dodrill proposed that the 83.3 acres of land for the sprayfield should be valued based upon the 1985 trended original cost of \$1,152.35 per acre. This results in a reduction of \$268,509 to the \$364,500 booked cost of the sprayfield.

Utility witness Spano testified that Mr. Dodrill's method of indexing is nothing more than data manipulation unsupported by market data and is contrary to accepted real property appraisal practice. Mr. Spano testified that a property's value should be based upon the results of an analysis of many local factors. Unfortunately, Mr. Spano has failed to provide any objective criteria for these alleged local factors. Mr. Sapp reviewed Mr. Dodrill's land value calculation but was unfamiliar with his methodology. Mr. Sapp testified, however, that comparing a 13,000 acre parcel of land to an 80 acre parcel was inappropriate.

Mr. Spano disagreed with the use of a prior bulk sale involving a substantial amount of land as a benchmark to estimate the value for relatively small parcels of land eleven to twenty-two years later because it is contrary to accepted appraisal practice. Mr. Spano testified that it is unreasonable to employ such a methodology when more accurate and current data is available.

We agree that the land value should only be indexed when there is no data available which is more accurate or current. This is a continuation of past Commission practice for land purchases between related parties. We also believe that it is inappropriate to value the RIB site and sprayfield using 12,777 and 700 acre purchases as benchmarks.

We believe that the cost should be based upon the fair market value of the land. Further, we believe that the RIB and sprayfield land appraisals are not credible indicators of the fair market value of the land and should not be used to establish the original cost for ratemaking purposes. Mr. Spano's testimony that adjustments were made for the differences between the comparable sales and the subject sites (utilities, private road, highest and best use/market absorption rates) are based only on his subjective opinion and are not supported by any corroborative evidence. It is quite obvious to even a casual observer that single family land which can be sold in two years is worth much more than land which cannot be sold for 10 or more years, and Mr. Spano failed to quantify the adjustment which he made for this difference between the comparable sales and the RIB. Also, a reasonable argument could be made that Mr. Spano should have deducted the entire cost of water and wastewater lines from the total appraised values of the two tracts. Mr. Spano also excluded a potential comparable sale from his appraisal because, in his opinion, it only indicates a minimum value limit. Finally, the sale of land to Con-Cor for \$2,254 per acre (\$3,764 if an adjustment is included for unusable land) also indicates that the \$7,000 per acre appraised value is not credible. Even though the Con-Cor sale occurred six years after the RIB purchase, we believe that the Con-Cor sale provides more evidence that Mr. Spano's testimony is not reasonable.

Because Mr. Spano's appraisals are not a credible indicator of the fair market value of the land, we find that the value of the RIB site should be based upon the \$2,933 per acre sale of the 15-acres of land which is adjacent to the jail site. Mr. Spano admitted that the \$2,933 per acre cost of this sale, which was supported by Mr. Sapp for use as a comparable, represents a minimum value limit of the land. We believe that this minimum value is appropriate because the purchase was between related parties. Using a cost of \$2,933 per acre for the 74.262 acres of RIB land results in a reduction of \$318,321.76 to the RIB's booked value. A land value of \$241,571 is 43.15% of its \$559,893 booked value. Based on the foregoing, we have reduced the cost of the RIB and buffer sites by \$318,322.

Based on the evidence in the record, we further find that an adjustment to the sprayfield land value is necessary. We have

determined that a value of \$2,933 per acre for the RIB is appropriate. The booked cost of the sprayfield land is \$4,375 per acre. No other comparable sales, besides what was included in the 1985 appraisal, for the sprayfield were provided. Use of Mr. Dodrill's indexing methodology results in a 1979 value of \$749 per acre for the sprayfield. As discussed earlier, however, the land values should not be based upon indexing.

We find that the adjustment for the sprayfield land should be based upon the 43.15% difference between the RIB appraisal and the \$2,933 per acre RIB value we have determined to be appropriate. Although no testimony was presented in support of this methodology, we believe that it is appropriate because the sprayfield and RIB are adjacent sites and it is reasonable to infer that if the RIB appraisal is overstated by a certain percentage, then the sprayfield appraisal is also overstated by a similar percentage. Applying the 43.15% difference to the sprayfield's booked cost results in a cost of \$157,267 or \$1,888 per acre. This is a \$207,233 reduction to the sprayfield's \$364,500 booked value. Therefore, based on the foregoing, we have reduced the cost of the spray field land by \$207,233.

MISCLASSIFICATION OF COSTS

Staff witness Dodrill testified that PCUC misclassified certain repair or rehabilitation costs. He testified that the supporting documentation for the sewer rehabilitation program, the well program and the interior rehabilitation of the elevated tank indicated that these were recurring periodic expenses which never should have been charged to plant. Mr. Dodrill proposed removing \$548,416 from water plant-in-service and \$504,537 from wastewater plant-in-service.

OPC witness Dismukes testified that she agreed with witness Dodrill that the utility capitalized some rehabilitation costs which should have been expensed. She concurred with the auditor that plant-in-service should be reduced by the above amounts.

In his rebuttal testimony, PCUC witness Seidman disagreed with Mr. Dodrill's testimony. He testified that the projects referred to by Mr. Dodrill were not routine, ongoing, recurring events. He further testified that each line rehabilitation and replacement project was a unique circumstance that required a response to a failure which affected service continuity, resulting in replacement and retirement of line segments. The costs incurred, as well as the costs of the retired property, were properly accounted for as a retirement in accordance with the National Association of Utility Regulatory Commissioners (NARUC) uniform system of accounts (USOA).

He maintained that if the cost of the replacement plant is expensed and the plant balances are additionally reduced by the cost of the retired units, there will be no cost on the books for the line segments.

Mr. Seidman also testified that the projects to restructure the interior and exterior of the elevated water tanks and water plant softening basins were nonrecurring major rehabilitation projects which added to the life of the equipment. Hence, they were properly capitalized.

Regarding the well program, Mr. Seidman testified that the first project was for the activation of a new well, the second project was for four new back-up diesel generators and the third project included costs for redrilling two wells. According to Mr. Seidman, all of these are capital projects and were properly capitalized.

In addition, Mr. Seidman testified that Mr. Dodrill recommended removal of the plant, but did not recommend how the costs should be treated once removed. He further testified that if the costs are removed from plant-in-service, as suggested by Mr. Dodrill, an adjustment should be made to increase test year expenses by \$54,000 to amortize the costs of the well over four years. Further, wastewater test year expenses would have to be increased by \$100,000 to recognize the average level of annual wastewater line replacement projects.

We are not convinced by the testimony of Mr. Dodrill and Ms. Dismukes that the utility misclassified its rehabilitation projects. Mr. Dodrill's position was based on support provided to him during the course of the audit, using the standard Commission auditing procedures. Due to time constraints during the audit, Mr. Dodrill may not have had access to the data provided by Mr. Seidman in rebuttal. The utility has presented rebuttal testimony describing each project and rebutting Mr. Dodrill's testimony that these projects were related to recurring costs and should have been expensed. Mr. Seidman's testimony revealed that the charges were not routine or recurring events and should have been capitalized not expensed. He testified that lines were retired and replaced, which extended the useful life and, thus, according to the uniform system of accounts, were properly capitalized. He also testified that the well projects and the projects to restructure the water tanks and water plant softening basins were capital projects, which were also properly capitalized.

Based on the evidence in the record, we find that the utility properly capitalized its rehabilitation projects. Accordingly, no adjustments to utility plant-in-service have been made.

INCLUSION OF MARGIN RESERVE

OPC has consistently opposed the inclusion of a margin reserve in used and useful calculations. OPC witness Bidy testified that the margin reserve requested by PCUC in this rate filing is not appropriate. Mr. Bidy further testified that although it may be appropriate for a utility to have reserve capacity to accommodate demands placed upon the system because of growth, he believes it is not appropriate to make current customers pay for this reserve capacity in a margin reserve.

OPC witness Dismukes testified that the inclusion of a margin reserve to account for future customers above and beyond the future test year levels represents investment that will not be used and useful in serving current customers.

Palm Coast witness Guastella testified that in the last case, the Commission accepted the utility's overall methodology of calculating used and useful adjustments. He testified that the Commission adopted the allowance of margin reserve after recognizing that utilities cannot reasonably assume safe and adequate service if they do not have margin reserve capacity beyond the capacity needed for immediate demands. Mr. Guastella also testified that in PCUC's last rate case the Commission found that an allowance for margin reserve is essential.

Neither Flagler nor Dunes offered testimony on margin reserve, although Flagler did offer a position in its brief in opposition to inclusion of a margin reserve as a cost to current ratepayers.

Section 367.111(1) Florida Statutes, provides that "[e]ach utility shall provide service to the area described in its certificate of authorization within a reasonable time." In order for a utility to meet its statutory responsibilities, it must have sufficient capacity and investment to meet the existing and changing demands of present and potential customers. Therefore, we have consistently recognized margin reserve as an element in used and useful calculations. Accordingly, we find that a margin reserve must be included in the calculations for used and useful plant for PCUC.

MARGIN RESERVE PERIOD

Mr. Guastella proposed that a margin reserve period of 18 months is appropriate for the water source of supply and transmission and distribution system. He further proposed that a margin reserve period of 3 years is appropriate for the water treatment plant. He also proposed that a margin reserve period of 5 years is appropriate for the wastewater treatment and effluent disposal systems, and 18 months is appropriate for the wastewater collection system.

During cross-examination, PCUC witness Guastella testified that it took five years to design, permit and construct the wastewater treatment plant and that it took three years to design, permit and construct the membrane water treatment plant. He also testified that the margin reserve should also recognize regulatory lag.

OPC did not present any testimony on an appropriate margin reserve period. OPC's brief argues that it opposes any consideration of margin reserve, but if it is included, then the following margin reserve periods are appropriate: 18 months for all treatment facilities and 12 months for all water and wastewater lines.

Staff witness Amaya testified that the Commission does not currently have rules governing the calculation of used and useful percentages or the allowable time for margin reserve. She further testified, however, that there are draft rules being considered for adoption in the near future, and the margin reserve periods she recommends are those proposed by staff in the draft rule used and useful formulas. Ms. Amaya recommended the inclusion of a three year margin reserve for wastewater treatment plant and effluent disposal, 18 months margin reserve for water treatment plant, source of supply, and high service pumping, and 12 months margin reserve for transmission, distribution, and collection lines. She testified that the recommended three year margin reserve period for wastewater treatment plant better accommodates the time required for design, permitting, and construction of plant. This three year period allows the utility to build larger increments of plant, thereby taking advantage of economies of scale without unduly burdening existing customers through higher rates. She further testified that most lines or mains are already constructed.

Consistent with our past decisions, we find it appropriate to allow an 18 month margin reserve period for both water and wastewater plant and effluent disposal facilities and a 12 month margin reserve period for lines. Our primary justification for

allowing only an 18 month margin reserve period for plant is that the utility does not actually start accruing significant capital outlays until the plant is constructed. The utility has not presented any information which indicates that the construction period for its water or wastewater plants was greater than 18 months.

IMPUTATION OF CIAC TO OFFSET MARGIN RESERVE

PCUC witness Guastella testified on margin reserve and the imputation of CIAC. He began his testimony by asserting that whether the source of funding is prepaid or not should make no difference in imputation; there should be no imputation. Mr. Guastella testified that the arrangements between a developer and new/future utility customers to prepay service availability charges should not affect used and useful calculations. CIAC should not be reduced before there is a connected customer paying rates for utility service. He explained that prepaid CIAC relates to future customers and has nothing to do with margin reserve. Further, prepaid CIAC is a mechanism which allows a developer to partially offset carrying costs associated with the formation of a new utility.

Mr. Guastella testified that the Commission has recognized in the past that carrying costs of utility plant for future customers (beyond the margin reserve plant) should be borne by those future customers. Thus, there is an allowance for funds prudently invested (AFPI) charge which is designed to recover the carrying cost of non-used and useful plant. Witness Guastella further testified that it is proper to offset prepaid CIAC in calculating AFPI charges; however, it is not proper to use prepaid CIAC as an offset to margin reserve or any other used and useful calculation.

Mr. Guastella also testified that water and wastewater utilities should be encouraged to build prudently-sized systems to provide safe and adequate service to all customers, current and new. He testified that by imputing CIAC on used and useful plant related to margin reserve, utilities will begin to not build prudently because it will actually cost more. Instead, smaller facilities will be built and be 100% used and useful without margin reserves, thereby avoiding imputation of CIAC and a reduction to rate base. He testified that this will eventually be the cause of increased rates for all customers.

OPC witness Dismukes testified that if the Commission decides that a margin reserve should be included in used and useful, there should be an imputation of CIAC. She testified that to achieve a proper matching, an amount of CIAC equal to the number of ERCs in

the margin reserve should be reduced from rate base. Ms. Dismukes further testified that it is important to recognize that, in this case, the utility is asking for the cost of additional capacity to serve future customers. The utility is also proposing to increase plant capacity charges; therefore, it is Ms. Dismukes' testimony that the Commission should use the new capacity charges in calculating the imputation. Ms. Dismukes testified that by imputing CIAC on margin reserve, the existing customers are precluded from paying for plant that will be used to serve future customers.

Utility witness Guastella rebutted Ms. Dismukes' reasons for wanting to impute CIAC. First, he testified that Ms. Dismukes is incorrect when she states that imputation is necessary for a proper matching with margin reserve. Mr. Guastella explained that the margin reserve is based on year-end 1995 and that CIAC related to the number of ERCs in the margin reserve will not be collected until subsequent to year-end 1995. Also, as more customers come on-line, the need for margin reserve increases. Accordingly, the need for margin reserve to meet the demands of existing and future customers is always current, and the ERCs represented by customer growth is always in the future. This, he testified, is "by definition the nature of margin reserve."

Mr. Guastella's recommendation to not impute CIAC on the margin reserve is contrary to our policy of doing so. However, Mr. Guastella believes that the Commission should reevaluate its policy based on his testimony. He testified that our policy on imputation of CIAC conflicts with our policy on AFPI. Essentially, the AFPI charge was established in recognition that future customers should pay for the carrying costs associated with non-used and useful plant. Mr. Guastella testified that the arrangement established between the Palm Coast developer and real estate purchasers is conceptually the same.

While the utility believes that imputation of CIAC on the margin reserve negates the margin reserve and thus is contrary to prudently constructing plant, we are not convinced by the utility's position that the Commission's practice of imputing CIAC on margin reserve should be eliminated. We agree with Ms. Dismukes' testimony that CIAC should be imputed in order to achieve proper matching of the CIAC collections made from those customers which will connect during the margin reserve period. Prior Commission decisions in Orders Nos. 25092 and PSC-93-1113-FOF-WS, issued on September 23, 1991 and July 30, 1993, respectively, evidence our practice with respect to imputation of CIAC.

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However, in Docket No. 950495-WS by our Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, Application for a rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia and Washington Counties, we decided to impute only 50% of the amount of CIAC attributed to the margin reserve. We found that the total amount imputed would not be collected at the beginning of the margin reserve period, rather that it would be averaged over the life of such period. Similarly in this case, we find it appropriate to attribute 50% of the amount of CIAC to the margin reserve.

We are now left with the decision of what CIAC charges should be used in the imputation. Both the current and proposed charges are included in MFR Schedules E-10 and E-11. The margin reserve period is beyond the test year; therefore, we agree with Ms. Dismukes' testimony to use PCUC's proposed system capacity charges. Accordingly, we have used system capacity charges of \$1,500 and \$1,600 for water and wastewater, respectively. We have allocated these charges between treatment plant and mains according to the ratios of plant.

Accordingly, we have made adjustments to CIAC of \$344,432 and \$849,939 for water and wastewater, respectively. We have made corresponding adjustments to accumulated amortization of CIAC of \$5,489 and \$13,047 for water and wastewater, respectively. Finally, we have made adjustments to test year amortization expense of (\$10,977) and (\$26,093) for water and wastewater, respectively.

UNACCOUNTED-FOR WATER

OPC witness Bidy testified that to encourage efficiency, the Commission should allow no more than 10% unaccounted for water. He further testified that he does not believe PCUC has excessive unaccounted for water. However, Mr. Bidy also testified that the flushing water used for water quality compliance is extraordinarily high, and that a well designed system should have no more than 5% water use for flushing. In his opinion, use of more than 5% of total finished water for flushing is excessive. Mr. Bidy offered no engineering references to support his opinion, however.

Utility witness Seidman responded to Mr. Bidy in rebuttal testimony. He testified that he didn't know how Mr. Bidy could select an amount that fits all situations without regard to the characteristics of the system. The amount of flushing is to a

large extent a function of system configuration, customer density, and quantity and frequency of customer use. Mr. Seidman testified that PCUC's unaccounted for water does not exceed even the 10% standard proposed by Mr. Bidby.

We agree with Mr. Seidman. There are no firm guidelines as to what is acceptable and what is excessive unaccounted for water. The level of unaccounted for water at PCUC is less than 10%. Therefore, the issue of determining a reasonable level for unaccounted for water is moot. We find, however, that an allowance of 12.5% unaccounted for water is appropriate. We encourage the utility to maintain accurate records of line breaks, line flushing, and fire flows. While such uses are not revenue producing, they are accounted for uses of finished water.

PCUC's unaccounted for water during the test year, six months of which is projected, is 4.68%. Using 12 months of actual data, unaccounted for water totaled 5.23% of water pumped. Based upon these facts, we find that PCUC does not have excessive unaccounted for water.

The average quantity of water used for flushing in 1995 was equal to 19.2% of the total water pumped. The annual power and chemical expenses associated with the pumping and treatment of water are \$237,869 and \$167,883, respectively. Utility witness Seidman testified that the flushing is necessary to maintain a high quality of water for the utility's current customers. Mr. Seidman also testified that the percentage of water used for flushing has dropped steadily since 1989. Mr. Seidman further testified that 5% of the water is used for flushing on the beach side of PCUC's service area.

The utility's water system has a large network of piping sized to ultimately distribute water to a population of approximately 225,000. Currently, PCUC has only 25,000 customers. This results in long detention times in the distribution system, which can lead to water quality degradation. Also, chloramine is used by PCUC to disinfect the water. It is difficult to maintain an adequate chlorine residual when chloramines are used as the disinfectant; therefore, additional flushing is required.

OPC witness Bidby testified that a well-designed system should use no more than 5% of its water for flushing. He did not, however, recommend any adjustments to expenses because of any excess flushing. We have calculated that an adjustment, using a 5% flushing allowance, would reduce power and chemical expenses by \$30,849 and \$21,733, respectively.

Mr. Seidman testified that no adjustments for excess flushing are appropriate because the flushing is required to maintain water quality for PCUC's current customers. Utility witness Guastella testified that a significant portion of the transmission and distribution system was installed in the 1970's, at lower costs than what would have been required had the system been installed gradually over time. Therefore, the current customers are paying a lower cost for the lines before any used and useful adjustments are applied.

Based on the foregoing, we find that no adjustments are appropriate for flushing in PCUC's water system. The evidence indicates that the flushing is needed to maintain a satisfactory water quality for the utility's current customers. The amount of water used for flushing has leveled, and the percentage of water used for pumping should decrease as customer demands increase. We do not believe that it would be appropriate to remove expenses for an activity which is needed to maintain water quality for the utility's current customers.

The evidence indicates that the flushing is related to the fact that PCUC has an extensive transmission and distribution system which is oversized. We believe, however, that the transmission and distribution system used and useful adjustment provides adequate ratemaking recognition of the utility's oversized transmission and distribution system.

We also find that PCUC should attempt to reach an agreement with the City of Marineland to purchase water from PCUC. Marineland is the most remote potential customer on the beachside, and some of the water which is currently being flushed could instead be sold to a revenue producing customer.

USED AND USEFUL

A summary of the recommended used and useful percentages for each of the parties, as well as our approved percentages, is included in Attachment 1.

There are several scenarios which might be considered in determining the appropriate used and useful percentage for a specific rate case. The first occurs when customer demands are lower than in the previous rate case thus creating a lower used and useful percentage. Under this scenario, the percentage found in the previous proceeding is the appropriate percentage to use, provided no new plant component(s) have been added. A second scenario could occur when new plant components have been added and a used and useful percentage on the new capacity yields a lower

percentage than the last proceeding. In this situation, the new, lower used and useful percentage is appropriate if the resulting plant-in-service is greater than the plant-in-service granted in the last proceeding. A third scenario allows for errors in the Commission's previous methodology or calculation of used and useful percentages. Under this scenario, the new used and useful percentage should be used, even if the previous investment is affected. A fourth scenario might arise if the methodology used by the Commission in calculating used and useful percentages is changed. This might result in a lower used and useful percentage.

PCUC suggests in its brief that once the Commission determines that a facility is 100% used and useful, the recovery of the cost of that facility should not be rescinded. If this were true then an error made in a previous proceeding would have to be ignored, and if the methodology used by the Commission were changed, such as calculating used and useful by individual NARUC accounts instead of by overall water or wastewater treatment plant as was done in the past, then those new percentages, if lower, would also have to be ignored.

We do not agree with PCUC. We find that there are scenarios where a new, possibly lower used and useful percentage might be appropriate.

Infiltration and Inflow

Mr. Martin, DEP engineer testified that the amount of infiltration experienced by Palm Coast is within the normal range of what would be expected on a utility system. Mr. Martin testified that DEP basically follows the Ten-State standard of 200 gallons per day, per inch diameter, per mile of pipe for construction aspects of collection and transmission lines when DEP does initial testing on the collection line or transmission line. It's over a course of time that may possibly be greater in the future. Mr. Martin re-emphasized that 200 gallons per day, per inch diameter, per mile of pipe is what DEP looks for in a new installation.

Mr. Seidman's rebuttal testimony for PCUC claimed a 500 gpd, per inch diameter, per mile as a standard traditionally used by the Commission. However, when cross-examined by OPC, he could not give an example of a case where the Commission had used that 500 gpd figure.

Staff witness Amaya testified that the EPA handbook, Sewer System Infrastructure Analysis and Rehabilitation, allows 40 gallons per capita per day (gpcd) for total infiltration and inflow

which is equal to 50% of the base domestic flow of 80 gpcd prior to any flows being considered excessive. This is especially important because the Ten States Standard considers infiltration only and does not consider inflow.

Based on the foregoing, we find that 40 gpcd is an acceptable level for infiltration and inflow consistent with the evidence presented in the record. We further find that PCUC does not have excessive infiltration and inflow using this method to calculate a reasonable allowance for infiltration and/or inflow.

OPC witness Bidy testified that the 3-month average daily flow derived by Utility witness Guastella should be reduced by the amount of excessive infiltration and inflow which he calculated, 377,080 gpd. Mr. Bidy did not recommend any adjustments to power and chemical expenses to recognize that infiltration and inflow is coming from non-used and useful lines.

Mr. Guastella's calculated wastewater flow, however, already includes an adjustment for infiltration and inflow which is associated with non-used and useful lines. Mr. Guastella did not use the actual flows which the wastewater treatment plant treated in 1995. Instead, he calculated that 119 gpd of wastewater is expected from an ERC and added a 15% allowance for infiltration and inflow to this amount. Because the EPA provides an infiltration and inflow allowance of up to 50% for each ERC, staff witness Amaya concurred with Mr. Guastella's 15% infiltration and inflow allowance.

Based on the evidence presented, we find that no adjustments are necessary for infiltration and inflow in the used and useful calculations. In MFR Schedule F-2, the wastewater treatment plant (wwtp) was projected to receive an average daily flow of 2.084 mgd during 1995. Mr. Guastella's average daily flow for the wwtp used and useful calculation is only 1.74 mgd. Therefore, Mr. Guastella has effectively included an infiltration and inflow adjustment to the average daily wastewater flow of 343,571 gpd in his used and useful calculation. If Mr. Guastella had used PCUC's 1995 projected wastewater flows in the used and useful calculation, then we believe that an adjustment for infiltration and inflow (associated with non-used and useful lines) would have been appropriate. We also note that Mr. Guastella has only included an allowance of 261,135 gpd for infiltration and inflow in his used and useful calculation. This number is less than the 510,514 gpd infiltration and inflow allowance for the entire wastewater collection system which witness Bidy has proposed.

Therefore, we have made no expense adjustments for infiltration and inflow associated with non-used and useful lines because an infiltration and inflow adjustment has already been made in the wwtp and effluent disposal used and useful calculations. However, we have made a significant used and useful adjustment to the wastewater collection system.

Economies of Scale Factor

Utility witness Guastella testified that water and sewer utilities should be encouraged to construct prudently-sized systems capable of providing safe and adequate service on a continuous basis to all customers and whenever those customers connect. Staff witness Amaya testified that the construction of economically sized plants will have long-term as well as short-term benefits in terms of ultimately providing a lower cost facility to serve customers in the future. Mr. Guastella also testified that other utility industries (electric and gas) regulated by the Commission construct facilities with sufficient capacity to meet both short and long term growth, the costs of which are recognized for rate setting purposes. He testified that used and useful determinations for water and wastewater utilities should not be so stringent as to deny similar reasonable rate allowances, nor should they foster within the water and wastewater industry a disincentive to construct reasonably-sized facilities.

Mr. Guastella testified that there is a need for some methodology which includes economies of scale as a general allowance in the used and useful calculation. Ms. Amaya also testified that it is appropriate to consider economies of scale in the used and useful determination for PCUC's water treatment plant and wastewater treatment and disposal plant.

OPC witness Bidy testified that he does not believe the economies of scale factor is appropriate because every customer should only pay his or her fair share for the overall facility cost, and these costs should be allocated evenly between current and future customers. Section 367.111(1), Florida Statutes, requires that the utility shall provide service to the area described in its certificate of authorization within a reasonable time. In order to comply with this statutory requirement to provide service within its certificated area, a utility must construct plant capacity which exceeds the demands of only its current customers.

None of the experts who testified in this proceeding disputed that economies of scale exist in the construction of water and wastewater facilities. Even though the utility failed to provide

any engineering studies or documentation which quantifies the savings which economies of scale provided at PCUC, we do not believe that this is sufficient cause to reject an allowance for economies of scale for the water treatment facility. Mr. Guastella testified that:

As I indicated before, I think some things don't require the presentation of engineering studies; and I think this is obvious enough to many of them where you didn't have to give them an engineering study for them to understand what you were saying, and for them, based on simply their own experience, to know that that's correct.

Mr. Guastella also testified that he has seen studies for various components of utility plant which showed that the difference in cost between constructing one facility at one level of cost compared to 80% of its capacity was relatively minor, particularly when compared to the increase in capacity that you could get for a relatively minor difference in cost.

We believe that subjecting utilities to used and useful adjustments encourages the construction of smaller increments of plant at a cost which is ultimately higher for both the current and future customers. We believe it is appropriate to give utilities an incentive to construct prudently-sized increments of treatment facilities and, therefore, find that in this case a factor should be included in the water treatment used and useful calculations which recognize economies of scale.

Mr. Guastella proposed that if a water or wastewater system component is subject to a used and useful adjustment, then the adjustment should only be applied to 80% of the investment. The remaining 20% should automatically be considered 100% used and useful. We have calculated that Mr. Guastella's economies of scale factor increases the investment which he found used and useful by \$2,684,552 for water and \$4,856,583 for wastewater. We have also prepared an attachment which details this calculation for each plant account.

For the PCUC water system, Ms. Amaya testified that an economies of scale factor should be recognized by allowing the utility to recover 100% of its investment for the membrane softening plant (wtp #2) structures and building. WTP #2 currently has a capacity of 2.0 mgd, and the building is ultimately sized to treat 6.0 mgd. Ms. Amaya testified that it was prudent and in the interest of economies of scale for the utility to have sized the

membrane softening plant structure for the ultimate 6.0 mgd capacity. Ms. Amaya testified that the membrane train treatment unit is only 33% used and useful and, therefore, has included an additional \$3,218,251 of plant in rate base for wtp #2 which would have otherwise been excluded if not for the economies of scale recognition. Ms. Amaya did not propose any economies of scale adjustments for the water transmission and distribution system.

For the water system, we find it appropriate to recognize an economies of scale allowance by including the wtp #2 structures and improvements and the facilities not associated with the 2.0 mgd membrane train as 100% used and useful. We believe that this provides adequate ratemaking recognition of the economies of scale associated with the construction of wtp #2. We do not find it appropriate, however, to recognize any economies of scale factor for PCUC's water transmission and distribution system. The distribution lines can serve over 46,000 lots which may not all be occupied within 50 years, whereas wtp #2 was prudently sized. The economies of scale allowance we have approved results in the inclusion of \$3,246,400 of plant which would have otherwise been excluded.

For the wastewater system, Ms. Amaya proposed that economies of scale should be recognized through the allowance of a three year margin reserve. Unlike the wtp, however, no specific evidence was presented which supported the recognition of economies of scale for the wwtp. Therefore, we find that recognition of economies of scale for the wastewater treatment and effluent disposal facilities is not appropriate, and, therefore, no adjustments have been made.

Fire Flow

In PCUC's last rate case, the Commission allowed an estimated fire demand of 2,000 gpm for five hours (600,000 gpd) in its used and useful determination for source of supply, water treatment plant, and storage. PCUC has requested the same 600,000 gpd allowance for fire flow in this case for the water treatment plant and the source of supply. PCUC has requested a fire flow allowance of 1,200,000 gallons for storage instead of the 600,000 gallons approved in the last rate case. PCUC has also requested an allowance for fire flow in the transmission and distribution system used and useful calculation. We have previously not included a fire flow allowance for PCUC's water transmission and distribution system. Mr. Guastella has included \$7,093,746 of plant investment for fire flow needs.

OPC witness Biddy testified that it is not cost effective to use source of supply and treatment plant to meet instantaneous

demands, such as peak hourly flows and fire flows. For this reason, Mr. Biddy did not recommend allowance of a fire flow for source of supply or water treatment plant. Mr. Biddy also testified that water treatment plants and wells are not designed to provide fire flows. Mr. Biddy rejected PCUC's proposal for including a fire flow allowance in the transmission and distribution system. Mr. Biddy did recommend inclusion of a 600,000 gpd allowance for fire flow in the storage used and useful calculation. As shown in a subsequent attachment, Mr. Biddy has included \$318,522 of plant investment for fire flow.

Staff witness Amaya proposed a 600,000 gpd fire flow allowance for the water treatment, high service pumping, and storage components of the water system. Ms. Amaya did not include a fire flow allowance in the source of supply or transmission and distribution used and useful calculations. Ms. Amaya has included \$369,989 of plant investment for fire flow.

Utility witness Guastella testified that the Commission has specifically rejected arguments against including a fire flow allowance within the source of supply and water treatment plant used and useful calculations in prior PCUC rate cases. Mr. Guastella testified that fire demands may occur which would require the utilization of all components of the water system. As support for this statement, Mr. Guastella further testified that, during the 1985 forest fires, the utility experienced demands of 6,000 gpm for two days. We calculated that a demand of 6,000 gpm would empty the utility's current 4.15 mg of storage in 11.5 hours if the wtp's did not replenish the storage tanks from the water treatment facilities.

Mr. Guastella also testified that, from a regulatory rate setting standpoint, it is generally recognized that the utility needs to meet maximum day demands plus fire flows when designing and constructing its system. He further testified that the AWWA Rate Manuals contain allocations of water treatment and source of supply costs to fire protection rates.

We believe that, from an engineering design perspective, it is not cost effective to size the source of supply and treatment facilities to meet fire flow requirements. At PCUC, however, the water system has experienced a demand on its treatment and supply facilities which resulted from forest fires. Therefore, we find it appropriate to approve Ms. Amaya's proposal for including fire flow in the water treatment plant used and useful calculation but not the source of supply calculation. We have calculated that \$365,917 of additional plant investment is included through this fire flow allowance. We believe that this modest allowance for fire flow in

the water treatment plant used and useful calculation is reasonable.

Mr. Guastella also included an allowance for fire flow in the transmission and distribution system used and useful calculation. Mr. Guastella agreed that one of the differences between a system which provides fire flow and one which does not is the size of the mains (fire hydrants being another). We believe that the size of the mains is the primary difference, and Mr. Guastella's allowance is not based on the incremental costs of providing this service. Inclusion of the utility's requested fire flow allowance increases the transmission and distribution used and useful plant investment by \$5,465,039 or 21.1% of booked cost of transmission and distribution plant.

We find that a fire flow allowance is not appropriate for PCUC's transmission and distribution system. The utility's proposed allowance is not based upon the incremental difference of the larger sized lines constructed to provide fire protection. We also agree with Mr. Bidy's and Ms. Amaya's testimony that the fairest way to allocate the cost of PCUC's transmission and distribution system between current and future customers is to take the ratio of lots occupied to lots available.

Maximum Day Flow

Both Utility witness Guastella and Staff witness Amaya proposed that a singular maximum day should be used for the water system used and useful calculations. Mr. Bidy testified that the average of the five maximum days should be used. Mr. Bidy opposed using a single maximum day because this day may include undetected leaks, flushing and unusual usage, in addition to the PSC allowed unaccounted for water. Mr. Bidy testified that the average of the five maximum days has been the policy historically used by the Commission. We have calculated that the difference between the two demands is 544,000 gallons or 11%.

Mr. Guastella testified that the maximum day demand of 4.89 mgd on the system occurred on September 30, 1994 and did not have any unusual events. Mr. Guastella also testified that the Commission has consistently used the maximum day demand for PCUC instead of the average of the five maximum days. Mr. Guastella did not use the maximum day PCUC actually experienced. He used the third highest daily demand. These other two maximum demands were rejected because they had unusual usage.

We find it appropriate to use the single maximum day in the used and useful calculations. We believe that PCUC has properly

excluded unusual maximum demands. The Ten States Standards, an engineering design reference for water systems, requires that plants be sized to meet maximum day demands, not the average of the five maximum day demands. We also note that use of a single maximum demand has been previously accepted in previous PCUC rate proceedings.

Operating Permit Capacity

This issue pertains to wastewater treatment plants alone because DEP issued only a construction permit for water treatment plants. While OPC believes that construction permit capacities represent the actual capacities constructed, we have found that this is not always the case. Many times a construction permit will reflect only the capacity being added and not the actual overall capacity of the plant.

Staff witness Martin, a DEP engineer, testified that DEP now has only one wastewater permit, an operating permit, and any time there is construction activity or a modification of the permit, DEP will modify the one permit document. In its brief, OPC notes that this may make this issue moot in future rate cases. PCUC, in its brief, recommends that the design capacity of the wastewater treatment (4.0 mgd) is appropriate in this case.

Based upon the facts presented by witness Martin, we find it appropriate to use the construction permit capacity for water treatment plants and the new operating permit capacity for wastewater treatment plants, when calculating used and useful percentages.

Equalization and Emergency Storage

Utility witness Guastella recommended an equalization and emergency storage allowance of 50% of the projected maximum daily flow in the storage used and useful calculation. Staff witness Amaya included an allowance of 75% of the maximum daily flow for equalization and emergency uses. OPC witness Bidy testified that only 50% of the average daily flow, not the maximum daily flow, is adequate for equalization and emergency storage. Mr. Bidy further testified that this is more than adequate for equalization, which has a design criteria of 20-25% of the average daily flow, and the remaining 25% can be used for emergency storage. Even though Ten States Standards includes a criteria of one day average flow for emergency storage, Mr. Bidy only allowed 25% of the average daily flow for emergency storage because the amount of emergency storage is the owner's (PCUC's) option.

We find that the equalization and emergency storage allowance proposed by Ms. Amaya is appropriate. Mr. Bidy has recognized that storage facilities are cheaper to construct than treatment facilities when supporting the exclusion of a fire flow requirement in the treatment plant and source of supply used and useful calculations. He then, however, proposed adjustments to equalization and emergency storage which result in only a 59.82% storage used and useful percentage. We believe that, given the utility's past experience with the 1985 forest fires and its location near the Atlantic coastline with the annual threat posed by hurricanes, a liberal allowance for emergency storage is appropriate for PCUC and should be recognized through the adoption of Ms. Amaya's equalization and emergency storage allowance.

Retention Storage

Retention, or dead, storage is that portion of the finished water storage which is unusable. OPC witness Bidy testified that when designing storage tanks and high service pumps, engineers have to check the available net positive suction head (NPSH) and ensure that it is greater than the net required positive suction head to avoid cavitation problems. As a result, the vortex situation is rare because high service pumps are always placed at a low grade to obtain the maximum NPSH. Therefore, Mr. Bidy testified, some retention storage adjustment is necessary. Mr. Bidy further testified, however, that retention storage is not applicable to elevated storage tanks.

PCUC witness Guastella testified that elevated tanks should never be drained down to less than 10% of their capacity. In rebuttal testimony, Mr. Guastella also testified that as a practical matter, the utility is simply not going to pump its ground storage facilities to the point of suction, nor is it going to permit its elevated storage facilities to empty down to the mains.

Staff witness Amaya testified that to calculate the used and useful percentage for finished water storage, the firm reliable capacity must first be determined. Since elevated storage does not have 'dead' storage, Ms. Amaya deducted 10% dead storage from the ground storage tanks only.

We agree with witness Guastella that it may not be a good idea to drain an elevated storage tank. Witnesses Bidy and Amaya pointed out that it is possible to use all of the storage capacity of an elevated tank but that it is impossible to drain a portion of the bottom of a ground storage tank due to NPSH design. Therefore,

we find that a 10% retention, or dead, storage is applicable for ground storage tanks only as shown in as-built drawings.

Water Source of Supply, Treatment Plant, High Service Pumping, and Storage

Source of Supply

PCUC's source of supply consists of 30 wells. Twenty-seven of these wells provide raw water for wtp #1 and three provide water for wtp #2. PCUC witness Guastella calculated a 77.4% used and useful percentage by dividing the 5,416,653 gpd projected maximum day demand (using an 18 month margin reserve) plus 600,000 gpd of fire flow by the source of supply's 7,768,600 gpd firm reliable capacity. The firm reliable capacity was calculated by excluding the three maximum wells serving wtp #1 and the largest well serving wtp #2. Mr. Guastella also reduced the well capacity by the amount of raw water which is rejected at wtp #2 as concentrate (353,000 gpd). This adjustment is necessary because additional water must feed wtp #2 for the level of concentrate produced by the treatment process. As discussed previously, Mr. Guastella also included an adjustment for economies of scale. The economies of scale adjustment increases his used and useful percentage to 81.9%.

Staff witness Amaya calculated a 64.71% used and useful percentage by dividing the 5,291,124 gpd projected maximum day demand (using an 18 month margin reserve) by a 8,176,120 gpd firm reliable capacity. The firm reliable capacity excludes two wells which are serving wtp #1 and one well which is serving wtp #2. Ms. Amaya also reduced the well capacity by the amount of concentrate which is rejected at wtp #2. Ms. Amaya did not include any allowance for economies of scale in her calculation.

OPC witness Bidy calculated a 44.62% used and useful percentage by dividing the 3,466,123 gpd average daily demand during 1994 by a 7,768,600 gpd firm reliable capacity. Mr. Bidy did not include any allowances for fire flow or margin reserve in his used and useful calculation.

We find that the appropriate used and useful percentage for source of supply is 64.57%. This percentage was calculated using Ms. Amaya's methodology with only one change. Ms. Amaya's and Mr. Guastella's projected maximum daily flow is based upon a 1995 year-end flow. Previously, however, we determined that an average rate base should be used. Therefore, we have removed 6 months of projected flow, 11,803 gpd, from Ms. Amaya's maximum day demand. Mr. Guastella agreed that the average 1995 demand should be used if a year-end rate base is not approved. This minor adjustment to the

maximum day demand will be appropriate for other used and useful calculations discussed later.

Water Treatment Plant

The water treatment facilities include a 6.0 mgd lime softening water treatment plant (wtp #1) and a 2.0 mgd membrane softening water treatment plant (wtp #2). The capacity of wtp #1 must be adjusted because some of the water produced at wtp #1 is used for plant purposes (backwashing the filters, application of lime and chlorine, lime sludge processing). In prior PCUC rate cases, the Commission has recognized an allowance of 10% (600,000 gpd) for wtp #1 uses. In PCUC's last rate case, the Commission directed the utility to analyze wtp #1's internal plant uses for its next rate case. Engineering studies were prepared and indicate that 13.3% of the wtp #1 capacity is needed for plant requirements. During 1994, actual average plant uses for chemical processing and backwashing equaled 14.2% of the total water produced. Ms. Amaya also recommended that wtp #1's capacity should be reduced by 13.3% to reflect the actual capacity which is available. Based upon the engineering studies and actual measurements of internal plant water usage, we find that wtp #1's capacity is 5.202 mgd.

WTP #1 Used and Useful

Mr. Guastella testified that wtp #1 is 100% used and useful. Ms. Amaya also supported a 100% used and useful percentage for wtp #1 because it was determined to be 100% used and useful in the last case and no additional capacity has been added at this facility since that time. Mr. Biddy testified that both wtp #1 and wtp #2 are 58.73% used and useful. This percentage was calculated by dividing the average five maximum day flows (4.346 mgd) by the combined wtp #1 and wtp #2 capacities (7.4 mgd).

We find that wtp #1 is 100% used and useful. The facility was considered 100% used and useful in the last rate case, and no capacity has been added at this facility since that time. The only additional treatment capacity which PCUC has constructed since its last rate case is wtp #2. Accordingly, any water treatment used and useful adjustments should be applied to wtp #2.

WTP #2 Used and Useful

PCUC completed construction of wtp #2 in 1991. The wtp #2 building and other improvements are sized for a final treatment capacity of 6.0 mgd. Initially, only 2.0 mgd of treatment capacity was constructed.

Mr. Guastella calculated that the wtp #2 used and useful percentage is 89.3%. This percentage was calculated by dividing the 5,826,924 gpd projected maximum daily flow (using a 3 year margin reserve) plus a 600,000 gpd fire flow allowance by the combined 7.2 mgd capacity of the two water treatment plants. The economies of scale factor increases the wtp #2 used and useful percentage to 91.44%. Mr. Bidy calculated that wtp #2 has the same used and useful percentage as wtp #1.

Ms. Amaya testified that the used and useful for percentage for the membrane softening treatment equipment is 34.46%. This was calculated by first adding the 5,291,124 gpd projected maximum daily flows (using an 18 month margin reserve) and a 600,000 gpd fire flow and then subtracting the 5.202 mgd wtp #1 capacity. This total was then divided by the 2.0 mgd wtp #2 capacity. Ms. Amaya testified that economies of scale should be recognized by considering the membrane plant structures to be 100% used and useful. Recognition of this economies of scale adjustment increases Ms. Amaya's used and useful percentage for PCUC's investment at wtp #2 to 75.27%.

We find that the used and useful percentage for the wtp #2 membrane softening treatment equipment is 33.88% used and useful. This percentage was calculated using Ms. Amaya's methodology with only one change. Ms. Amaya's projected maximum daily flow is based upon a year-end figure. Previously, however, we determined that an average rate base should be used. Therefore, we have removed 6 months of projected flow, 11,803 gpd, from Ms. Amaya's maximum day demand. As discussed earlier, we determined that economies of scale should be recognized by including the wtp #2 structure and non-membrane train related equipment as 100% used and useful. Recognition of this economies of scale adjustment increases the used and useful percentage for PCUC's investment at wtp #2 to 75.05%.

Mr. Guastella believes that this methodology fails to recognize the integrated operation of the two treatment plants. If Mr. Guastella's statement that the two plants should be considered integrated for the used and useful calculation is accepted, then Mr. Bidy's calculation of one used and useful percentage for both plants is appropriate. Mr. Guastella, however, has applied a used and useful percentage of 100% for wtp #1 and a used and useful percentage of 91.44% for wtp #2. Ms. Amaya's proposed methodology recognizes that wtp #2 was constructed to meet demands which can no longer be supplied only by wtp #1. We find it appropriate to consider only those system demands which exceed wtp #1's capacity in the determination of the wtp #2 membrane train used and useful percentage.

High Service Pumping

Ms. Amaya is the only witness who performed a used and useful calculation specifically for high service pumping. Ms. Amaya calculated that the high service pumps are 74.99% used and useful. Ms. Amaya calculated this percentage by dividing the 7,349 gpm peak hourly flows experienced at PCUC (two times the projected maximum day demand) by the 9,800 gpm firm reliable pumping capacity. Mr. Guastella testified that Ms. Amaya should have removed another high service pump at wtp #2 when calculating the firm reliable capacity. Mr. Guastella believes that this is necessary because the high service pumps at each plant should be allocated separately.

We find that the used and useful percentage for high service pumping is 75.6%. This percentage was calculated by dividing the projected peak hour flows by the high service pumping firm reliable capacity. The costs for the high service pumping equipment were booked into Accounts 311.2 (\$71,447) and 320.3 (\$36,000). We find it appropriate to apply the used and useful percentage to these amounts.

Storage

The total PCUC investment in storage facilities is only \$1,969,660. Mr. Guastella and Ms. Amaya both testified that the storage facilities are 100% used and useful. Mr. Guastella added an allowance of 50% of the projected maximum day (with a 3 year margin reserve) for equalization and storage to an allowance for fire flow and an allowance for retention and then divided this sum by PCUC's storage capacity. Ms. Amaya added an allowance of 75% of the projected maximum day (with an 18 month margin reserve) and an allowance for fire flow and divided this sum by the available storage capacity. The available storage capacity was assumed to be the actual ground storage capacity less a 10% allowance for retention plus the total available volume of elevated storage.

Mr. Bidy testified that the storage facilities are 59.82% used and useful. This was calculated by adding an allowance of 50% of the average day demand for equalization and emergency storage and dividing this sum by the available storage capacity of 3.9 mg.

The primary difference between the recommendations of Mr. Bidy and the other two experts was the allowance for emergency storage. Mr. Bidy proposed that this allowance be minimized because there is not a specific design requirement for emergency storage and it is the utility's option. For the reasons previously discussed, we believe that it is appropriate to include a liberal

allowance for emergency storage. Based on the evidence presented, we find that the storage facilities are 100% used and useful.

Wastewater treatment plant and Effluent disposal

Wastewater Treatment Plant

Utility witness Guastella calculated that the wwtp was 69.1% used and useful. This was calculated by dividing the projected 2,764,608 gpd 3-month average daily wastewater flow (using a 5 year margin reserve) by a 4.0 mgd plant capacity. Mr. Guastella also included an allowance for economies of scale which results in an overall wwtp used and useful percentage of 75.3%.

Staff witness Amaya calculated that the wastewater treatment plant was 61.39% used and useful. This was calculated by dividing the projected 2,056,574 gpd annual average daily flow (using a 3 year margin reserve) by a 3.35 mgd plant capacity. The 3.35 mgd plant capacity is based upon a new DEP construction and operating permit which DEP issued to PCUC on June 28, 1996.

OPC witness Biddy calculated that the wastewater treatment plant was 42.8% used and useful. This was calculated by subtracting 377,080 gpd of excessive infiltration and inflow from the 2,089,080 gpd 3-month average daily flow for year-end 1995. This total was then divided by the 4.0 mgd wwtp constructed capacity. As discussed previously, we have determined that the utility's projected wastewater flows should not be adjusted since an adjustment of 342,571 gpd for infiltration and inflow is already included in the used and useful calculation.

PCUC's 3-month average daily was calculated by multiplying the annual average daily flow (AADF) by 1.2. Ms. Amaya testified that the annual average daily flow should be applied in the used and useful calculation since the DEP construction permit indicates that the plant's rated capacity is based upon an AADF. Mr. Guastella testified that despite the fact that the plant is rated as an annual average daily flow, treatment plant must also be designed to meet the maximum three-month demand. Mr. Guastella further testified that the plant costs are also related to the 3-month design criteria and that PCUC could not meet the wastewater flow demands of its customers if the plant capacity was limited to the AADF. He also testified that the planning and design of wastewater facilities is based upon the 3-month average daily flow.

We find it appropriate to apply the annual average daily flow in the used and useful calculation. Utilities can request that the plant capacity be met by any of three flow criteria: annual

average daily flow, three month average daily flow, and maximum month daily flow. PCUC's engineering report, "Preliminary Basis of Design", indicates that the following parameters were used as the basis of design for the wwtp: annual average daily flow of 4.0 mgd, maximum daily flow of 6.0 mgd, and an instantaneous flow of 8.0 mgd. We believe it is reasonable to infer from this information that if the wwtp had been rated based upon a 3-maximum month average daily flow then the capacity would have been greater than 4.0 mgd. Ms. Amaya's used and useful calculation recognizes that a plant which is rated at 4.0 mgd based upon the annual average daily will not have the same capacity rating if it was based upon the 3-month average daily flow. The use of any other flow demand skews the used and useful ratio.

Without the benefit of having a chance to review the recently issued DEP wastewater permit, Ms. Amaya testified that the wwtp capacity was 3.35 mgd. Ms. Amaya further testified that if the permit indicates that the plant capacity is still 4.0 mgd, then a 4.0 mgd capacity should still be used. We have reviewed the permit, and it clearly indicates that the plant capacity is 4.0 mgd (based upon annual average daily flow) but that flows to the plant are limited to the 3.35 mgd effluent disposal capacity. Even though the wwtp's permitted capacity has been changed, PCUC and OPC both recommend using a 4.0 mgd capacity in the used and useful calculation.

We find that the wwtp is 46.44% used and useful. This percentage was calculated by dividing the projected 1998 average annual daily flow of 1,857,465 gpd by the 4.0 mgd wwtp capacity.

Effluent Disposal

PCUC's has several facilities which are available for the disposal of effluent treated by the wastewater treatment plant. The disposal facilities are: a 600,000 gpd sprayfield, a 1,000,000 gpd RIB site, a 750,000 gpd RIB site, and 1,000,000 gpd at the Dunes. This results in a current effluent disposal rating of 3.35 mgd based upon the annual average flow.

Mr. Guastella calculated that the effluent disposal system was 100% used and useful. This percentage was calculated by dividing the projected 3 month average daily flow (using a 5 year margin reserve) by a 2.3 mgd effluent disposal capacity. The effluent disposal capacity was calculated by reducing a total disposal capacity of 3.4 mgd by the sprayfield capacity of 600,000 gpd and a Dunes disposal capacity of 500,000 gpd. Mr. Guastella testified that the sprayfield capacity should be excluded because the sprayfield cannot be used during wet weather. Mr. Guastella did

not include an economies of scale factor because the effluent disposal system is already 100% used and useful without any economies of scale consideration.

Mr. Bidy calculated that the effluent disposal system is 50.35% used and useful. This percentage was calculated by dividing the 3-month average daily flow for year-end 1995 (2,089,080 gpd) less the 377,080 gpd infiltration and inflow adjustment by an effluent disposal capacity of 3.4 mgd. Mr. Bidy did not include any adjustment to remove the 1.0 mgd of effluent disposal capacity at the Dunes. PCUC did not incur any investment for the 1.0 mgd of disposal capacity at the Dunes; accordingly, we find it appropriate to exclude the 1.0 mgd Dune capacity from the used and useful calculation.

Ms. Amaya calculated that the effluent disposal system is 74.75% used and useful. This percentage was calculated by dividing the 2,056,574 gpd projected annual average daily flow (using a 3 year margin reserve) less an allocation of 300,000 gpd of effluent flow to the Dunes by an effluent disposal capacity of 2.35 mgd. Ms. Amaya also proposed that the 6.0 mg effluent storage tank is 30% used and useful adjustment.

We find that the effluent disposal system is 66.28% used and useful. This percentage was calculated by dividing the projected annual average daily flow, 1,857,465 gpd, less 300,000 gpd disposed at the Dunes, by an effluent disposal capacity of 2,350,000 gpd.

Water Transmission and Distribution System

The transmission and distribution system consists of several different types of facilities, each having its own characteristics. Consequently, we believe that a different used and useful methodology is appropriate for each component of the transmission and distribution system.

Distribution Lines

The 1995 year-end cost for distribution lines is \$18,244,413. The distribution system is sized to serve 46,438 lots. As of October, 1995, only 10,415 of the 46,438 lots were connected.

Utility witness Guastella calculated a 54.1% used and useful percentage by dividing the 14,568 projected number of ERCs (using an 18 month margin reserve) and a 10,541 ERC allowance for fire flow by the total number of lots served. Mr. Guastella then added a factor for economies of scale which results in a final used and useful percentage of 63.28%, an additional \$1,666,550.

Mr. Guastella testified that it is appropriate to take the ratio of ERCs to lots because the design of mains must take into consideration the residential flows with respect to some lots, as well as significantly higher flows with respect to commercial lots. He testified that the cost of mains is based on the cost to meet flow and pressure requirements as well as to meet the number of lots to be served. Mr. Guastella further testified that the Commission has accepted the use of the ratio of ERCs to lots in prior PCUC rate cases.

OPC witness Bidy calculated a 24.57% used and useful percentage by dividing the number of connected lots during 1995 (11,409) by the total number of lots on lines (46,438). Mr. Bidy testified that the transmission and distribution system used and useful analysis is not a flow measurement or flow projection technique. Mr. Bidy also testified that the lot count does not fail to recognize water main cost to accommodate fire flow and looped lines because it allocates the total cost of the lines through used and useful percentages. Mr. Bidy believes that the lot count method is a fair method for allocating the cost of lines between current and future customers.

Staff witness Amaya calculated a 34.47% used and useful percentage by dividing the projected number of connected lots, 10,985, by the total number of lots on lines, 46,764. The number of connected and available lots are based upon the utility's water system maps. Ms. Amaya testified that it would be necessary to either convert the number of lots available to ERCs to compare to ERCs connected or compare lots connected to lots available in order to compare "apples to apples."

PCUC is a developer related utility and has incurred significant capital costs to construct a vastly oversized system which benefitted the developer's efforts to sell lots. We do not believe that it is appropriate to allocate any additional costs for transmission and distribution lines, other than a 12 month allowance for margin reserve, to the utility's current customers. By requiring that the utility construct an oversized distribution system and then requesting a 65.9% used and useful percentage, the developer is shifting a portion of the development's infrastructure costs to the utility's current customers. We believe this is inappropriate. If the developer had contributed the lines to PCUC, then the question of used and useful for the transmission and distribution system would be moot.

We also believe that the size of the lines is the primary difference between a system which is sized to serve residential only customers and one which will serve high demand commercial

areas. We agree with the conclusions of Mr. Bidy and Ms. Amaya that the fairest way to allocate the cost of the distribution lines is by taking the ratio of lots connected to lots served.

Based on the foregoing analysis, we find it appropriate to calculate the used and useful percentage by taking the ratio of projected lots connected, 11,182, to the total number of lots on lines, 46,764. This calculation is a change from the way we have calculated this used and useful percentage for PCUC in the past because the ratio is not based upon ERCs to lots and the margin reserve period is limited to 12 months.

Transmission Lines

The 1995 year-end cost for transmission lines is \$7,863,032. Unlike the distribution system, the transmission system has not been extended to every area of PCUC. Mr. Guastella calculated that the transmission system is currently serving a total of 34,651 lots.

Mr. Bidy did not prepare a separate used and useful calculation for the transmission system. Mr. Bidy testified that the transmission system used and useful percentage should equal the 24.57% which he calculated using the distribution system capacity.

Ms. Amaya calculated that the transmission system was 72.46% used and useful. This percentage was calculated by dividing the total equivalent lots served (34,651) plus a margin reserve, by the total lots available at PCUC. Ms. Amaya testified that, unlike the distribution mains, in many cases, no fewer transmission lines could have been constructed to serve current customers.

We find it appropriate to calculate the transmission system used and useful percentage by dividing the projected number of connected lots by the total equivalent lots which are being served by the existing transmission system. This results in a used and useful percentage of 32.27%, $(10,415+767)/34,651$. We find that this methodology is appropriate because the transmission system is not currently sized to serve 46,438 lots.

Services

PCUC has installed 15,172 water services at a 1995 year-end cost of \$1,140,496. Utility witness Guastella calculated an 89.6% used and useful percentage by dividing the projected number of ERCs being served (13,596) by the number of installed services. Mr. Bidy calculated a 75.2% used and useful percentage by dividing the total number of 1995 connected lots, 11,409, by 15,172. Ms. Amaya

calculated a 72.4% used and useful percentage by dividing the projected number of connected lots, 10,985, by 15,172.

We find that the used and useful percentage is 73.7%. This percentage was calculated by dividing the projected number of lots connected, 11,182, by 15,172.

Fire Hydrants

Mr. Guastella calculated a 94.8% used and useful percentage for the hydrants by dividing the total number of active hydrants, 2,536, by the total number of hydrants, 2,674. This percentage increases to 95.8% after application of the economies of scale gross-up.

Ms. Amaya did not prepare a used and useful calculation for hydrants. Mr. Biddy testified that the fire hydrants are part of the distribution system and there is no need to perform a separate used and useful analysis.

Mr. Guastella testified that fire hydrants have not yet been installed throughout the system. Mr. Guastella testified that only the active hydrants which are necessary to provide fire protection for existing customers have been included as used and useful.

We find that the fire hydrant used and useful percentage is 94.8%. This percentage was calculated by dividing the total number of active hydrants by the total number of hydrants installed. The evidence indicates that hydrants have not been installed throughout the transmission and distribution system.

Water Collection System and Pumping Plant

PCUC's wastewater collection system consists of two distinct areas. One area (consisting of 25,062 lots) is served by a wastewater collection system with gravity lines, force mains, and lift stations; wastewater in the other area of Palm Coast (consisting of 21,376 lots) is served by a PEP system (pretreatment effluent pumping).

Staff witness Amaya and Utility witness Guastella testified that separate used and useful calculations be performed for each component of the wastewater collection system. Mr. Biddy testified that separate calculations are only necessary for the following wastewater collection system components: one calculation for gravity lines, force mains, and pumping facilities; another calculation for services; and a final calculation for services.

The record indicates that the PEP and gravity system each serve different areas of Palm Coast; accordingly, we find it appropriate to perform separate used and useful calculations for these plant components. We also find that separate used and useful calculations are appropriate for the pumping stations, force mains, and services. Separate calculations for each of these components is consistent with past Commission used and useful determinations for PCUC.

Gravity Lines

The 1995 year-end booked cost for gravity lines is \$22,940,448. Mr. Guastella calculated a 49.8% used and useful percentage for gravity mains by dividing the projected number of ERCs (less any customers connected to the PEP system), by the number of lots served by gravity mains. Application of Mr. Guastella's economies of scale gross-up increases the used and useful percentage to 59.8%.

Mr. Bidy calculated a 21.95% used and useful percentage by dividing the average 1995 connected lots, 10,192, by the total number of lots on lines, 46,438. Because the gravity lines only serve 25,062 lots, we believe that Mr. Bidy's calculation is flawed. Mr. Bidy also failed to include an adjustment which recognizes that 1,281 lots are currently connected to the PEP system.

Ms. Amaya calculated a 34.47% used and useful percentage by dividing the projected number of lots connected, less the number of lots served by the PEP system, by the total lots served by gravity lines.

We find that the used and useful percentage is 34.29%. This percentage was calculated by adding a margin reserve of 418 ERCs to the 8,175 lots connected to the gravity system and dividing this total by 25,062. Regression analysis indicates that the 774 additional ERCs are projected to connect over a 12 month period. We allocated 418 of the 774 ERCs to the gravity part of the collection system and the remaining 356 ERCs to the PEP part of the collection system.

PEP Collection Lines

The 1995 year-end booked cost for PEP mains is \$5,862,547. Mr. Guastella calculated a 6.7% used and useful percentage by dividing the projected number of ERCs served by the PEP system, 1,434, by the total number of lots served by the PEP. We

calculated that Mr. Guastella's economies of scale gross-up increases the used and useful percentage to 25.36%.

Mr. Bidy calculated a 6.01% used and useful percentage by dividing the total number of lots connected to the PEP system, 1,286, by the number of lots on PEP mains, 21,376. Ms. Amaya calculated a 6.33% used and useful percentage by dividing the projected number of lots connected to the PEP system by 21,376.

We find that the PEP system is 7.66% used and useful. This percentage was calculated by dividing the projected number of connected lots (1,637) by 21,376. The projected number of lots was calculated by adding a margin reserve of 356 ERCs to the 1,281 lots connected to the PEP system.

PEP Tanks

The 1995 year-end booked value of PEP tanks is \$2,119,907. Mr. Guastella determined that these tanks are 100% used and useful because they are only installed when a customer connects to the PEP system. Ms. Amaya agreed with the utility's used and useful proposal for PEP tanks. Based on the evidence in the record, we find that these tanks are 100% used and useful.

Pumping Stations

The 1995 year-end booked value for pumping facilities is \$4,335,210. Mr. Guastella calculated a 46.4% used and useful percentage for the pumping plant. To calculate this percentage, Mr. Guastella first added the estimated peak demands of each lift station. Mr. Guastella then added the total capacity of each lift station. The estimated peak demands were projected for the 18 month margin reserve period and then divided by the combined capacity of all of the lift stations.

In PCUC's last rate case, Mr. Guastella used a peaking factor of 2, instead of the peaking factor of 3 used in this case. Mr. Guastella changed his peaking factor because the peaking factor for domestic wastewater flows show that a peaking factor in excess of three is warranted.

Mr. Bidy proposed that the ratio of lots connected to lots served, which he recommended for the gravity mains, should also be used for pumping plant. Ms. Amaya calculated the used and useful percentage using PCUC's methodology with one change, a peaking factor of two was used to estimate individual lift station flows.

We find that, with one change, Mr. Guastella's methodology is appropriate for the pumping plant used and useful calculation. A review of the peak demands at lift stations 19-1, PS-D, 13-3, 13-2, 21-1, 22-1, 22-2, and 20-1 indicates that the estimated peak flows exceed the station capacity. Therefore, we find it appropriate to use a peaking factor of three, but the peak flow should be limited to the lift station's capacity. This modification decreases the peak flow by 986 gpm and results in a 38.73% used and useful percentage, using a one year margin reserve.

Force Mains

The 1995 year-end booked value for force mains is \$4,570,541. Mr. Guastella's force main used and useful calculation is based upon the pumping plant used and useful percentage adjusted to recognize the fact that some of the force mains are major manifold. Mr. Guastella defines a major manifold main as those mains which carry the combined flow from all lift stations. For this reason, Mr. Guastella believes they should be considered 100% used and useful.

Mr. Bidy testified that the used and useful percentage for force mains should equal the percentage which he calculated for gravity mains. Ms. Amaya testified that the utility's methodology is appropriate with the exception that the peak flows should be two instead of three.

We find it appropriate to calculate the force main used and useful percentage using PCUC's methodology with two exceptions. First, our calculation will limit the peak flows to the lift stations to the station capacity, and second, our calculation will include a one year margin reserve period. This adjustment results in a 69.99% used and useful percentage for force mains.

Facility Lands

OPC witness Bidy testified that the Commission should not automatically allow a 100% used and useful percentage for utility land. Mr. Bidy proposed a used and useful adjustment based upon the total land occupied by the water and wastewater facilities divided by the total land available.

Mr. Guastella testified that the cost of land would be no smaller to serve existing customers and, therefore, should be considered 100% used and useful. Staff witness Amaya did not propose any used and useful adjustments for land.

We agree that the cost of land would be no lower to serve only the existing customers. Further, no evidence has been presented which indicates that any of the land sites were grossly oversized. Our review of prior PCUC rate orders indicates that no used and useful adjustments were made for land in prior PCUC cases. Accordingly, we find that no used and useful adjustments are appropriate for the utility land.

General Plant

OPC witness Dismukes testified that a 86.8% used and useful adjustment to general plant accounts associated with structures and improvements and office furniture is appropriate. Ms. Dismukes testified that this adjustment is consistent with prior Commission decisions for PCUC. Ms. Dismukes' testimony excludes any margin reserve consideration, which was included in the Commission's determination in the prior PCUC rate case. No utility witnesses addressed Ms. Dismukes proposed adjustment.

After including an allowance for margin reserve, we find that the used and useful percentage is 90.98% for the general plant for structures and improvements and office furniture.

RIB DEPRECIATION EXPENSE AND ACCUMULATED DEPRECIATION

Staff witness Dodrill testified that PCUC misclassified improvements to the newer RIB site in Uniform Systems of Accounts (USOA) Account 380, Treatment and Disposal Equipment. He advocated reclassification of these costs to USOA Account 354, Structures and Improvements, which account has longer guideline service lives and, hence, lower depreciation rates.

Ms. Dismukes testified that she agreed with the staff auditor's finding that the utility improperly classified the cost of the RIB. Consequently, the amount of depreciation was incorrect, and the amount of accumulated depreciation was likewise incorrect. Ms. Dismukes testified that to correct the utility's errors, accumulated depreciation should be reduced \$34,270, and depreciation should be likewise reduced.

PCUC witness Seidman testified that based on the general descriptions in Account 380, the utility has consistently classified RIBs as treatment and disposal facilities, and the Commission has accepted this classification through its approval of related depreciation rates. PCUC believes that the guideline depreciable life for Account 380 fairly represents the expected life of its RIBs.

Mr. Seidman testified that the RIBs were designed and are being used for further treatment and reuse/disposal of reclaimed water. The reclaimed water is applied to the bottom of the RIBs to allow for percolating through the soil for further treatment prior to discharging to the ground water. Further, according to Mr. Seidman, the use of rapid infiltration technology is relatively new and was not specifically envisioned in NARUC USOA; however, a RIB is similar in function to the oxidation ponds, lagoons and filtering equipment described in Account 380 of the USOA.

The utility's response to the audit states that the descriptions of grading and clearing in the account, upon which the auditor relies in his work papers, is grading and clearing "when directly occasioned by the building of a structure." The utility argues that no structures exist at the RIB site. Similarly, the drainage systems and landscaping relate to structure improvements. Further, the RIB site, including any landscaping required as a buffer, is in total a functioning wastewater disposal facility, not a structure with improvements, and should remain in Account 380.

We are not persuaded by Mr. Dodrill's and Ms. Dismukes' testimony that the utility misclassified the RIB. First, Mr. Dodrill agreed that there is an element of engineering judgment in determining where items should be booked and that he does not have that expertise. He also acknowledged that a RIB is similar in function to an oxidation pond or lagoon and a sedimentation basin, both of which are properly booked in Account 380. Further, the NARUC Uniform System of Accounts does not specifically identify a RIB and where it should be booked. Based on the above, we believe the guideline depreciable life for Account 380 fairly represents the expected life of the RIB. Therefore, we find that no adjustment is necessary to reclassify the RIB site.

CIAC

It appears that all parties agree that the appropriate amount of CIAC to use as a deduction from rate base is that amount which is deemed used and useful. For presentation purposes, CIAC is presented in rate base as a gross amount. The non-used and useful adjustments for all components are netted in rate base as a separate line item. No further analysis is necessary. We, therefore, find that it is proper for used and useful CIAC to be deducted from rate base.

NET DEBIT DEFERRED INCOME TAXES

According to MFR Schedules A-1 and A-2, the projected used and useful 13-month average net debit deferred taxes are \$1,180,646 for

water and \$1,898,140 for wastewater. The year-end MFR net debit deferred taxes for the same period are \$1,119,911 for water and \$1,940,403 for wastewater. The utility's calculations of these amounts are on MFR Schedule A-3-DTAX, pages 1 through 3.

Simply stated, PCUC calculated its net debit deferred taxes by examining its gross debit deferred taxes apart from its examination of its gross credit deferred taxes. To the debit deferred taxes, it made a specific adjustment to remove the prepaid pre-1987 taxes disallowed in its last rate case and allocated the balance of the debit deferred taxes between used and useful and nonused and useful based on the ratio of additions of CIAC and taxable advances since the 1988 test year. Relative to its gross credit deferred taxes, PCUC did not make any specific adjustments to these. PCUC allocated the credit deferred taxes between used and useful and nonused and useful on the basis of the ratio of used and useful and nonused and useful gross plant. The adjusted debit deferred taxes and the adjusted credit deferred taxes were then netted against one another, and the resulting net debit deferred taxes were included in the appropriate rate base calculations.

PCUC witness Seidman testified that Rule 25-30.433(3), Florida Administrative Code, requires that the used and useful portions of debit and credit deferred taxes be offset against one another for ratemaking purposes. If the net balance is a credit, it is to be included in the capital structure. If it is a debit, it is to be included in rate base. In this case, the net was a debit.

Further, in explanation of MFR Schedule A-3-DTAX, witness Seidman testified that debit deferred taxes are associated with taxes on CIAC. Credit deferred taxes are primarily associated with timing differences between book and tax depreciation. Therefore, the used and useful adjustment for the debit deferred taxes is proportionate to that for CIAC, while the adjustment for credit deferred taxes is proportionate to used and useful plant.

In her direct testimony, OPC witness Kimberly H. Dismukes testified that the Commission should reduce the amount of net debit deferred taxes included in rate base by \$218,090 for the water operations and by \$160,539 for wastewater. Ms. Dismukes further testified that the utility's requested net debit deferred taxes includes deferred taxes associated with an extraordinary property loss related to the faulty plant installed by ICDC that the Commission disallowed from rate base in the utility's last rate proceeding. Accordingly, she testified, it would not be appropriate to include the associated deferred taxes in rate base.

Witness Seidman did not rebut Ms. Dismukes' conclusion that net debit deferred taxes included in rate base should be reduced by \$218,090 for water and by \$160,539 for wastewater.

By Order No. 22843, we reduced PCUC's debit deferred taxes by \$291,702, which are identified as the thirteen-month average of the debit deferred taxes associated with an extraordinary property loss that was recorded in its financial statements in compliance with Statement of Financial Accounting Standard No. 90, "Regulated Enterprises - Accounting for Abandonments and Disallowances of Plant Costs." Order No. 22843 states that for ratemaking purposes, the extraordinary property loss was completely excluded and determined that the related \$291,702 debit deferred taxes should also be excluded.

The record in this proceeding is silent as far as reconciliation of OPC witness Dismukes's recommended total exclusion of \$378,629 (\$218,090 - water plus \$160,539 - wastewater) with the \$291,702 exclusion in Order No. 22843. Also, witness Seidman did not rebut Ms. Dismukes' proposed adjustment, nor did PCUC specifically address the adjustment in its brief.

At the hearing, OPC cross-examined witness Seidman relative to FS-6 which was filed with Seidman's rebuttal testimony and MFR A-3-DTAX. Through OPC's questions and witness Seidman's responses, one of PCUC's adjustments to its debit deferred taxes was elaborated upon. Of PCUC's \$5,528,829 13-month average exclusion from debit deferred taxes, \$3,139,877 were related to non-used and useful CIAC and \$2,388,952 were related to an adjustment carried forward from the last order. In the last rate proceeding, in Order No. 22843, we disallowed \$3,078,522 (the equivalent of the current \$2,388,952 amount) in debit deferred taxes related to pre-1987 collections of wastewater CIAC on which we determined PCUC would have avoided paying income taxes had PCUC used the "look back" rule and been successful, instead of the "look forward" rule to determine the taxability of cash CIAC receipts. If successful, PCUC could have avoided paying taxes and a part of the deferred debit taxes would not have been there.

Although we believe the clarification of the non-used and useful adjustment to debit deferred taxes to be beneficial, we find that PCUC has made the appropriate adjustments to debit deferred taxes based on Order No. 22843 and PCUC's proposed used and useful elements of rate base, with the exception of the \$378,629 reduction related to the extraordinary property loss that is discussed above.

With respect to the utility's proposed used and useful elements of rate base, we have made numerous changes to the

utility's proposed amounts in other areas. Part of the utility's debit deferred tax adjustment is based on non-used and useful additions of CIAC and taxable advances since the 1988 test year and its credit deferred tax adjustment is based on the nonused and useful gross plant. Further, PCUC based its proposed rate base on the test year ending balances, whereas we have determined that a 13-month average rate base is appropriate. Therefore, we have made corresponding non-used and useful deferred tax adjustments based upon our approved used and useful CIAC and used and useful plant, adjusted to the approved averages.

In its brief, PCUC takes the position that no adjustments to the amounts in the MFRs are appropriate. OPC's position is that deferred taxes should be reduced by \$378,629; Flagler adopted OPC's position; and the Dunes did not take a position on this issue.

Based upon the evidence in the record and other adjustments made herein, we have reduced the debit deferred taxes by \$482,849 for water and have increased them by \$195,866 for wastewater.

PLANT-IN-SERVICE

An issue related to plant-in-service adjustments was initially raised by OPC. However, there is no evidence in the record to support an adjustment to plant-in-service. Accordingly, no adjustment is appropriate.

WORKING CAPITAL

Utility witness Seidman explained his calculation of working capital in accordance with Rule 25-30.433(2), Florida Administrative Code, utilizing the balance sheet approach. As this calculation results in a negative number, thus a zero working capital allowance, Mr. Seidman testified that this method does not reflect the utility's need for working capital. Instead, this method reflects the balance of net current assets and deferred non-tax debits that exist. Further, Mr. Seidman testified that the balance sheet method of calculating working capital ignores the utility's need for working capital.

OPC witness Dismukes recommended offsetting the utility's net debit deferred taxes included in rate base with a negative working capital of \$799,493 for water and \$558,004 for wastewater. In rebuttal, Mr. Seidman testified that the Commission requires a Class A utility to calculate working capital using the balance sheet approach. He explained that under the balance sheet approach, net debit deferred taxes are not a component because they clearly are long term assets related to tax timing differences of

CIAC and depreciation and are amortized generally over the life of related assets. Mr. Seidman further testified that the method of one-eighth of O&M required for Class B and C utilities specifically requires debit deferred taxes and credit deferred taxes to be netted separate from working capital. Further, witness Seidman reiterated that a zero working capital fails to recognize a utility's need for working capital. He equated this to a penalty and testified that a negative working capital would only further reduce the cost basis of long-term assets upon which the utility should be allowed to earn a fair rate of return.

Rule 25-30.433(3), Florida Administrative Code, addresses debit deferred taxes in rate base. It states that net debit deferred taxes, if any, should be included as a separate line item in the rate base calculation. Therefore, the utility's net debit deferred taxes should not be netted against a negative working capital, as witness Dismukes suggested. Furthermore, Mr. Seidman's interpretation, as discussed above, is inaccurate in that this subsection addresses deferred income taxes for all three classes of utilities, as well as the disallowance of other deferred debits when the formula method of working capital is used. The rule requires all utilities to net deferred taxes (net the debits and the credits) regardless of the utility's class size or the method employed in determining working capital.

Based on our analysis in accordance with Rule 25-30.433(2), Florida Administrative Code, working capital has been calculated using the balance sheet approach, which results in a negative amount. The evidence in the record supports that working capital should be reflected as zero. Furthermore, Rule 25-30.433(3), Florida Administrative Code, requires net debit deferred taxes to be reflected in rate base as a separate line item, not netted against working capital. Accordingly, we find that a zero provision for working capital is appropriate.

TEST YEAR RATE BASE

Based upon our decisions and adjustments discussed above, we find the appropriate rate base amounts are \$11,009,212 for water and \$5,183,232 for wastewater.

COST OF CAPITAL

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

CIAC

It has been the long-standing practice of this Commission to net used and useful CIAC against rate base in the determination of the allowed rate base for ratemaking purposes. As discussed previously, all parties which took a position on this issue recommended the balance of used and useful CIAC be treated as a reduction to rate base in this case. It is inappropriate to account for used and useful CIAC twice; accordingly, we find it appropriate not to include CIAC as a zero-cost component in the capital structure in this proceeding.

Prepaid CIAC

OPC witness Dismukes testified that the utility has a significant amount of prepaid CIAC which the utility asserts is non-used and useful but OPC believes has been used to fund used and useful assets. Witness Dismukes testified that these funds should be included in PCUC's capital structure as a cost-free source of capital.

Witness Dismukes acknowledged that the Commission rejected this same adjustment in the utility's last rate case in Order No. 22843 in Docket No. 890277-WS. However, she testified that the reasons for the Commission's rejection of this adjustment in the last case do not apply in the instant case.

Witness Dismukes testified that the Commission rejected the adjustment based upon three findings. First, the Commission found that the amount of prepaid CIAC held in trust should be offset against the CIAC balance for an appropriate comparison. Second, the Commission concluded that PCUC had a significant investment in non-used and useful assets because capital exceeded rate base by a significant amount. Finally, the Commission noted that there was no precedent for treating prepaid CIAC as cost-free capital.

Witness Dismukes testified that the first finding does not apply in the instant case because she offset the amount she believes is excess CIAC with the CIAC held in trust to determine the amount she recommends be included in the capital structure. All prepaid CIAC is recorded in one wastewater subaccount with ITT Community Development Corporation. These monies are held in trust by ITT Community Development Corporation and are only turned over to PCUC when the customer requests service. At that time, the customer prepayments are then specifically broken out between water and wastewater plant.

Witness Dismukes testified that the results of her analysis of the relationship of prepaid CIAC to non-used and useful plant in the current rate case and her comparison of rate base and total capital in both the last rate case and the current case demonstrate that the second finding also does not apply at this time. It is witness Dismukes' testimony that her analysis reveals that the utility's balance of non-used and useful CIAC significantly exceeds the balance of non-used and useful plant. In addition, she compared the difference between rate base and total capital in the last rate case and in the current case. In the prior case, total capital exceeded requested rate base by approximately \$12.3 million. She noted that in this case total capital exceeds requested rate base by approximately \$2.1 million. Witness Dismukes testified that this comparison indicates that PCUC did not use investor sources of capital to finance the approximately \$10.2 million additional investment in plant. Based on these analyses, it is her conclusion that the utility used funds collected from customers in the form of prepaid CIAC to finance the additional investment in plant.

Finally, witness Dismukes testified that the Commission should not be deterred from making this adjustment simply because this adjustment has not been made in the past. Moreover, she contended that while the Commission has not made this adjustment in the past, PCUC is a unique utility that has significant amounts of non-used and useful plant, non-used and useful CIAC, and several mechanisms to provide it with a return on its non-used and useful investments. For these reasons, she testified that the Commission should include \$10,363,253 of cost-free CIAC in the utility's capital structure.

PCUC witness Seidman, appearing on behalf of PCUC, testified that the Commission should reaffirm its position in Order No. 22843 that non-used and useful CIAC not be included as a zero-cost component in the capital structure. Witness Seidman testified that the adjustment proposed by witness Dismukes violates utility regulatory accounting principles, that there is no precedent in this jurisdiction or any other jurisdiction of which he is aware for making such an adjustment, and that witness Dismukes did not provide any basis for the Commission to reverse its decision from the last rate case.

Witness Seidman's first concern with witness Dismukes' proposed adjustment is that he believes it violates utility regulatory accounting principles. He testified that her "proposal is contrary to the concept developed and consistently applied in Florida, namely to treat CIAC as an offset to plant-in-service." He further testified that if witness Dismukes' proposal to include non-used and useful CIAC in the capital structure is accepted by

the Commission, it would "result in a discriminatory mismatch of funds by crediting CIAC from future customers against the cost of serving current customers." He further testified that her proposal to include non-used and useful CIAC in the capital structure is equivalent to including a non-used and useful CIAC component in rate base. If a component is not allowed to be in rate base directly, it cannot be allowed indirectly.

Witness Seidman testified that witness Dismukes did not prove her case. More specifically, witness Seidman testified that witness Dismukes' observation regarding how the relationship of capital to rate base has changed since PCUC's last rate case does not support her assertion that non-used and useful CIAC should be included in the capital structure. In his opinion, all this change shows is that investment in non-used and useful plant has been reduced as additional customers have been connected to the system over the seven years that have passed since the last rate case.

Witness Seidman further testified that witness Dismukes' claim that PCUC's balance of non-used and useful CIAC exceeds the balance of non-used and useful plant is incorrect. He testified that her comparison of non-used and useful CIAC to non-used and useful plant does not recognize all non-used and useful components nor does it reconcile those components to the balance sheet and income statement. Witness Seidman performed an analysis which he claims identifies all sources of non-used and useful components and reconciles these amounts to the balance sheet and capital structure. Based upon his analysis, he contends PCUC has a net investment of approximately \$2.0 million in non-used and useful assets. However, he testified that it should not matter whether the utility has a large, small, or no investment in non-used facilities because the Commission does not set rates for non-used plant.

Finally, witness Seidman testified that it would be "improper to disregard precedent just because doing so produces a result that Ms. Dismukes would rather see." He contends that witness Dismukes has not shown any precedent for including non-used and useful CIAC in the capital structure nor any reason why the long-standing practice of offsetting plant with CIAC in determining rate base is not the proper treatment in this case. He also was critical of her decision to recognize used and useful CIAC as a deduction in determining rate base and at the same time recommending non-used and useful CIAC be included in the determination of the cost of capital supporting that rate base. Finally, witness Seidman testified that witness Dismukes did not provide any basis for the Commission to deviate from the decision it made in PCUC's last rate case.

We believe that both PCUC and OPC offered persuasive testimony regarding this issue. After reviewing all of the evidence in the record, we have determined that there is insufficient reason to deviate from the decision we rendered in the last rate case. Based on our earlier decisions and adjustments, it appears that the utility's investment in non-used and useful plant significantly exceeds our determination of the utility's balance of non-used and useful CIAC. This contradicts witness Dismukes' contention that non-used and useful CIAC exceeds non-used and useful plant. Although we agree with witness Dismukes that lack of precedent alone should not prevent the Commission from making a decision if the facts in the case warrant such a decision, we do not believe witness Dismukes has demonstrated that PCUC relied on non-used and useful CIAC to finance used and useful plant as she alleged. For this reason, we find that prepaid CIAC should not be included in PCUC's capital structure.

Cost of Debt

In the course of our staff's audit of the utility, witness Dodrill noted in Audit Disclosure No. 6 that the outstanding debt of PCUC may be impaired because of the parent company's unconditional guarantee of the debt. However, under cross-examination witness Dodrill agreed that the purpose of the parent company's guarantee was to reduce the risk of nonpayment. He also agreed that the interest rate on the debt is lower than it would have been without the guarantee. Moreover, PCUC witness Seidman testified that the interest rate on PCUC's debt is enhanced rather than impaired as a result of the parent company's guarantee. Therefore, based on the evidence in the record, we find that the appropriate cost of long-term debt is 7.24% and the appropriate cost of short-term debt is 7.73%, as filed in the utility's MFRs.

Investment Tax Credits (ITCs)

In its filing, the utility proposed year-end zero cost ITCs of \$2,266,072, but also reflected the 13-month average balance of \$2,316,226. Further, witness Seidman testified that the adjustments required to reconcile the capital structure to the approved rate base be done pro rata over all sources of funds.

Ms. Dismukes testified that in PCUC's last rate case the Commission imputed ITCs in the capital structure because PCUC failed to claim any ITCs on certain additions that were transferred from construction work in progress (CWIP) to plant-in-service. Consistent with the Commission's decision in the last rate case, Ms. Dismukes testified that the Commission should impute the unamortized balance of ITCs, which she calculated to be \$125,569 on

a year-end basis into the current capital structure. In rebuttal, PCUC witness Seidman agreed with Ms. Dismukes' proposed adjustment. Mr. Seidman also testified that the thirteen-month average balance of these ITCs would be \$129,534.

As proposed on MFR Schedules D-1 and D-2 and as testified to by witness Seidman, the capital of the utility has been reconciled to year-end rate base on a pro rata basis. Witness Seidman testified that he understood that the Commission reconciled capital structure across the board except for customer deposits which can be specifically identified with utility customers. However, witness Seidman also testified that it is acceptable to include in the capital structure, customer deposits, ITCs and deferred taxes that are specifically related to the requested rate base and reconcile any remaining difference pro rata over the investor sources of capital only.

In its MFRs and its brief, PCUC proposed pro rata reconciliation to rate base. OPC and Flagler did not state specific positions on the reconciliation element of this issue. The Dunes did not take a position on this issue.

No party has disputed the adjustment recommended by Ms. Dismukes. We also believe it to be appropriate. We also find that the ITC adjustment should be a specific adjustment and that a pro rata adjustment should not be applied to ITCs. We further find that because PCUC is an Option 1 company the appropriate cost rate of the ITCs is zero. Therefore, we find it appropriate to increase ITCs by \$129,534. The result is a 13-month average balance of unamortized ITCs of \$2,445,760.

The adjustment to capital structure is on Schedule No. 2.

Appropriate Capital Structure

In the course of Staff's audit of the utility, witness Dodrill noted in Audit Disclosure No. 7 that because of the parent company's guarantee of PCUC's debt, the Commission should look to the parent company's capital structure to calculate the cost of capital for PCUC in this proceeding. However, he also noted that Audit Disclosure No. 7 should only be considered if Audit Disclosure No. 6, the appropriate cost of debt discussed previously, is acted upon by the Commission.

PCUC witness Seidman testified that PCUC's debt is utility debt and that this relationship is not changed by the requirement of a guarantee by the parent company. He also pointed out that the Commission recognized PCUC's stand-alone capital structure in the

utility's last rate case in Order No. 22843. Finally, he testified that it was never demonstrated that PCUC's capital structure is unreasonable nor that a capital structure other than PCUC's would be more reasonable in this case.

During cross-examination, witness Dodrill agreed that in each prior rate case where a capital structure was explicitly discussed, the Commission recognized PCUC's stand-alone capital structure. He also agreed that it would be reasonable to use PCUC's stand-alone capital structure in this proceeding.

OPC witness Dismukes used PCUC's stand-alone capital structure as the starting point for her testimony regarding the appropriate cost of capital in this proceeding. Although she recommended the Commission make certain adjustments for ratemaking purposes, she none-the-less recognized PCUC's stand-alone capital structure as the appropriate capital structure to which these adjustments should be made.

After reviewing the evidence, we find that PCUC's capital structure is reasonable for a regulated utility. Therefore, we find it appropriate to recognize PCUC's stand-alone capital structure in this proceeding.

Overall Cost of Capital

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test-year ended December 31, 1995, we find that the weighted average cost of capital is 7.90%.

The 13-month average book amounts are taken directly from PCUC's MFR filing. As discussed previously, a specific adjustment has been made to the balance of ITCs. After this specific adjustment, a pro rata adjustment was made over the investor sources of capital to reconcile rate base and capital structure. The pro rata adjustment was applied only over investor sources of capital for two reasons. First, a specific adjustment was made to ITCs. Second, OPC witness Dismukes and PCUC witness Seidman both testified it is appropriate to hold the balance of customer deposits whole in the reconciliation of rate base and capital structure. Neither Dunes nor Flagler County offered any testimony on this point.

We agree with and find it appropriate to use the respective cost rates provided by PCUC in its MFR filing. The return on equity (ROE) filed by PCUC, 11.10%, is the return indicated by the proper application of the Commission leverage formula approved in

Order No. PSC-96-0729-FOF-WS, issued May 31, 1996, in Docket No. 960006-WS.

NET OPERATING INCOME

Our calculation of net operating income is depicted on Schedule No. 3, and our adjustments are itemized on Schedules Nos. 3-A and 3-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. The major adjustments are discussed below.

Projected Water and Wastewater Bills and Consumption

The utility used projected water and wastewater bills and consumption in calculating revenue and rates for the projected test year ending December 31, 1995. In its brief, OPC states that the resolution of this issue depends upon the determination of rate base. If a year-end rate base is used, then the year-end customers and consumption should be used. If an average rate base is used, then average customers should be used.

Utility witness Siedman testified that he knew the rule required the calculation of rate base on a 13-month average and knew that there is a provision in the rate rule for deviating from the rule. He further testified that he did not know that there was any specific tie between that general request for deviation and the presentation of a rate case on a 13-month versus a year-end basis. Mr. Seidman testified that the rule requires the utility to present the MFRs on a 13-month average, but does not require the utility to ask permission to also do it on a year-end basis. If the utility requests that a rate case to be evaluated on a year-end basis, it is the utility's responsibility to prove that it is the proper methodology.

Consistent with our previous findings and analyses, we find it appropriate to use an average number of customers and consumption to calculate test year revenue and service rates. We agree with OPC's position that if an average rate base is used, then average customers should be used. This is consistent with past Commission practice in calculation of service rates.

Miscellaneous Revenue

OPC witness Dismukes recommended increased revenue requirements of \$5,174 and \$5,197 for water and wastewater miscellaneous service revenues as budgeted for the projected test year to actual.

Utility witness Siedman testified that he disagrees with utility witness Dismukes recommended adjustments to miscellaneous revenues from the proposed amount to the actual amount for the test year. Because this rate application is based on a 1995 test year that, for all line items, is 6 months actual and 6 months projected, he testified that it is inappropriate to pick one line item and update it to the actual amount.

We agree with utility witness Siedman and, therefore, find that no adjustment should be made to the amount of miscellaneous revenue to be included in the 1995 projected test year. Furthermore, when the overall revenue requirements are taken into consideration, the increased revenue adjustments are insignificant. Accordingly, we have made no adjustments to miscellaneous revenue.

Hammock Dunes Revenue

OPC witness Dismukes testified that the Commission should increase test year revenue relating to the Hammock Dunes community by \$33,024. She testified that according to the utility, Hammock Dunes flushed their lines often, but the frequency is not expected to continue into the future. Accordingly, PCUC reduced test year consumption for Hammock Dunes by 39,681,000 gallons. She reviewed the utility's expenses associated with flushing the lines for Hammock Dunes in 1995 and did not see an appreciable decline compared to 1994. She further testified that the actual consumption during 1995 was 83,796,400 gallons, only slightly less than experienced in the past. She testified that the Commission should not reduce the level of consumption as requested, but instead use actual test year consumption.

Utility witness Siedman disagreed with Ms. Dismukes' testimony. Witness Siedman testified that the consumption levels for all customers has been calculated to reflect anticipated levels. He further pointed out that the consumption level for Hammock Dunes has been adjusted to reflect the anticipated level under normal, ongoing conditions. Hammock Dunes experienced a level of consumption in the first half of 1995 that is not expected to recur because it has taken action that will substantially reduce its needs for flushing.

The comparison of period consumption levels made by Ms. Dismukes does not reflect that change. During late 1994 and early 1995, Hammock Dunes temporarily employed high levels of flushing to maintain required chlorine residual levels. In the summer of 1995, Hammock Dunes completed the installation of chloramine booster stations in order to maintain chlorine levels without resorting to high levels of flushing. The water consumption experienced in late

1994 and early 1995 will not recur. When this is taken into account, there is a significant decrease in annual consumption. When Ms. Dismukes compared annual 1995 to annual 1994 consumption, she noted a small drop in consumption from 98 million gallons per year to 84 million, or about 15%. She further testified that comparing those periods does not fully reflect the difference in flushing associated with the installation of the booster stations. However, when you compare the more recent 12 month periods, ending April, 1995 and April, 1996 you see the full effect of the operational changes instituted by Hammock Dunes in mid 1995. As shown in Exhibit 41, for this period annual consumption dropped from approximately 127 million gallons per year to 40 million, or about 70%. PCUC's test year revenues are based on an annual consumption of 51 million gallons for Hammock Dunes compared to the 40 million gallons actually consumed in the 12 months ending April, 1996. If the test year revenues are based on 84 million gallons as proposed by Ms. Dismukes, they will be severely overstated. The effect is that PCUC could not achieve its allowed rate of return.

Based on the evidence presented, we find that no adjustment to the amount of 1995 water revenue received from Hammock Dunes is appropriate.

Non-Utility Income and Revenue

In OPC witness Dismukes' testimony, she addressed several adjustments that she believes should be made to move PCUC's recording of non-utility revenue to above-the-line for ratemaking purposes. First, she testified that PCUC earns income for operation and maintenance (O&M) services provided to one water and three wastewater systems not owned by the utility. She also testified that the utility records the associated revenues below the line for ratemaking purposes. Ms. Dismukes contended that it is not made apparent whether the employees that perform O&M services for PCUC also perform the same duties for those other plants to which the utility provides water and wastewater services. Further, she testified that it is not clear if the associated expenses have also been moved below the line or if the associated expenses include allocations for administrative and general (A&G) and other overhead costs.

Ms. Dismukes believes that the O&M services in question appear to be a utility function of PCUC and so she recommended moving the related revenue above the line for ratemaking purposes. The second half of this composite adjustment relates to revenues received from Aqua Tech Utility Services (Aqua Tech), a wholly owned subsidiary of PCUC. Ms. Dismukes contended that there are revenues recorded below the line of \$50,365 associated with Aqua Tech. She testified

that it is not clear from the MFRs what services Aqua Tech provides or to whom. Therefore, she made an adjustment to increase test year revenues by the amount indicated. Ms. Dismukes' composite adjustments, as described above, are an increase to test year revenue of \$52,772 for water and \$54,857 for wastewater. The detail for her adjustments can be found in Exhibit 26, Schedule 7.

Utility witness Seidman believes that Ms. Dismukes has misinterpreted how PCUC provides services to other utility systems, and, as a result, she has double counted revenues in her adjustments. Mr. Seidman explained that PCUC provides O&M services through Aqua Tech to four systems: the Matanzas Shores wastewater treatment plant, the Matanzas Shores lines, the Searay wastewater treatment plant, and the Plantation Bay water treatment plant. He testified that her adjustments include gross income received for these services and net income received by Aqua Tech. He contended that the revenues are the same, as Aqua Tech performs these services; therefore, she counts operating revenue twice for the same services.

Mr. Seidman disagreed with Ms. Dismukes' adjustment, regardless of any misinterpretation. He testified that the revenues are properly booked as non-utility income, as the services provided are not related to utility-owned facilities nor to facilities providing service to PCUC customers. Mr. Seidman explained that PCUC personnel perform the services and that the related payroll expenses, including allocated overheads, are already excluded from O&M expenses in the MFRs.

During cross-examination, Mr. Seidman admitted that the direct salaries and related benefits expense is removed from O&M expenses for ratemaking purposes. However, related A&G expenses, general plant, salaries and benefits for officers, and other indirect costs, such as insurance and transportation, were not removed and placed below the line with the associated revenues. Exhibit 44, Response to Selected OPC Interrogatories Third Set and Response to OPC Interrogatory No. 23, identifies non-utility income recorded on the utility's books and is the basis for OPC's final recommended adjustment.

We agree with the utility that the revenues have been properly booked as non-utility income. Ideally, all costs associated with such income should be recorded below the line, as well, for ratemaking purposes. However, in this case, all revenues were removed and only a portion of the expenses were removed, which results in a mismatching of revenues with expenses. The customers should not bear the costs associated with PCUC's non-utility income. We believe that it is the utility's burden to prove that

non-utility revenue is offset by all related costs, both direct and indirect. Because such proof does not support the utility's argument, we find it appropriate to move PCUC's non-utility revenue above the line. Because the utility has not provided the dollar amount or the support for its adjustment to move direct loaded payroll costs below the line, we are unable to reverse such an adjustment as part of our finding. Accordingly, we have only moved the non-utility revenue above the line.

The basis for our adjustment is the utility's response to OPC's Interrogatory No. 23, which was identified as part of Exhibit 44, as described above. In its brief, OPC agrees to the amounts reflected in this exhibit and states that the adjustments originally recommended by Ms. Dismukes were incorrect, as she double counted the same income. Therefore, consistent with OPC's final recommended adjustments and based on the evidence in the record, we have increased water and wastewater revenues by \$1,802 and \$50,834, respectively.

Non-Used and Useful O&M Expenses

Consistent with its prior rate cases, PCUC performed an analysis of its operating departments for used and useful and made non-used and useful adjustments to its O&M expenses for MFR purposes. PCUC witness Seidman testified that it is quite unusual for a utility to perform a used and useful analysis of its operating departments. He testified that the Commission has always recognized that O&M expenses are composed in general of variable, not sunk costs, and that operating costs are typically geared to serve only current customers even though large amounts of plant may be non-used and useful for ratemaking purposes. However, several rate cases ago, PCUC recognized that because it was closely associated with the developer, in the early stages of development some of its employees would be devoting time for planning, record keeping, and maintenance associated with developing the community in general and maintaining non-used plant.

Witness Seidman explained that this is the third rate case in which an analysis was performed and, judging from its results, it will probably be the last. The amount of "non-used" operating department expenses is now down to less than ten percent. Only the expenses related to maintaining the distribution and collection mains still show non-used amounts of any significance. He testified that the analysis methodology is consistent with that used in previous rate cases.

PCUC is organized into seventeen function related departments. Five of these departments are related to water operations and three

departments are related to wastewater operations. The remaining nine departments render administrative services that affect the overall operation of the utility. According to the utility, all departments incur costs but not all departments have personnel. Departments without personnel provide a cost center for services related to their function.

The costs for each department were evaluated through a review of the utility's organizational charts, a series of interviews with PCUC personnel, and a review of the costs posted for the departments during 1994 and the first six months of 1995. Costs were considered used for ratemaking purposes if they were incurred for the purpose of meeting the utility's obligations under Chapters 367, 373 and 403, Florida Statutes. If a department was determined to have some amount of non-used costs, that amount was expressed in terms of a weighted percent of the total costs of the department, and all costs were adjusted accordingly. The used and useful percentages requested by the utility are as follows:

<u>Dept. #</u>	<u>Department Name</u>	<u>U/U %</u>
<u>Water Departments</u>		
0751	Raw Water Supply & Pumping (WTP#1)	100.00%
0752	Lime Water Treatment (WTP #1)	100.00%
0753	Water Distribution	75.04%
0754	Membrane Water Supply (WTP #2)	100.00%
0755	Membrane Water Treatment (WTP #2)	100.00%
<u>Wastewater Departments</u>		
0761	Wastewater Pumping	100.00%
0762	Wastewater Treatment	100.00%
0763	Wastewater Collection	84.95%
<u>Administrative Departments</u>		
0770	Administrative & General	80.00%
0771	Controllers	85.49%
0772	Engineering	97.91%
0773	System & Data Processing	100.00%
0774	Customer Accounts	100.00%
0775	Personnel Services	100.00%
0776	Community Affairs	100.00%
0777	Purchasing & Safety	97.33%
0778	Inventory Control	78.62%

Of the 17 departments, the utility made used and useful adjustments to only seven. OPC witness Dismukes disagreed with these seven departments as well as the Personnel Services

Department, which the utility reflected as 100%. We will address only those departments at issue below:

Water Distribution (0753) & Wastewater Collection (0763)

According to Exhibit 7, FS-4, PCUC made used and useful adjustments for these two departments because some level of maintenance work must be performed on non-used mains or hydrants. These adjustments are for ratemaking purposes only. The time allocations of management and supervisory personnel reflect the weighted time allocation of their personnel for whom they are responsible. For system maintenance, PCUC used a weighted average calculation for ERCs using a margin reserve and the total amount of active lots to determine the used and useful percentage. The utility's weighted average used and useful percentages for these departments are 75.04% and 85.95% for water distribution and wastewater collection, respectively.

OPC witness Dismukes used the same methodology as PCUC for these two departments except that she removed the margin reserve in determining the weighted average calculation of ERCs for system maintenance. Her recommended used and useful percentages for these departments are 73.29% and 83.60% for water distribution and wastewater collection, respectively.

Mr. Seidman disagreed with Ms. Dismukes' position to remove the margin reserve on used and useful. He testified that margin reserve is generally accepted policy of this Commission, and it should continue to be recognized in these calculations.

A & G Department (0770)

In its used and useful analysis of its operating departments, the utility described this department as consisting of the president and executive secretary. This is a change from prior years when all general management was included in this department. In addition to ultimate responsibility for the management of the utility, the president coordinates with local government and interacts with customers and the community for customer relations. The president also coordinates with ITT Community Development Corp. (ICDC) regarding long-term requirements of the Palm Coast Community in general. However, according to the utility, now that the development and the utility have matured, the time necessary for coordinating with ICDC is diminishing. PCUC has estimated that at least 80% of the president's and his executive secretary's time is devoted solely to the financial, regulatory, and operational needs of the utility to meet its statutory obligations to current and future customers.

OPC witness Dismukes testified that in PCUC's last rate case, this department's expenses were determined to be only 19.31% used and useful. The difference between this case and the last is the method used to determine the used and useful. In the prior case, the utility used average ERCs to lots, where in this case the used and useful was based on interviews. Ms. Dismukes believes that there are considerable differences between the two cases that are not explained. As such, she used a factor weighted 50% based upon the used and useful percentages of collection and distribution lines and 50% based upon the utility's interview estimate. Her composite used and useful percentage for this department is 65.30%.

On rebuttal, Mr. Seidman testified that Ms. Dismukes is mistaken that the current interview methodology is a deviation from past cases. In prior cases, he argued that based on employee interviews, it was decided that the lot ratio calculation best reflected the time estimates of management personnel spent on long term development issues. The current interviews reveal that the utility is operating in a more mature stage than in prior rate cases. Mr. Seidman concluded that based on the interviews, the lot ratios no longer reflected time spent and he elected to rely on the best estimates of the employees. He further testified that Ms. Dismukes' methodology underestimates the time and related costs of the A&G department.

Controllers Department (0771)

This department is headed by the Vice President of Finance and is responsible for coordinating and maintaining the financial records of the utility and for preparing all internal and public financial and regulatory reports. PCUC has estimated a composite used and useful of 85.49% based on employees' time spent on utility related work.

Ms. Dismukes also disagreed with the methodology used to determine the used and useful percentages for the Controllers Department. She used the same methodology she recommended for the A&G Department described above, 50% of used and useful lines with 50% of the utility's percentage. Her recommended composite used and useful for this department was 84.82%.

Engineering Department (0772)

In determining its used and useful percentage for this department, the utility contends that the department's work is 100% used and useful, except for the Senior Vice-President of Engineering and Field Operations. His responsibilities include not only the Engineering Department, but all operating departments.

Accordingly, PCUC used a composite of the operating departments to determine the used and useful for this position. This resulted in a composite percentage for the Engineering Department of 97.91%.

Ms. Dismukes had only two differences from the utility's methodology for this department. For the Senior Vice-President's composite rate, she substituted her composite percentages instead of those requested by the utility. This resulted in a composite rate of 97.75% compared with the utility's rate of 97.91%. Although she stated that she had two differences, her testimony did not spell out a second specific difference.

Purchasing & Safety (0777) and Inventory Control (0778)
Departments

For both of these departments, PCUC used a composite used and useful percentage to reflect that several employees performed work relative to the factors derived from other departments. Accordingly, composite rates of 97.33% for the Purchasing and Safety Department and 78.62% for the Inventory Control Department were requested.

The only difference between PCUC's composite rates for these departments and Ms. Dismukes' is that she used her recommended composite rates for the other departments built into the percentages. Ms. Dismukes' composite rates for each of these two departments is 97.14% and 77.01%, respectively.

Personnel Services Department (0775)

In its application, PCUC reflected this department as 100% used and useful. Although this department has no employees, services provided include administering insurance, pension and savings plans, salary plans and medical insurance, as well as employee awards and functions. PCUC contends that the services provided by this department are the same regardless of whether a portion of any individual employee's time might be adjusted for used and useful considerations.

OPC witness Dismukes disagreed with PCUC's determination for this department. She calculated a composite used and useful of 90.61%, using the used and useful percentage of all expenses excluding personnel services. This composite rate, according to Ms. Dismukes, is consistent with cost allocation procedures where it is not possible to develop an independent allocation formula.

Mr. Seidman rebutted Ms. Dismukes by testifying that the cost for these services remain the same regardless of whether a portion

of any individual's time is considered non-used and useful. He argued that it is not a case for cost allocation, but a recognition that the costs will be incurred regardless and should be recovered by rates.

Conclusion

As discussed previously, we determined that a margin reserve should be included for the water distribution and wastewater collection systems. We believe that the operations departments used and useful determinations should be consistent, where appropriate, with the methods used in determining the plant used and useful percentages. As such, we find it appropriate to include a margin reserve in these used and useful determinations for the Water Distribution and Wastewater Collection Departments.

For the A&G and Controllers Departments, we disagree with Ms. Dismukes' suggestion to blend the prior methodology with the utility's current basis of interviewing employees. The utility provided a very detailed analysis of its basis with descriptions for each group of employees. We agree with the utility that used and useful adjustments are rarely made to other utilities, even when major used and useful plant adjustments are made. We believe that the evidence shows that PCUC has sufficiently documented that the circumstances have changed since the last rate case, and its interviewing method is more accurate in light of the current circumstances. Because operating costs in general correlate to used and useful customers, we believe that an estimate based on time spent on utility matters by each employee or department is a more accurate measure of whether expenses should be reduced. We believe that Ms. Dismukes' method is a less accurate method when time estimates are available. As such, we find it appropriate to reject Ms. Dismukes' method.

For the Engineering, Purchasing & Safety and Inventory Control Departments, OPC's adjustments were a result of prior operating department used and useful percentages. Because we have determined that the utility's methodologies should be accepted, we also find that no changes to these departments are necessary.

Regarding the Personnel Services Department, this department currently does not include any employees, as the services are now performed by ITT. This department does not include the actual benefits associated with the non-used and useful employees in other operating departments as those costs are included within the individual departments. Thus, the benefits and payroll taxes have already been adjusted for non-used and useful as appropriate. On first glance, one would agree with Ms. Dismukes that if the

salaries are non-used and useful, then so are the benefits. But what this department includes are the costs to administer those benefits. We agree with the utility and find that these costs are 100% used and useful or utility related. We believe that this is the same philosophy which determines that the System and Data Processing Department is consider 100% used and useful. Accordingly, we have made no used and useful adjustment to the Personnel Services Department.

In conclusion, we find that used and useful adjustments are necessary to O&M expenses, as adjusted by the utility, but no further adjustments are necessary.

Affiliate Charges

OPC witness Dismukes proposed two adjustments related to affiliate transactions. The first adjustment relates to administrative services provided by PCUC's parent (ITT). Ms. Dismukes testified that the Commission should disallow expenses in the amount of \$21,201. She testified that the utility failed to justify this expense and refused to provide on a timely basis the information needed to evaluate the reasonableness of the charge.

In response to Ms. Dismukes' adjustment, PCUC witness Seidman testified that the charge is for the availability of expertise at the parent level. He explained that ITT charges its subsidiaries an administrative service fee that ranges between .25% and 1.0% of revenues. He argued that this is the same fee basis included and accepted in previous cases. Further, according to Mr. Seidman, PCUC was charged the lowest fee, .25% of revenues. He contended that this fee is not for payroll expense, but for a multitude of services. He testified that there is no information regarding subsidiary fees and ITT employees that could be used to test the reasonableness of the charge. According to Mr. Seidman, the test of reasonableness should be whether PCUC could receive these services from another source for \$21,000 per year.

On cross-examination by OPC, Mr. Seidman was asked questions related to ITT's contract service charge and Research and Development (R&D) assessment policy. He admitted that the contractual services agreement policy of ITT did not mention that the services alleged by Mr. Seidman are to be provided. It merely states:

Under the general relations agreements, units shall remit contract service charges and R&D assessments to ITT headquarters to cover the funding of international research and

development and the costs of ITT corporate administrative and commercial services and advice provided to ITT companies. This policy describes the amounts due for ITT companies and units.

Ms. Dismukes' second adjustment related to charges from ITT Community Development Corporation. During 1995, ITT Community Development Corporation began providing accounts payable processing services to PCUC. This function was previously provided by the utility. She argued that the utility provided no justification for the change, other than a memo saying that "per agreement between Jim Perry of PCUC and myself there will be [a] monthly fee of \$1000 for accounting services provided to PCUC." Further, the utility provided no information concerning how the fee was determined or that it is cost effective for ITT Community Development Corporation to provide this service. She proposed a \$10,564 reduction to expenses, due to the absence of supporting documentation.

Mr. Seidman testified that PCUC clearly receives accounts payable processing services from ITT Community Development Corporation. He argued that cost justification is evident from the comparison of last year's expenses to this year's expenses. He testified that PCUC had previously been paying an employee \$23,706 for the same service it is now paying ITT Community Development Corporation \$12,000.

We believe that the record does not provide sufficient support to determine what administrative services are provided under the ITT Community Development Corporation agreement and whether those transactions exceeded the market rate. Even Mr. Seidman admitted that he did not have a test to measure the reasonableness of the charge. While he testified that the standard should be whether PCUC could receive these services from another source for \$21,000 or less, the utility failed to provide any evidence to show what cost the utility would have incurred if it had been an arms-length transaction. Further, we do not believe that water and wastewater customers should be required to pay for charges and R&D assessments to ITT headquarters to cover the funding of international research and development and the costs of ITT corporate administrative and commercial services.

It is the utility's burden to prove that its costs are reasonable. Florida Power Corp. v. Cresse, 413 So.2d 1187, 1191 (1982). This burden is even greater when the purchase is between related parties. In GTE Florida Inc. v. Deason, 642 So.2d 545 (Fla. 1994), the Court established that when affiliate transactions occur, that does not mean that "unfair or excessive profits are

being generated, without more." The standard established to evaluate affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair. The evidence in the GTE Florida case indicated that its related party costs were no greater than they would have been had services and supplies been purchased elsewhere.

The facts in this case differ from those established in the GTE Florida case. The distinction is that in the GTE Florida case, there was evidence in the record that showed that the utility's cost was equal to or less than what an arms-length transaction would have been. Other than the testimony provided by Mr. Seidman that either of the above charges are reasonable, PCUC did not provide any documentation to support these costs. As such, we find that the utility has essentially failed to prove the prudence of these charges.

We find that the utility failed to meet its burden to justify its costs. Accordingly, we have reduced affiliate charges by \$25,412 (31,765 less 20% non-used and useful) and then allocated 59.63% to water and 40.37% to wastewater.

Test Year Expenses

It appears that all parties agree that no adjustments should be made to true-up budgeted test year expenses to actual. Accordingly, we find that no adjustments to true-up budgeted test year expenses are appropriate.

Personnel Services Expenses

In witness Dismukes' testimony, she contended that ITT began providing personnel services to PCUC for the second half of the test year. This was normally a function performed in-house by PCUC, but now will be performed by the utility's parent corporation, ITT. Ms. Dismukes testified that the full cost of the services provided by ITT was included in test year expenses, while the utility did not remove PCUC personnel services expenses that will not recur because of the change. Ms. Dismukes did not dispute the amount charged by ITT; however, she believes that the nonrecurring expenses realized by PCUC during the first half of 1995 should be removed. Accordingly, she recommended an adjustment to reduce test year water and wastewater expenses by \$9,246 and \$6,260, respectively. Ms. Dismukes' adjustments rely on her suggested used and useful adjustments.

Witness Seidman first disagreed with Ms. Dismukes' application of a used and useful percentage to personnel services. He proposed

that such expenses be 100% used and useful because the cost of providing the service remains the same whether or not a portion of an employee's time is adjusted for used and useful. Mr. Seidman further contended that Ms. Dismukes' calculations to remove the nonrecurring personnel services expenses were done incorrectly. He testified that she deducted payroll taxes when the taxes had not been included in O&M expenses in the MFRs; also, she deducted recurring employee benefits. Mr. Seidman testified that if Ms. Dismukes' used and useful adjustment is recognized, her adjustment to personnel services expenses is overstated by \$10,369. However, if the Commission recognizes these expenses as being 100% used and useful, he testified that her adjustment is overstated by \$17,716.

We do not believe that Mr. Seidman has sufficiently supported his rebuttal to Ms. Dismukes' adjustments to personnel services expenses. Mr. Seidman's argument that payroll taxes had not been included in O&M expenses in the MFRs is relevant in terms of how payroll taxes should be categorized with regard to making a used and useful adjustment; however, it is irrelevant with regard to whether the expense is nonrecurring, in this situation. Further, in rebuttal, Mr. Seidman testified that Ms. Dismukes deducted some recurring employee benefits. However, he did not explain or provide sufficient evidence as to why her total amount for employee benefits should be removed from this adjustment. The utility had the opportunity to provide an explanation as to why the employee benefits should be considered recurring, but no such explanation was provided. Hence, we believe that the utility did not satisfactorily dispute the recommended adjustments made by OPC.

We believe that there is no dispute between the parties that personnel services are now being provided to PCUC by the parent company, ITT. Further, the parties agree that some nonrecurring expenses should be removed from test year expenses. We have previously found that personnel services expenses are 100% used and useful. Based on the foregoing, we find that Ms. Dismukes' composite adjustment to remove nonrecurring personnel services expenses of \$17,113, before any adjustment to used and useful, is appropriate. Accordingly, we have removed nonrecurring personnel services expenses and have prorated the adjustment between water and wastewater in the amounts of \$10,204 and \$6,909, respectively.

Non-recurring Legal Fees

OPC witness Dismukes testified that test year legal expenses included a charge of \$9,342 associated with the defense of a lawsuit filed by Ferguson Enterprises. The description of the lawsuit indicated that the costs will not recur in the future. Ms. Dismukes proposed an adjustment to reduce legal fees by \$3,638 for

water and \$2,463 for wastewater. She applied a non-used and useful percentage of 34.7% (\$9,342 x 34.7%).

PCUC witness Seidman responded that, although the specific charges from that law firm may not recur, legal expenses of that magnitude most likely will recur. He testified that the total legal expense projected for 1995, including the amount contested by Ms. Dismukes, is already less than what would be expected if measured against the combined increase in customer growth and CPI since the last authorized level. The utility provided no other evidence related to this issue.

The crux of this issue is whether or not the utility has proven that these legal expenses represent normal and recurring charges. The utility does admit that these specific legal costs will most likely not recur; however, it argued that these costs would be replaced with other legal fees. Regardless, the utility did not provide any evidence to support that these types of charges have occurred in the past or will continue to occur in the future, such as a comparison of historical legal expenses. It is the utility's burden to show that its requested expenses are reasonable. See, Florida Power Corp. v. Cresse at 1191. The mere statement that costs of this nature are recurring is not sufficient without additional corroborative evidence. We find that the utility has not proven these costs are necessary and reasonable. Accordingly, we have reduced legal fees by \$4,457 for water and by \$3,017 for wastewater, which include non-used and useful adjustments of 20%, as discussed previously.

Miscellaneous Adjustments

This issue relates to four dissimilar expense components, three of which we have already discussed. As discussed below, we find that no adjustments are appropriate to these components.

Administrative & General (A&G) Expenses for Non-utility Services

As discussed previously, PCUC provides water and wastewater services to utilities it does not own. OPC witness Dismukes proposed an adjustment to increase revenues for the income earned by PCUC for these non-utility services. Utility witness Seidman testified that the direct salaries and overhead were removed from operating expenses, and, therefore, it is inappropriate to include the income above the line. However, Mr. Seidman admitted that no other A&G costs, such as supervisors' time, management salaries, insurance, billing or transportation expenses, or general plant, were allocated to these non-utility services.

In its brief, OPC provides an alternative to estimate the additional costs for A&G and general plant to reduce expenses associated with these services, if no adjustment is made for revenues. However, OPC's position is that estimating the amount of additional A&G expenses and general plant produces a similar result of adding just the revenues. As such, OPC argues that the Commission should just increase the revenues. We have previously addressed the issue of reflecting increased revenues or removing additional expenses and will not provide duplicative analysis here.

Update to Actual Expenses

The utility's 1995 test year expenses are based on six months of actual and six months of projected expenses for the 1995 test year. All parties have agreed and we have previously determined that no adjustments are necessary to update the test year projected expenses to actual.

Divestiture

The utility made specific adjustments to its expenses to exclude costs related to the possible divestiture or sale of PCUC. The record does not contain any evidence which disputes that these adjustments were inappropriate. Accordingly, we find that no adjustment is necessary.

Rate Case Expense

The projected provision for rate case expense contained in the MFRs totals \$301,500. Split equally between water and wastewater, the four-year amortization yields an annual expense of \$37,688 for each system. Utility witness Seidman provided updated rate case expense as two supplemental filings to his rebuttal testimony. The utility's final request for rate case expense, including estimates to complete, totals \$419,248. All of the utility's support for rate case expense and estimates to complete can be found in composite Exhibit 41, which includes FS-13A and FS-13B.

According to PCUC, it was a necessary expense for the utility to retain expert witnesses in order that the record be properly developed and accurate based on appropriate rate-setting and economic principles and practices. The utility contends that thorough expense documentation was submitted, which included projections to complete. Further, the utility asserts that a large portion of the rate case expense is due to "the unrestrained discovery efforts of OPC", and to complex issues and related theories which go against typical rate-setting practices.

In its brief, the utility claims that both OPC and staff have provided testimony contrary to "several longstanding PSC policies and generally accepted rate-setting practices". The utility states that, if the adjustments related to such testimony are adopted, the future financial viability of PCUC would be at risk as a result of large reductions to existing rates and revenues. Again, the utility contends that it was "critical" to retain expert testimony to combat the "ill-conceived theories and errors" such that the Commission would have sufficient information on which to make an informed decision.

In its brief, OPC contends that the requested rate case expense is unreasonable and excessive. OPC compares the current requested rate case expense to what was granted in PCUC's last rate case, which case Mr. Seidman agreed was controversial and quite complicated. In the last rate case, the Commission granted \$215,102 for rate case expense by Order No. 22843, issued on April 23, 1990. Mr. Seidman also agreed that, in the last rate case, the Commission was critical of PCUC for retaining outside consultants because it was believed that the utility had competent in-house staff to accomplish the job.

It is OPC's belief that the instant case has also been controversial, but not as complex as the utility's last case. OPC recommends that only an approximate \$260,000 be granted for rate case expense due to certain excessive or inappropriate expenses. In particular, OPC takes issue with the fact that PCUC retained outside consultants to present this case. Further, OPC maintains that the law firm retained used three different lawyers to sometimes accomplish the same tasks. Two of the retained lawyers appeared at the hearing, despite the fact that very little cross-examination occurred. Also, the law firm charged \$.20 per page to photocopy thousands of pages of documents related to the case. In addition, OPC believes that PCUC's retention of expert witness Guastella was not necessary, as witness Seidman has testified on the same subjects in the past and could have done it at less than half the cost. OPC also believes that Mr. Guastella's inclusion of used and useful workshop costs and expenses were not appropriate rate case expenses. OPC further maintains that rate case legal expense levels seem to be inflated and over-budgeted. Finally, the proposed rate case expense includes expenses associated with the utility's service availability application which is being handled in a separate docket.

Based on our review of the supporting documentation, as well as the above discussions, we find it appropriate to make several adjustments to the utility's requested rate case expense. Those adjustments and explanations are outlined as follows:

Guastella Associates, Inc.

In Exhibit 41 the utility updated rate case expense to reflect a total of \$119,567 relating to costs associated with services provided by Guastella Associates, Inc. During our analysis of the invoices for Mr. Guastella's fees and costs, we found insufficient support for the fees and additional costs incurred between June 25, 1996 and July 10, 1996. FS-13A, details actual (billed and unbilled) fees and costs from June 1995 through June 25, 1996. FS-13B, the final updated rate case expense exhibit, includes fees and costs through July 10, 1996 and estimates to complete. However, FS-13B does not contain the supporting invoices for those fees and costs related to the period between June 25, 1996 and July 10, 1996, for Mr. Guastella. Therefore, we have removed the fees and costs associated with that period of time. In our adjustment, we did consider the known and measurable time (fees) and costs associated with the hearing dates of July 1 and 2, 1996. In all fairness, we believe that the fees and costs associated with the hearing should be adjusted back into rate case expense, as those are expenses all parties should be able to confirm. Our composite adjustment for Mr. Guastella's insufficiently supported fees and costs is a decrease to rate case expense of \$6,742.

Next, we analyzed Mr. Guastella's fees and costs associated with a used and useful workshop that he attended on July 11 -July 12, 1995. During cross-examination, Mr. Seidman testified that Mr. Guastella's participation was on behalf of the utility and necessary for purposes of determining staff and others' positions and how those positions might affect his used and useful determinations. Also, Mr. Seidman testified that the workshop coincided with the preparation of this rate case. OPC, in its brief, states that these workshop related costs are inappropriately included in rate case expense and should be removed.

We believe that the expenses associated with this workshop were prudently incurred by the utility, as participation in such workshops is encouraged by the Commission. We recognize that, by nature, a Commission workshop expense is non-recurring and that it would be more appropriately reflected in Regulatory Commission Expense - Other. However, there is not enough support in the record to make the determination that these expenses should be moved out of rate case expense. The account Regulatory Commission Expense - Other is not actually suggested by OPC, nor is an appropriate amortization period. Therefore, based on our analysis that the expense was prudently incurred and that there is insufficient support in the record to remove it from rate case expense, we find that no adjustment with regard to these workshop related expenses should be made.

Our next and final adjustment to rate case expense associated with witness Guastella relates to PCUC's retention of a consultant with an hourly rate of \$190. First, we believe that a utility has the right to hire the best consultant to present the utility's case. Second, we recognize that sometimes it might be necessary to retain more than one consultant in a rate case due to the magnitude of issues and due to levels of expertise in various areas of rate-making. However, with this rationale, we also believe that consultants' fees should be maintained at a level which is appropriate for ratepayers to bear.

In this case, we agree with OPC that witness Seidman is capable of testifying to the same issues on which witness Guastella provided expert testimony, and at less than half the hourly rate. However, it is the utility's prerogative to decide which issues it wants to be covered by its respective consultants. We believe the contention to be whether the utility should have hired an expert with a more reasonable rate than Mr. Guastella's.

While we believe that PCUC's decision to retain Mr. Guastella for his expertise is reasonable, it does not automatically follow that the customers should have to bear the full costs for his services. The Commission enjoys a broad discretion with respect to allowance of rate case expense. Florida Crown Util. Servs., Inc. v. Utility Regulatory Bd. of Jacksonville, 274 So.2d 597, 598 (Fla. 1st DCA 1973). Nevertheless, it would constitute an abuse of discretion for the Commission to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. Meadowbrook Util. Sys., Inc. v. FPSC, 518 So.2d 326, 327 (Fla. 1st DCA 1987), rehearing denied, 529 So.2d 694 (Fla. 1988). Based on the foregoing, we believe it is appropriate to adjust rate case expense for an hourly rate which we believe to be more reasonable for the ratepayers of PCUC. The disallowed portion should be borne by the shareholders, whom we believe benefitted most by Mr. Guastella's expertise. We find that an adjustment downward to an hourly rate of \$140, which is an approximate average of Mr. Guastella's and Mr. Seidman's hourly rates, is appropriate. Accordingly, we have decreased rate case expense by \$19,450, which is approximately 389 hours charged to PCUC for work performed specifically by Mr. Guastella. Our adjustments result in an approved rate case expense total of \$93,375 for services rendered by Guastella Associates, Inc.

M&R Consultants, Inc.

In Exhibit 41, the utility updated its estimated rate case expense to reflect a total of \$72,586 relating to costs associated with services provided by M&R Consultants, Inc. Our adjustments

related to consulting services provided by M&R Consultants' witness Seidman correspond exactly to the first adjustment discussed under Guastella Associates. Here, the analysis involves the fees and costs related to the time period between June 25, 1996 and June 30, 1996. All of our assumptions and the method of adjusting the fees and costs remain the same for this adjustment to Mr. Seidman's billings. Accordingly, our composite adjustment for Mr. Seidman's insufficiently supported fees and costs is a decrease to rate case expense of \$2,075.

Next, we analyzed the fees charged by Mr. Seidman for his services with regard to the utility's application for increased service availability charges. The expenses associated with Mr. Seidman's work on the service availability charge application are embedded in current rate case expense billings. We recognize that the service availability charge application is a separate docket from the instant case, and that these charges should not be included in rate case expense. Basically, OPC and the utility disagree that these charges should be removed. OPC counsel suggested to Mr. Seidman that, if the Commission keeps the expenses in this docket, the expenses would need to be ascertained and then amortized over a period of time other than four years. Our analysis of the approximate charges revealed that the time spent by Mr. Seidman on the service availability charge application totals, at most, 10% of the charges of \$10,327 appearing on page 20 of 95, FS-13A.

We believe that there is insufficient evidence in the record to say that the expenses in question should actually be deferred to Regulatory Commission Expense - Other; further, the amortization period to be used is not supported. It is our belief that the difference between a four-year amortization of our estimate, \$1,300, and a five-year amortization, which would occur by moving the expenses to Regulatory Commission Expense - Other, would have a grossly immaterial impact on rates. On the basis of insufficient support in the record and on what we believe to be an immaterial impact on rates, we find that no adjustment with regard to the service availability charge expenses is necessary. Our adjustments result in an approved rate case expense total of \$70,511 for services rendered by M&R Consultants.

Southern Appraisal Corporation

In Exhibit 41, the utility updated rate case expense to reflect a total of \$16,120 relating to costs associated with services provided by Southern Appraisal Corporation. We believe that rate case expense associated with Southern Appraisal Corporation has been prudently incurred and supported. Therefore,

no further analysis is required, and we find that no adjustments are necessary.

Gatlin, Woods & Carlson

In Exhibit 41, the utility updated rate case expense to reflect a total of \$177,486 relating to costs associated with services provided by Gatlin, Woods, & Carlson. During cross-examination on rate case expense, Mr. Seidman was asked by OPC whether photocopying charges of 20 cents per page were reasonable charges for a professional firm to bill its clients. Mr. Seidman testified that 15 to 20 cents is rather standard when the copying is done by a professional firm. OPC asked if it would save money to turn large copying jobs over to a copying center. Mr. Seidman testified that it might be prudent to do so; however, it would depend on the circumstances. Further, Mr. Seidman was unsure of the line items on pages 56 and 74 of 95, Exhibit 41, to which OPC was having him refer. As such, Mr. Seidman could not say what was copied, nor could he make a determination if the charges were prudently incurred. When questioned about the charges on page 74 of 95, Mr. Seidman further testified that the prudence of such charges is a matter of the circumstances, such as the time the copying was done and how quickly it had to be completed. Mr. Seidman testified that Mr. Gatlin's firm does use outside copying services, and that in this case there must have been time constraints such that the copying was done in-house.

We believe that it is important to determine the prudence of costs such as photocopying. We have analyzed the charges in this case and believe that the expenses were prudently incurred and that Mr. Seidman sufficiently supported those charges on which he was challenged. We agree with Mr. Seidman's argument regarding time constraints and other circumstances, which dictate whether photocopying is done in-house or sent to a copying center. We believe that the record does not fully support the rationale for removing any of these photocopying expenses; further, no evidence was presented as to what a reasonable fee would be if the large jobs were sent out to copying centers. Accordingly, we find that no adjustments to rate case expense for photocopying charges are necessary.

Our final comments with regard to the legal firm's expenses relate to OPC's assertions that the legal firm's estimate to complete should not have increased due to an extra day of hearing. Mr. Seidman testified that extra work would be necessary due to the substance of the events that transpired between the original hearing dates and the third day of hearing. It is our belief that, due to the complexity of the issues in this rate case and to the

extra day of hearing, the estimates to complete submitted by Mr. Gatlin's firm are reasonable and prudent. OPC argues, in its brief, that the law firm used three different lawyers to sometimes accomplish the same task. We have analyzed the invoices submitted by Mr. Gatlin's firm, and we believe that there has been no overlapping of assignments. Also, there is no evidence in the record to substantiate OPC's argument that these lawyers worked on identical assignments. In its brief, OPC further argues that the appearance of two lawyers at the hearings was not necessary because the scope of the issues and the number of witnesses did not require both lawyers' expertise. We note that two of our lawyers appeared at the hearings and have worked on this rate case due to our belief that the complexity of the issues in this case warrant such allocation of the corresponding workload. Accordingly, we find that no adjustments with regard to the legal firm's estimate to complete are necessary.

Other - Retaining Outside Consultants

In its brief, OPC states that the Commission should find the utility's retention of outside consultants unreasonable, just as the Commission found in PCUC's last rate case. In conducting its case before this Commission, it is common practice for a utility to hire expert witnesses to represent the utility. A utility may be large enough to warrant the work being performed in-house; however, the staff in-house may not have the level of expertise required or preferred by the utility to represent its positions. A utility has the right to conduct its case as it deems appropriate. Likewise, it is under the Commission's discretion to determine if rate case expense has been prudently incurred. Based on the foregoing, we find that no further adjustments are warranted or supported in the record for accounting, legal, engineering, or land appraisal rate case expense.

Summary

Based on our analysis above, we have made adjustments to decrease rate case expense for Mr. Guastella's insufficiently supported charges of \$6,742 and for our analysis of a reasonable hourly rate of \$19,450. We have further reduced rate case expense by \$2,075 for Mr. Seidman's insufficiently supported charges. Our composite reduction to rate case expense totals \$28,267. Accordingly, the appropriate amount of rate case expense for this proceeding totals \$390,981. This results in an increase of \$89,481 to the MFR requested amount. The four-year amortization results in additional test year rate case expense of \$22,370, split equally between water and wastewater in the amount of \$11,185, respectively.

Non-Used and Useful Property Taxes

Utility witness Seidman testified that he adjusted property taxes to reflect the current millage rates and used and useful amounts. He did not, however, explain how his adjustment is broken out for the portion related to the millage rate and the portion related to the used and useful adjustment. Therefore, we made our adjustment based on the test year balance of property taxes in the MFRs, because the record does not support the breakdown of Mr. Seidman's adjustment. Further, we have adjusted used and useful property taxes based on our used and useful adjustments to total plant balances. Accordingly, we have decreased property taxes for water and wastewater by \$108,320 and \$45,869, respectively.

Income Tax Expense

Although all parties agree that the 34% tax rate is the rate applicable to PCUC's taxable income on a stand alone basis, PCUC witness Seidman supported the use of a 35% tax rate in calculating the tax expense of PCUC. Witness Seidman believes the Commission does not treat PCUC on a stand alone basis because of the parent debt adjustment that is larger than the difference in tax expense caused by use of a 35% tax rate. While it is true that the parent debt adjustment is only possible because of the consolidated relationship, it is intended to address capital structure issues by recognizing that the stand alone capitalization of the utility may be affected by the affiliation with a parent. This is shown by the language of Rule 25-14.004, Effect of Parent Debt on Federal Corporate Income Tax, Florida Administrative Code, which states:

the income tax expense of a regulated company shall be adjusted to reflect the income tax expense of the parent debt that may be invested in the equity of subsidiary where a parent-subsidiary relationship exists and the parties to the relationship join in the filing of a consolidated income tax return.

The rule further states:

The adjustment shall be made by multiplying the debt ratio of the parent by the debt cost of the parent. This product shall be multiplied by the statutory tax rate applicable to the consolidated entity. This result shall be multiplied by the equity dollars of the subsidiary, excluding its retained earnings.

The parent debt adjustment is made by rule and applies no matter what tax rate is used. The adjustment recognizes the tax

impacts of capitalization decisions of the parent. The rule presumes there was a decision by the parent to issue debt which was, in turn, invested in the utility as equity dollars. The parent debt rule, through the tax calculation, makes the ratepayers neutral as to whether the debt is received at the parent or utility level.

OPC witness Dismukes testified that use of a 35% tax rate is irrelevant to the instant case. She testified that the stand alone income of PCUC would be taxed at a 34% rate. Witness Seidman said he did not know of any precedent for using the 35% rate. Witness Seidman conceded that PCUC's taxable income is less than \$10 million. He also testified that PCUC's work papers for the consolidated tax return determine taxable income on a stand-alone basis, as do its calculations for ratemaking purposes.

Other than the use of a parent debt adjustment, no other evidence was presented by PCUC for use of a 35% tax rate. Because the parent debt adjustment recognizes other factors involved in an affiliate relationship, we find it appropriate to calculate PCUC's income taxes on a stand alone basis using the 34% tax rate.

Test Year Operating Income

Based on the adjustments discussed above, we find that the test year operating income before any provision for increased revenues is \$1,052,098 for water and \$517,805 for wastewater. The schedules for water and wastewater operating income are attached as Schedules 3-A and 3-B, and the adjustments are shown on Schedule 3-C.

REVENUE REQUIREMENT

Based on the utility's application and our adjustments and calculations discussed above, we find that the appropriate annual revenue requirements are \$5,094,035 for water and \$3,105,262 for wastewater. This results in a decrease to test year revenues of \$306,329 (-5.67%) for water and a decrease of \$181,943 (-5.53%) for wastewater. Because these final revenues are less than the test year revenues before any provision for increased rates, we, therefore, deny the utility's application for increased revenues and instead order a revenue reduction.

RATES AND RATE STRUCTURE

Allocation of Effluent Reuse Costs

Pursuant to Section 367.0817(3), Florida Statutes, the Commission has the authority to allocate the costs of a reuse project between an investor-owned utility's water, wastewater and reuse customers. Enacted in 1994, this new section has changed the way the Commission allocates costs between a utility's water and wastewater customers, when reuse is used as a means of effluent disposal.

The Dunes is the only party that provided an argument on this issue. According to the Dunes, Section 367.0817(3), Florida Statutes, is not applicable because PCUC has not submitted a "reuse project plan" for approval. In addition, because PCUC has incurred no treatment costs related to effluent reuse beyond those required as part of its normal secondary wastewater treatment and effluent disposal requirements, it is not appropriate to recover any portion of PCUC's normal wastewater treatment and disposal plan investment or operating costs, from either its water customers or from the Dunes.

We are not entirely persuaded by the Dunes' argument. It is not necessary for a utility to have filed a reuse project plan to implement Section 367.0817(3), Florida Statutes. Reuse has traditionally been included in a utility's wastewater costs since it was primarily used as a method of effluent disposal. However, with the advent of more stringent requirements from the DEP and water management districts (WMD), reuse is now viewed as a source of water as well as a method of effluent disposal. Section 367.0817(3) allows the Commission to recognize the benefits of reuse that inure to all of a utility's customers, including the water customers.

Harold Wilkening of the St. Johns River Water Management District (SJRWMD) testified regarding the benefits of reuse. According to Mr. Wilkening, the primary benefits of using reuse include (1) replacing groundwater and preserving the higher quality water source and (2) reducing or eliminating water quality impacts. Additionally, other benefits of reuse that vary from case to case may include:

- (1) it postpones the development of new water treatment facilities;
- (2) it reduces the need to develop alternative water supply sources;

- (3) it reduces the likelihood of adverse environmental impacts;
- (4) it allows utilities to qualify for longer duration consumptive user permits;
- (5) it is less expensive than other conventional wastewater treatment and disposal options;
- (6) users receive a very reliable water supply source;
- (7) it is not subject to water shortage restrictions; and
- (8) it contains levels of nutrients that reduce fertilization costs to the users.

Although we recognize that there are benefits to reuse, we find that no portion of the revenue requirement associated with reuse should be allocated to the water customers. First, we believe that most of the benefits described above appear to accrue to those water customers that receive service from a utility that provides reuse for irrigation. However, in this case, PCUC does not provide reuse for public access irrigation. The Dunes resells the effluent provided by PCUC to its customers for irrigation. Therefore, we believe that the majority of these benefits inure to the water customers of the Dunes, not PCUC. This does not mean, however, that there are not any benefits to the water customers of PCUC. The PCUC water customers benefit from the reduction in water consumption in that area that has occurred as a result of reuse.

Second, the wastewater customers of PCUC benefit from the reuse provided to the Dunes. The Dunes is identified as an effluent disposal site on PCUC's wastewater permit. If the Dunes was no longer a customer of PCUC, then the permitted capacity of PCUC would be reduced by the amount corresponding to the Dunes. As a result, PCUC's wastewater customers benefit from the service provided to the Dunes since this service allows PCUC to dispose of its effluent without the need for additional disposal sites. Further, because the Dunes is an effluent customer, not a wastewater customer, the wastewater customers benefit because the Dunes shares in the cost of the disposal of their treated effluent. Because the costs of reuse are traditionally recovered from the wastewater ratepayers, these benefits are already being recognized in the wastewater customers' rates.

Although we do not believe that any revenues should be allocated in this proceeding to the water customers, we do believe that such an allocation should be explored in future proceedings. The utility's consumptive use permit requires 75-85% of the utility's future wastewater flows to be reused through irrigation. According to Exhibit 3, this is an unusually high amount, and discussions are underway to modify this requirement. Despite this fact, there is evidence that the utility may be providing reuse to

customers other than the Dunes in the future. According to the Updated Abbreviated Reuse Feasibility Study dated May 1995, two golf courses in proximity to PCUC are in the planning stages and may be constructed by 1998. One of these golf courses is required by its development order to use PCUC's effluent for irrigation purposes. Therefore, it would be more appropriate to explore this issue in future proceedings.

Effluent Reuse Rate

PCUC has requested a rate of \$.67/1,000 gallons for the provision of effluent to the Dunes, PCUC's only effluent customer. The requested rate is based on a cost allocation study completed by John Guastella, witness for PCUC. The study allocates the total cost of PCUC's .75 MGD RIB (downgraded from 1.0 MGD) and 6.0 MGD wet weather storage tank to the reuse rate. Using these costs, an effluent reuse revenue requirement has been determined which is divided by the total effluent produced by PCUC in order to develop the rate. Only PCUC and the Dunes provided arguments regarding this issue.

PCUC believes that the proposed reuse rate is appropriate because the storage tank and RIB disposal facilities are part of an integrated system which meets the needs of both the general body of wastewater ratepayers and the Dunes. It argues that the cost of these facilities should be used to establish an effluent rate that recognizes a fair sharing of cost between the wastewater ratepayers and the Dunes and the value of the service to the Dunes.

The Dunes does not believe that a new class of service should be approved. If a new class of service is approved, however, then no rate is appropriate for effluent. This is because the Dunes incurs all of the incremental cost associated with treating and disposing of the unfiltered effluent. Because the Dunes incurs all of the incremental cost, it believes that establishing a charge would violate the statutory requirement that utility rates be "just, reasonable, compensatory and not unfairly discriminatory."

Both parties use past Commission practice as the basis for their arguments. The Dunes states that when an effluent reuse arrangement has provided benefits to both parties, as in this case, the Commission has set rates that reflect a sharing of the incremental cost of treating the effluent to advanced wastewater treatment standards. According to the Dunes, both parties benefit in this case and past Commission practice would support a rate that reflects a "sharing" of the incremental costs. In this case, however, the Dunes has directly paid or incurred 100% of the incremental cost of effluent reuse. According to witness Milian,

these costs include: the pumping station at PCUC's plant site, a 12" effluent transmission main, chlorination facilities, wet weather storage, meters and distribution within the Dunes. According to its brief, because the Dunes has incurred these costs, there is no need for the Commission to establish a rate based on cost sharing.

PCUC, on the other hand, states that the incremental cost argument is irrelevant since rates are generally set on the basis of average cost. It argues that it is Commission practice to set an effluent rate that does not exceed the cost of alternative sources for irrigation water. In this case, the upper limit of the alternatives could be PCUC's raw water rate. Accordingly, the requested rate of \$.67/1,000 is a reasonable midpoint.

There are several key issues that need to be addressed prior to establishing a reuse rate for PCUC. Therefore, our analysis will be divided into these issues.

The first part our analysis is whether a new class of service should be approved. This issue was considered previously in Docket No. 900315-WS, which was PCUC's application for an effluent class of service. In Order No. 23372, issued August 20, 1990, the Commission found that it was not appropriate to establish an effluent class of service for PCUC. The order cites three reasons for this decision:

- 1) Establishing a new class of service might send false signals that the utility was ready and able to satisfy a demand for effluent when the utility was merely securing an alternative method of effluent disposal.
- 2) If a new class of service is established, a rate should be established at the same time.
- 3) A decision to establish a rate for effluent should be made in the context of a rate case where there is sufficient information to determine the prudence and reasonableness of establishing a charge for the provision of effluent.

PCUC treats its effluent to secondary treatment standards. This level of treatment is not sufficient for application in public access areas such as golf courses. Therefore, the Dunes must treat the effluent to a higher standard prior to selling the effluent to the Dunes' customers. In its position statement, the Dunes asserts that a new class should not be established because the effluent is

not suitable for reuse without further treatment, and there is no general demand for such service.

We are not persuaded by the Dunes' argument. Although the Dunes must treat the effluent further before it can be applied in public areas, the effluent provided by PCUC is considered to be reuse. Both PCUC and the Dunes are located in the SJRWMD. The SJRWMD defines reuse as "the deliberate application of reclaimed water, in compliance with the DEP and SJRWMD rules, for a beneficial purpose. The reclaimed water provided to the Dunes meets this definition. In addition, the reuse meets the definition of effluent reuse under Section 367.021(6), Florida Statutes, which states that effluent reuse means the use of wastewater after the treatment process, generally for reuse as irrigation water or for in-plant use.

With regard to demand, the circumstances have changed since the issuance of the Order in Docket No. 900315-WS. The entire SJRWMD has been designated a Water Resource Caution Area (WRCA). The purpose of this designation is to provide the greatest possible availability of reclaimed water and maximize reuse throughout the SJRWMD in order to conserve available water resources. Accordingly, when reclaimed water is readily available, the SJRWMD and DEP rules require water users to use reclaimed water in place of higher quality water sources unless the applicant demonstrates that its use is either not economically, environmentally or technically feasible. Given the position of the SJRWMD regarding reuse, we believe that there will be a greater demand for effluent in the future.

Based on the above, we find that the utility is providing a service and a valuable commodity to the Dunes which should be reflected in the utility's tariff, regardless of the level of reuse rate. Even if the appropriate reuse rate is zero, Section 367.091(2), Florida Statutes, requires that each utility's rates, charges and customer service policies must be contained in a tariff approved by and on file with the Commission. Accordingly, we hereby approve a new class of service.

The second issue we must consider is whether PCUC is entitled to a reuse rate. As mentioned above, the effluent provided by PCUC must be treated to a higher standard by the Dunes before it can be provided to any of the Dunes' customers. Mr. Guastella testified that he wasn't aware of any other utility in Florida that provides unfiltered effluent (secondarily treated) to a customer for further disposal.

In order to justify the need for a reuse rate, PCUC highlighted a provision of the second agreement in which PCUC agreed to pay the Dunes \$558 for the right to dispose of 600,000 gallons per day at the Dunes and \$3,341 to lease 7 millions gallons of wet weather storage. According to PCUC, during the course of this agreement, the Dunes did not construct any additional facilities to provide that service, nor did it incur any incremental capital costs in connection with this agreement. In its brief, the Dunes stated that the sharing of the incremental cost concept has been applied by the Commission when both parties benefit from the provision of reuse. According to the Dunes, in the lease situation, there was no sharing of benefit and PCUC was the only party to benefit from this agreement. Further, without a payment of some type, there would have been no legal consideration for Dunes' agreement to provide storage, and the contract would have been unenforceable.

One way for determining a reuse rate is by considering the benefits of reuse. The Dunes benefits from the source of irrigation water provided by PCUC. The Dunes receives secondarily treated effluent from PCUC and treats it to a higher standard. Although the Dunes must pay the costs of treating the effluent to a higher standard, it avoids the cost of treating the effluent to secondary standards. Additionally, Hal Wilkening of the SJRWMD testified that reuse serves to reduce the need for development of alternative water supply sources which are more expensive to the utility and its water customers. This is true in this case. The Dunes' reuse facilities have a permitted capacity of 1.6 MGD average daily flow. The Dunes receives about 61,000 gpd of effluent from its own treatment facilities and is required by its most recent agreement with PCUC to take no less than 300,000 gpd from PCUC. According to Gary Moyer, the Dunes' engineers recommended that the \$4 million investment be made to receive effluent from PCUC after reviewing the costs of receiving potable water for irrigation.

PCUC also benefits from reuse. PCUC benefits because the provision of effluent to the Dunes allows the Dunes to act as a method of effluent disposal. One reason for the original agreement was that PCUC had surplus wastewater effluent that could be made of use by the Dunes. In addition, as discussed earlier, the Dunes is recognized as an effluent disposal site on PCUC's wastewater permit. If the Dunes was no longer a customer of PCUC, then the permitted capacity of PCUC would be reduced by the amount corresponding to the Dunes. As a result, PCUC's wastewater customers benefit from the service provided to the Dunes since this service allows PCUC to dispose of its effluent without the need for additional disposal sites.

The evidence in the record shows that there are arguments for and against a reuse rate. Arguments for a reuse rate are: PCUC provides a valuable service or a product to the Dunes and is entitled to some restitution for that service; the Dunes benefits from the provision of the effluent; and reuse is the most cost effective alternative source of irrigation for the Dunes. Arguments against a reuse rate include the Dunes has invested close to \$4 million in order to receive effluent from PCUC and provide reuse to its customers; the Dunes continues to pay operation and maintenance costs on the main between the Dunes and PCUC; and the Dunes charges a rate to its customers and will probably increase the rate if a reuse rate is approved.

This case is unusual in that the customer intervened specifically to oppose a reuse rate. In most cases, the Commission has had to rely on the agreement between the utility and the customer, as well as any testimony from WMD representatives as to the appropriateness of a reuse rate. Also, in most other cases, the approved rate has been based on negotiations between the utility and the customer. Here, the Dunes has intervened for the purpose of ensuring that no reuse rate be approved. Therefore, it appears there was no negotiation between the utility and the customer in regard to the reuse rate.

The Dunes argues that past practice prevents the Commission from approving a rate in this case. According to the Dunes, this is because in prior cases involving effluent rates, the Commission has applied a principle that where effluent reuse benefits both parties, the parties should share the incremental cost associated with the reuse. That principle is not supported in this case because the Dunes already pays a 100% share of the incremental costs. We are not persuaded by this argument because we have not consistently approved reuse rates based on incremental costs. As discussed above, some reuse rates have been approved based on negotiations between the utility and the reuse customer. Further, Mr. Guastella testified that methods for setting reuse rates are relatively new and evolving and that a consistent way of looking at reuse rates has not been established. Although in past cases Mr. Guastella has testified that the reuse rate should be set based on incremental cost, his testimony in this case is clear that he does not believe that is a principle that should be applied in every case involving reuse rates. In this case, he performed a specific rate study for PCUC.

Additionally, we note that the Dunes recognized in the original agreement that it would incur a substantial cost in order to receive effluent from PCUC. The agreement states that:

in recognition of State policy favoring utilization of treated effluent for irrigation purposes, it is the desire of the parties hereto to utilize PCUC's effluent for irrigation purposes even though there may not be a direct benefit to PCUC and DCDD may incur substantial cost to provide additional treatment of said effluent for irrigation purposes.

Therefore, based on Mr. Guastella's testimony regarding the establishment of reuse rates and Mr. Wilkening's testimony regarding the benefits of reuse, we find that a reuse rate is appropriate in this case.

The third issue that must be considered is whether the Dunes has alternative sources. Gary Moyer, manager of the Dunes, testified that the Dunes has considered other alternatives for irrigation. The Dunes chose reuse because it was the most cost effective method of receiving irrigation water. We believe that this method is also one of the more environmentally friendly alternatives. According to Mr. Wilkening, reuse serves to offset groundwater withdrawals which reduces the likelihood of adverse environmental impacts requiring mitigation. Mr. Milian, witness for the Dunes, testified that he would recommend that the Dunes consider other alternatives if a reuse rate is approved. According to Mr. Milian, the Dunes could obtain a lesser quality of water by taking water from canals or surface waters.

Upon cross-examination regarding alternative sources of irrigation water, Mr. Moyer testified that the Dunes at one point had considered meeting its irrigation needs through potable water purchased from PCUC. He testified that after consideration of this alternative, the Dunes' board voted to invest \$4 million to receive the untreated effluent from PCUC for irrigation purposes. He also testified that the Dunes had not completed any analysis as to the cost to secure alternative sources.

Furthermore, there is some question as to whether the Dunes would be able to receive a consumptive use permit from the SJRWMD should the Dunes secure another source. In order to obtain a permit for water use, SJRWMD rules will require the Dunes to use reuse unless it can demonstrate that it is not technically, environmentally or economically feasible. According to Mr. Wilkening, the Dunes has already shown that it is technically and environmentally feasible to receive reuse from PCUC. Therefore, the Dunes would have to show that it is not economically feasible to continue receiving reuse. Economic feasibility is not defined

by rule and few cases have required a determination of economic feasibility. As a result, Mr. Wilkening was able to give little guidance as to what is considered economically feasible to the WMD. Given the testimony of Mr. Wilkening regarding the SJRWMD's position on consumptive use permits and Mr. Moyer's testimony regarding the Dunes' investment in receiving effluent from Palm Coast, we believe that the Dunes' ability to seek alternative sources may be limited.

The fourth issue is the necessity of the RIB and the storage tank. As mentioned above, the requested rate is based on a cost allocation study completed by PCUC witness Guastella. The study allocates the total cost of PCUC's .75 MGD RIB (downgraded from 1.0 MGD) and 6.0 MGD wet weather storage tank to the reuse rate. We analyzed the record to determine the necessity of these items, because they are the two items of investment used to determine the requested reuse rates and both the Dunes and the utility provided testimony and arguments as to whether these items are necessary to provide effluent to the Dunes.

According to Mr. Guastella, the RIB and tank are a part of an integrated disposal system. As such, the cost of the RIB and the storage tank should be recovered from all of PCUC's customers, including the Dunes. According to the utility, this is consistent with the philosophy that rates are generally set on the basis of average cost, regardless of the absence of any incremental cost of service. The utility argues that if the Commission focuses solely on incremental costs, which is the crux of the Dunes' argument, it will be ignoring the actual costs PCUC incurs in owning and operating an integrated wastewater utility system, without which the Dunes would have to find more costly irrigation water. The Dunes, on the other hand, believes that the RIB and tank are not necessary to provide effluent to the Dunes. Therefore, the Dunes should not be required to recover the costs of these items.

The record is clear that the RIB is not necessary to provide effluent to the Dunes. None of the effluent that goes to the Dunes goes through the RIB. PCUC would have constructed the RIB whether or not the Dunes was an effluent customer of PCUC. With regard to the tank, however, the record contains conflicting information.

According to the utility, the storage tank is required to provide equalization to the Dunes to maintain effluent quality and generally to provide wet weather storage for PCUC. Exhibit 5, which is a letter from the utility to the DEP, however, states that the purpose of the tank is to provide wet weather storage to PCUC's sprayfield and is not necessary to provide wet weather storage for the Dunes since the Dunes has its own wet weather storage at its

reuse facility. Mr. Guastella testified that the letter does not indicate that the tank is not necessary to provide service to the Dunes. Mr. Guastella further testified that this letter is one piece of correspondence out of many and the letter does not state that the storage is "not for the Dunes".

The Dunes asserts that the overwhelming weight of the evidence indicates that the tank was required to provide wet weather storage for the PCUC sprayfield site and it was not required to provide service to the Dunes. Although this is corroborated in exhibits from DEP and PCUC engineers, as well as testimony from a PSC staff witness, Gary Moyer (of the Dunes) does allude to its necessity in his prefiled testimony. Specifically, Mr. Moyer testified that the unfiltered effluent is delivered to the District from a closed system. That is, it comes either directly from PCUC's wastewater treatment process (the chlorine contact chamber) or from PCUC's 6.0 MGD effluent storage tank.

Under the original agreement, PCUC took effluent from two basins and transported it to the Dunes for further treatment. However, a problem with algae caused the Dunes to install a main to take effluent directly from the chlorine contact chamber. Accordingly, the most recent agreement between the Dunes and PCUC requires that the effluent be delivered through a closed system. The agreement indicates that the storage tank meets this requirement. In its brief, the Dunes argues that the tank provides some flexibility in the provision of the effluent to the Dunes but that it is not required for this, and any needed operational flexibility could have been achieved by much less costly means.

Because Mr. Moyer testified that reuse is provided by the tank and the agreement alludes to its necessity, we believe that the tank is necessary to provide service to the Dunes, but not to the extent argued by the utility. We agree with the Dunes that the weight of the evidence shows that the fundamental purpose of the tank is to provide wet weather storage to PCUC. Mr. Guastella testified that his review of the many pieces of correspondence regarding the tank indicated that it was fairly clear that the storage facility was needed to provide service to the Dunes; however, the record does not contain this correspondence. What is in the record, however, are Reuse Feasibility Studies that show that the tank is needed for wet weather storage to PCUC.

Finally, we must determine the appropriate reuse rate. We considered several options for the appropriate rate, ranging from zero to the utility's requested rate of \$.67/1,000 gallons. The first option was zero. We considered this rate because Mr. Wilkening testified as to how critical reuse is in that area, and

it appears that the utility and the customer have found a way to promote reuse in a way that benefits them both. Approving a reuse rate other than zero may discourage reuse and cause the Dunes to search for alternative sources. Additionally, the Dunes and PCUC have worked closely on reaching an agreement, and it appears that this was not done in this case. This is troubling to us because the utility may be risking its relationship with the Dunes.

Despite this concern, we note that the Dunes may not be able to receive a consumptive use permit if it should seek alternative sources. As discussed above, the SJRWMD strongly encourages reuse in its district, and this may prevent the Dunes from receiving a consumptive use permit for other sources of irrigation water. In addition, we believe that the Dunes and its customers benefit from reuse since reclaimed water users are not subject to the same restrictions as those who use potable water for irrigation in periods of drought. Nor is it subject to the daytime irrigation restrictions between 10 AM and 4 PM. Further, as noted above, we do not agree that the Commission has an established practice of setting reuse rates on incremental cost. Therefore, we believe a reuse rate greater than zero is appropriate.

Regarding the utility's requested rate, as discussed above, we are not convinced that the RIB and the tank are necessary for providing the Dunes' service. The difficulty in establishing a reuse rate based on cost is determining the items of investment necessary to provide reclaimed water to the end user. In this case, the utility selected two items of investment which it believes are necessary for providing effluent to the Dunes. Although the Dunes does not use any effluent that comes from the RIB and there is a question as to the necessity of the tank, the utility believes that the rate should be based on these items of investment because these items are a part of an integrated system used to provide the Dunes with effluent. We note, however, that two other parts of the system, another RIB and a sprayfield, were not used in calculating the rate. In addition, items that are directly attributable to providing the Dunes reuse, the effluent pumping station and the effluent transmission line, could not be used for determining a reuse rate because the Dunes already pays the costs of operating and maintaining these items.

We believe the requested rate is not appropriate because it is unreasonably high given the fact that a rate has never been charged before. As discussed above, a reuse rate that is too high could cause the Dunes to seek alternative sources. Although the record does not show that any alternative would be feasible, we do believe that a reuse rate that is too high could jeopardize the relationship between PCUC and the Dunes. Because these entities

are involved in an arrangement that benefits each of them, as well as their customers, we do not believe that this would be appropriate.

In this case, we find that a reuse rate of \$.07/1,000 gallons is appropriate. We admit that this is a judgment call; however, Mr. Guastella testified that to some degree, his cost allocation study is based on judgment. He also testified that there is no established method for setting reuse rates. While this is admittedly a nominal charge, it recognizes that reuse is a commodity of value and sends this signal to the Dunes. In addition, we note that the Dunes pays approximately \$26,500 annually for operating and maintaining the effluent pump station at PCUC's wwtp. Using the actual reuse flows for 1995 in Exhibit 17, we have determined that the cost of operating the pump station is approximately \$.07/1,000 gallons. Adding our approved rate and the cost of operating and maintaining the pump station results in a total cost of \$.14/1,000 gallons. According to the Dunes, the rates that the Commission has approved for reuse in the past have ranged from zero to \$.25/1,000 gallons. Our approved rate falls within this range.

In addition to the reuse rate, we must also determine the appropriate flows in order to determine the reuse revenue to be subtracted from the wastewater revenue prior to determining wastewater rates. The utility believes that 800,000 gallons is appropriate, based on an estimate for 1994. Exhibit 17 shows that the actual flow for 1995 was 1,000,000 gpd. According to Mr. Guastella, 800,000 gpd is appropriate because they believe that consumption will drop from 1,000,000 gpd once a rate is charged.

We believe that it is appropriate to use the actual flows for 1995 shown in Exhibit 17 for determining the reuse revenue. The record contains some discussion on the elasticity of reuse water; however, there is no evidence that reuse is truly price elastic. Because the record contains the actual flows for 1995, we find that this amount is appropriate for determining reuse revenues. Accordingly, we have calculated a reuse revenue of \$25,550. Our calculation is as follows:

Reuse Flows*	1,000
	<u>x365</u>
Annual Flows*	365,000
Reuse Rate	<u>x.07</u>
Reuse Revenue	<u>\$25,550</u>

*000's omitted

In conclusion, we find it appropriate to approve a new class of service for reuse for this utility. The appropriate reuse rate is \$.07/1,000 gallons and the resulting revenue is \$25,550.

Bulk Water Rate

Dunes is the only bulk water customer of PCUC. Dunes has reserved 200,000 gpd of water capacity on the PCUC system. As testified by utility witness Moyer, under its bulk water agreement with PCUC, Dunes paid PCUC an advance capacity charge of \$1,050,390 for its initial capacity purchase of 100,000 gpd in 1988. In August, 1995, Dunes paid another advance capacity charge of \$1,125,000 for purchase of an additional 100,000 gpd of capacity. These "contribution" amounts were calculated to offset 100% of the utility's investment in the water plant required to serve Dunes and included a "gross-up" of the related CIAC.

Because Dunes paid in advance the entire cost of the plant needed to serve it, the Commission in 1989 approved a bulk water rate for Dunes that did not include return on investment, depreciation, or income tax components. This results in a monthly rate that is lower than that paid by other customers whose contributions pay for less than 100% of the plant required to serve them.

To maintain the correct relationship between the rates paid by Dunes and the rates paid by other customers, PCUC proposed in this case to apply the same percentage increase to the bulk water rate that it proposed to apply across-the-board to other water rates. As to a water rate increase, Dunes supports an equal percentage increase methodology, since it results in a fair allocation of the water rate increase among all water customers.

We believe that Order No. 21606, issued July 26, 1989, in Docket No. 890173-WU, substantially supports the bulk water rate for PCUC. The order establishes a procedure for the original bulk rate and justification as to why the rate is less than that of the general body of ratepayers. Therefore, we find it appropriate to apply the same percentage increase to PCUC's current bulk rate as applied across-the-board in determining other water rates. Accordingly, the appropriate bulk water rate for PCUC to charge Hammock Dunes is a base facility charge of \$184.59 and a gallonage charge of \$.95.

Rates

We have approved final service rates that are designed to produce annual operating revenues of \$5,000,204 and \$3,020,688 for

the water and wastewater divisions, respectively, using the base facility charge rate design. These revenues exclude any miscellaneous revenues and reuse revenues as discussed earlier. The utility's requested revenues represent increases of \$1,479,626 (26.94%) for water and \$1,575,817 (47.31%) for wastewater based on the projected test year ending December 31, 1995. Accordingly, we deny all of the utility's requested rate increase with the exception of the effluent reuse rate which we grant in part.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the appropriate rates pursuant to Rule 25-22.0407(10), Florida Administrative Code. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates may not be implemented until proper notice has been received by the customers. The utility shall provide proof of the date notice was given within 10 days after the date of notice. The revised tariff sheets shall be approved upon staff's verification that the tariffs are consistent with the Commission's decision and the proposed customer notice is adequate.

The comparison of the utility's original rates, interim rates, requested rates, and our approved rates is shown on Schedule Nos. 4-A and 4-B.

Rate Case Expense Apportionment

Section 367.0816, Florida Statutes, requires that rate case expense be apportioned for recovery over a period of four years. The statute further requires that the rates of the utility be reduced immediately by the amount of the rate case expense previously included in the rates. This statute applies to all rate cases filed on or after October 1, 1989. Accordingly, we find that the water rates should be reduced by \$51,176 and the wastewater rates should be reduced by \$51,176, as shown in Schedules Nos. 5-A and 5-B, after four years. The revenue reductions reflect the annual rate case amounts amortized (expense) plus the gross-up for regulatory assessment fees.

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

Refund

In Order No. PSC-96-0493-FOF-WS, issued April 9, 1996, the utility's proposed rates were suspended and interim water and wastewater rates were approved subject to refund, pursuant to Sections 367.082, Florida Statutes. The approved interim revenues were \$5,491,319 for water, an increase of \$483,617 or 9.66%, and \$3,432,636 for wastewater, an increase of \$481,419 or 16.31%.

According to Section 367.082, Florida Statutes, any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceedings to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed. Examples of these adjustments would be an attrition allowance or rate case expense, which are recovered only after final rates are established.

In this proceeding, the test period for establishment of interim rates was the historical twelve months ending December 31, 1994. The test year for final rates is the projected twelve months ending December 31, 1995. The approved interim rates did not include any provisions for pro forma operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs and the floor of the last authorized range for equity earnings.

To establish the proper refund amount, we calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded, because it was not an actual expense during the interim collection period.

Using the principles discussed above, we calculated the revenue requirement for the interim collection period to be \$5,042,859 for water and \$3,054,086 for wastewater. The interim revenue requirements exceed these amounts. In order to determine the appropriate refund percent, miscellaneous revenues have been excluded. Therefore, we find refund percentages of 8.23% and 11.22% for water and wastewater, respectively, for the interim period to be appropriate.

In addition to the refunds being made with interest as required Rule 25-30.360(4), Florida Administrative Code, the utility shall submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. Also, the utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

Allowance for Funds Used During Construction (AFUDC)

In its filing, the utility requested that its AFUDC rate be changed to the approved weighted cost of capital. Based on our determination of the weighted cost of capital in an earlier portion of this Order, and consistent with Rule 25-30.116, Florida Administrative Code, we have determined the appropriate annual AFUDC rate to be 7.90%, which represents a discounted rate of 0.658027%. Further, consistent with the above-referenced rule, the effective date shall be January 1, 1996.

CLOSING OF DOCKET

This docket shall be closed after the time for filing an appeal has run, upon staff's verification that the utility has completed the required refunds with interest, and the proper revised tariff sheets and customer notice have been filed by the utility and approved by staff. Further, the utility's corporate undertaking may be released upon staff's verification that the refund has been completed.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction to determine the water and wastewater rates and charges of Palm Coast Utility Corporation pursuant to Sections 367.081 and 367.101, Florida Statutes.
2. As the applicant in this case, Palm Coast Utility Corporation has the burden of proof that its proposed rates and charges are justified.
3. The rates and charges approved herein are just, reasonable, compensatory, not unfairly discriminatory and in accordance with the requirements of Section 367.081(2), Florida Statutes, and other governing law.
4. Pursuant to Chapter 25-9.001(3), Florida Administrative Code, no rules and regulations, or schedules of rates and charges, or modifications or revisions of the same, shall be effective until filed with and approved by the Commission.

Based on the foregoing it is, therefore,

ORDERED by the Florida Public Service Commission that, with the exclusion of the effluent reuse rate, the application by Palm

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Coast Utility Corporation for increased rates is hereby denied. It is further

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

ORDERED that all matters contained herein, whether in the form of discourse in the body of this Order or schedules attached hereto are, by reference, expressly incorporated herein. It is further

ORDERED that the rates decreased herein shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets. It is further

ORDERED that, prior to the implementation of the rates approved herein, Palm Coast Utility Corporation, shall submit a proposed customer notice explaining the decreased rates and the reasons therefor. It is further

ORDERED that, prior to the implementation of the rates approved herein, Palm Coast Utility Corporation, shall submit, and have approved, revised tariff sheets. The revised tariff sheets will be approved upon staff's verification that they are consistent with this Commission's decision and that the proposed customer notice is adequate. It is further

ORDERED that, simultaneous with the filing of revised tariff sheets, Palm Coast Utility Corporation shall file revised tariff sheets containing the effluent rate hereby approved in the body of this Order. It is further

ORDERED that Palm Coast Utility Corporation shall refund with interest and in conformity with Rule 25-30.360, Florida Administrative Code, 8.23 percent of the water revenues and 11.22 percent of the wastewater revenues collected under interim rates. It is further

ORDERED that, prior to the implementation of the refund, Palm Coast Utility Corporation shall submit and have approved the water and wastewater refund rates along with supporting documentation of the calculation of those rates. It is further

ORDERED that the refund and the refund report shall be completed in accordance with Rule 25-30.360, Florida Administrative Code. It is further

ORDERED that the rates approved herein shall be reduced at the end of the four-year rate case expense amortization period. Palm

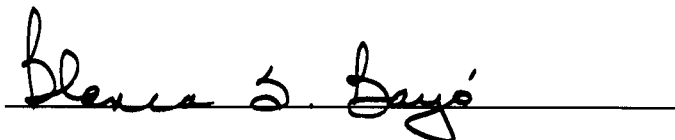
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Coast Utility Corporation shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall also file a customer notice. It is further

ORDERED that Palm Coast Utility Corporation shall file all required reports within the time periods prescribed in the body of this Order. It is further

ORDERED that this docket shall be closed after the time for filing an appeal has run, after the approval of revised tariff sheets, and our staff's verification that the required refund has been made.

By ORDER of the Florida Public Service Commission, this 7th day of November, 1996.

A handwritten signature in cursive script, reading "Blanca S. Bayó", is written over a solid horizontal line.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

BLR

DISSENTS

Commissioner Deason dissents from the Commission's decision in this matter with the following opinion:

I respectfully dissent from the majority's application of Rule 25-30.433(2), Florida Administrative Code, regarding the calculation of a working capital requirement for this company. Application of the balance sheet method yields a negative working capital requirement. Absent a demonstration that there are circumstances that require the negative balance to be ignored, the plain language of the rule is that the balance sheet method shall be used. Although it could even be argued that the rule leaves no room for departure from strict application of the balance sheet methodology, I am not urging that reason and common sense be abandoned in application of a ratemaking tool. Rather I would urge that the burden of proof be left squarely on the company to justify a modification of the balance sheet method.

Zeroing out the negative balance of working capital in water and wastewater industries has been a common practice of this Commission. My understanding is that it has its roots in practicality and the proper recognition of the going-forward operations of a company. The simple application of the formula of current assets minus current liabilities can mask affiliate subsidies that do not represent the stand-alone operations of a utility. For that reason, a zero balance has been used where, for example, accrued interest equal to two-thirds of non-working capital ratebase resulted from years of unpaid parent loans resulting in a negative working capital. In such a case where the company's rates were being set on a standalone basis, it was deemed appropriate to recognize that the past losses would not be continuing. Order No. 17366, issued April 6, 1987, in Docket No. 850031-WS, in re: Application of Orange-Osceola Utilities, Inc. for increased water and sewer rates in Osceola County. See also, Order No. 12350, issued August 10, 1983, in Docket No. 820073, in Re Application by Seacoast Utilities, Inc., for an increase in the water and sewer rates to its customers in Palm Beach County, Florida.

Despite the frequency of zeroing a negative working capital calculation, I do not believe that the practice rises to the level of a blanket Commission policy. Rather, the intent behind the Commission's working capital policy is to place the burden on the utility to prove its entitlement to a working capital allowance other than the one yielded by the balance sheet method.

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The concern that I wish to express here is that the record does not clearly reflect that the company in this case has met its burden of showing that a basis exists for zeroing out the negative working capital. Even should the circumstances exist which would allow the company to meet its burden, the order should be clear that the Commission's practice is one that creates a rebuttable presumption that Class A utilities' working capital requirements will be calculated pursuant to Rule 25-30.433(2). Only upon a showing that the negative working capital requirement is generated by factors which are not sustainable on a standalone basis should the presumption be overcome and a zero balance be utilized.

Commissioner Kiesling dissents from the Commission's decision in this matter with the following opinion:

I dissent from the majority's decision to find 20% of facility costs to be 100% used and useful due to economies of scale. I dissent for three reasons: 1) the majority's decision is a clear departure from prior Commission policy; 2) the decision does not comport with the greater weight of the evidence; and 3) the effect of the decision is to unnecessarily shift some of the costs of growth to current customers.

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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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, 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/or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.

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PALM COAST UTILITY CORPORATION SCHEDULE OF WATER RATE BASE TEST YEAR ENDED 12/31/95			SCHEDULE NO. 1-A DOCKET NO. 951056-WS			
COMPONENT	TEST YEAR PER UTILITY YEAR-END	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJ. AVERAGE TEST YEAR	
1 UTILITY PLANT IN SERVICE	\$ 63,505,519	(2,128,199)\$	61,377,320	(1,089,914)	60,287,406	
2 LAND & LAND RIGHTS	504,632	0	504,632	0	504,632	
3 NON-USED & USEFUL COMPONENTS	(8,602,553)	0	(8,602,553)	(10,464,761)	(19,067,314)	
4 CWIP	3,992,210	(3,992,210)	0	0	0	
5 ACCUMULATED DEPRECIATION	(20,996,438)	1,074,065	(19,922,373)	938,154	(18,984,219)	
6 CIAC	(16,390,083)	0	(16,390,083)	1,027,079	(15,363,004)	
7 AMORTIZATION OF CIAC	3,241,580	0	3,241,580	(246,931)	2,994,649	
8 NET DEBIT DEFERRED TAXES (USED)	1,119,911	0	1,119,911	(482,849)	637,062	
9	0	0	0	0	0	
10 ADVANCES FOR CONSTRUCTION	(2,672,139)	2,672,139	0	0	0	
11 WORKING CAPITAL ALLOWANCE	0	0	0	0	0	
12 OTHER	0	0	0	0	0	
RATE BASE	\$ 23,702,639	(2,374,205)\$	21,328,434	(10,319,222)	11,009,212	

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PALM COAST UTILITY CORPORATION SCHEDULE OF WASTEWATER RATE BASE TEST YEAR ENDED 12/31/95			SCHEDULE NO. 1-B DOCKET NO. 951056-WS		
COMPONENT	TEST YEAR PER UTILITY YEAR-END	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJ. AVERAGE TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 56,249,291	2,128,199 \$	58,377,490	(3,924,077)	54,453,413
2 LAND & LAND RIGHTS	1,153,532	0	1,153,532	(525,555)	627,977
3 NON-USED & USEFUL COMPONENTS	18,345,687	426,872	18,772,559	(6,924,896)	11,847,663
4 CWIP	0	0	0	0	0
5 ACCUMULATED DEPRECIATION	(18,107,234)	(986,635)	(19,093,869)	892,137	(18,201,732)
6 CIAC	(61,045,743)	0	(61,045,743)	300,877	(60,744,866)
7 AMORTIZATION OF CIAC	16,511,375	0	16,511,375	(786,524)	15,724,851
8 DEBIT DEFERRED INCOME TAXES	1,940,403	0	1,940,403	195,866	2,136,269
9	0	0	0	0	0
10 ADVANCES FOR CONSTRUCTION	(990,073)	405,534	(584,539)	(75,803)	(660,342)
11 WORKING CAPITAL ALLOWANCE	0	0	0	0	0
12 OTHER	0	0	0	0	0
RATE BASE	\$ 14,057,238	1,973,970 \$	16,031,208	(10,847,976)	5,183,232

PALM COAST UTILITY CORPORATION ADJUSTMENTS TO RATE BASE TEST YEAR ENDED 12/31/95		SCHEDULE NO. 1-C DOCKET NO. 951056-WS	
EXPLANATION	WATER	WASTEWATER	
PLANT IN SERVICE			
To reflect 13-month average test year	<u>(1,089,914)</u>	<u>(3,924,077)</u>	
LAND			
1 Adjust cost from affiliate for sprayfield site	0	(207,233)	
2 Adjust cost from affiliate for Rib site	0	(318,322)	
Total	<u>0</u>	<u>(525,555)</u>	
NON-USED AND USEFUL			
To reflect net non-used and useful adjustment	<u>(10,464,761)</u>	<u>(6,924,896)</u>	
ACCUMULATED DEPRECIATION			
1 To reflect 13-month average test year	<u>938,154</u>	<u>892,137</u>	
CIAC			
1 To reflect 13-month average test year	1,371,511	1,150,816	
2 Imputation of CIAC-MR	(344,432)	(849,939)	
Total	<u>1,027,079</u>	<u>300,877</u>	
ACCUM. AMORT. OF CIAC			
1 To reflect 13-month average test year	(252,420)	(799,571)	
2 Imputation of CIAC on margin reserve	5,489	13,047	
Total	<u>(246,931)</u>	<u>(786,524)</u>	
DEFERRED INCOME TAXES			
To reflect 13-month average test year	<u>(482,849)</u>	<u>195,866</u>	
Total			
ADVANCES FOR CONSTRUCTION			
To reflect 13-month average test year	<u>0</u>	<u>(75,803)</u>	

**PALM COAST UTILITY CORPORATION
CAPITAL STRUCTURE
TEST YEAR ENDED 12/31/95**

**SCHEDULE NO. 2
DOCKET NO. 951056-WS**

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY 1995 - YEAR-END							
1 LONG TERM DEBT	12,125,000	0	(643,582) \$	11,481,418	30.73%	7.24%	2.23%
2 SHORT-TERM DEBT	4,312,000	0	(228,876)	4,083,124	10.93%	7.73%	0.84%
3 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
4 COMMON EQUITY	20,265,735	0	(1,075,683)	19,190,052	51.37%	11.10%	5.70%
5 CUSTOMER DEPOSITS	485,000	0	(25,743)	459,257	1.23%	6.00%	0.07%
6 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-ZERO COST	2,266,072	0	(120,281)	2,145,791	5.74%	0.00%	0.00%
8 OTHER	0	0	0	0	0.00%	0.00%	0.00%
9 TOTAL CAPITAL	<u>39,453,807</u>	0	<u>(2,094,165) \$</u>	<u>37,359,642</u>	<u>100.00%</u>		<u>8.85%</u>
PER COMMISSION 1995 - 13-MONTH AVERAGE							
10 LONG TERM DEBT	12,557,692	0	(7,944,310) \$	4,613,382	28.49%	7.24%	2.06%
11 SHORT-TERM DEBT	3,668,231	0	(2,320,615)	1,347,616	8.32%	7.73%	0.64%
12 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
13 COMMON EQUITY	19,943,543	0	(12,616,783)	7,326,760	45.25%	11.10%	5.02%
14 CUSTOMER DEPOSITS	458,926	0	0	458,926	2.83%	6.00%	0.17%
15 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S-ZERO COST	2,316,226	129,534	0	2,445,760	15.10%	0.00%	0.00%
16 OTHER	0	0	0	0	0.00%	0.00%	0.00%
17 TOTAL CAPITAL	<u>38,944,618</u>	<u>129,534</u>	<u>(22,881,708) \$</u>	<u>16,192,444</u>	<u>100.00%</u>		<u>7.90%</u>
RANGE OF REASONABLENESS					LOW	HIGH	
RETURN ON EQUITY					<u>10.10%</u>	<u>12.10%</u>	
OVERALL RATE OF RETURN					<u>7.45%</u>	<u>8.35%</u>	

**PALM COAST UTILITY CORPORATION
 STATEMENT OF WATER OPERATIONS
 TEST YEAR ENDED 12/31/95**

**SCHEDULE NO. 3-A
 DOCKET NO. 951056-WS**

DESCRIPTION	TEST YEAR PER UTILITY 1995	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR/ UTILITY 1995	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 5,384,699	\$ 1,586,948	\$ 6,971,647	(1,571,283)	5,400,364	(306,329)	5,094,035
OPERATING EXPENSES:						-5.67%	
2 OPERATION AND MAINTENANCE	\$ 3,026,338	(222,018)	\$ 2,804,320	(44,132)	2,760,188		2,760,188
3 DEPRECIATION	1,621,374	(437,104)	1,184,270	(349,719)	834,551		834,551
4 AMORTIZATION	(82,781)	(5,469)	(88,250)	5,469	(82,781)		(82,781)
5 TAXES OTHER THAN INCOME	874,220	(180,899)	693,321	(179,028)	514,293	(13,785)	500,508
6 INCOME TAXES	(289,553)	781,183	491,630	(169,616)	322,014	(110,084)	211,930
7 TOTAL OPERATING EXPENSES	\$ 5,149,598	(64,307)	\$ 5,085,291	(737,025)	4,348,266	(123,869)	4,224,397
8 OPERATING INCOME	\$ 235,101	1,651,255	\$ 1,886,356	(834,258)	1,052,098	(182,460)	869,638
9 RATE BASE	\$ 23,702,639		\$ 21,328,434		11,009,212		11,009,212
RATE OF RETURN	0.99%		8.84%		9.56%		7.90%

PALM COAST UTILITY CORPORATION STATEMENT OF WASTEWATER OPERATIONS TEST YEAR ENDED 12/31/95		SCHEDULE NO. 3-B DOCKET NO. 951056-WS					
DESCRIPTION	TEST YEAR PER UTILITY 1995	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR/ UTILITY 1995	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 3,150,538	\$ 1,756,312	\$ 4,906,850	\$ (1,619,645)	3,287,205	(181,943)	3,105,262
OPERATING EXPENSES						-5.53%	
2 OPERATION AND MAINTENANCE	\$ 2,049,154	\$ (80,503)	\$ 1,968,651	\$ (54,030)	1,914,621		1,914,621
3 DEPRECIATION	35,244	728,836	764,080	(337,397)	426,683		426,683
4 AMORTIZATION	(57,525)	(1,309)	(58,834)	1,309	(57,525)		(57,525)
5 TAXES OTHER THAN INCOME	258,285	187,325	445,610	(125,151)	320,459	(8,187)	312,271
6 INCOME TAXES	131,947	237,542	369,489	(204,326)	165,163	(65,384)	99,779
7 TOTAL OPERATING EXPENSES	\$ 2,417,105	\$ 1,071,891	\$ 3,488,996	\$ (719,596)	2,769,400	(73,572)	2,695,829
8 OPERATING INCOME	\$ 733,433	\$ 684,421	\$ 1,417,854	\$ (900,049)	517,805	(108,371)	409,433
9 RATE BASE	\$ 14,057,238		\$ 16,031,208		5,183,232		5,183,232
RATE OF RETURN	5.22%		8.84%		9.99%		7.90%

PALM COAST UTILITY CORPORATION
ADJUSTMENTS TO OPERATING STATEMENTS
TEST YEAR ENDED 12/31/95

SCHEDULE NO. 3-C
DOCKET NO. 951056-WS

EXPLANATION	WATER	WASTEWATER
OPERATING REVENUES		
1 Remove requested final revenue increase	(1,479,626)	(1,575,817)
2 To include non-utility income	1,802	50,834
3 To remove year end adjustment	(93,459)	(94,662)
Total	<u>(1,571,283)</u>	<u>(1,619,645)</u>
OPERATION & MAINTENANCE EXPENSE		
1 Adjustment per stipulation No. 2 (Audit Exception No. 4)	(6,276)	896
2 Remove unsupported affiliate charges	(15,153)	(10,259)
3 Remove non-recurring personnel services expenses	(10,204)	(6,909)
4 Remove non-recurring legal fees	(4,457)	(3,017)
5 Reflect additional current rate case expense	11,185	11,185
6 To reduce chamber dues & rental expenses per Stipulation No. 3	(828)	(36,981)
7 To remove year end adjustment for power & chemicals	(18,399)	(8,945)
Total	<u>(44,132)</u>	<u>(54,030)</u>
DEPRECIATION EXPENSE-NET		
1 Imputation of CIAC-MR I-48	(10,977)	(26,093)
2 Net used and useful adjustment	(338,742)	(311,304)
Total	<u>(349,719)</u>	<u>(337,397)</u>
AMORTIZATION, CIAC TAX GROSS UP		
To remove year end adjustment	<u>5,469</u>	<u>1,309</u>
TAXES OTHER THAN INCOME		
1 Remove RAF's on revenue adjustment	(70,708)	(72,884)
2 Non-used and useful property taxes I-108	(108,320)	(52,267)
Total	<u>(179,028)</u>	<u>(125,151)</u>
INCOME TAXES		
To adjust to test year income tax expense	<u>(169,616)</u>	<u>(204,326)</u>
OPERATING REVENUES		
Adjustment to reflect revenue requirement	\$ <u>(306,329)</u>	\$ <u>(181,943)</u>
TAXES OTHER THAN INCOME TAXES		
Regulatory assessment taxes on additional revenues	\$ <u>(13,785)</u>	\$ <u>(8,187)</u>
INCOME TAXES		
Income taxes related to revenue requirement	\$ <u>(110,084)</u>	\$ <u>(65,384)</u>

PALM COAST UTILITY CORPORATION
 FLAGLER COUNTY
 Docket No. 951056-WS
 Test Year Ended: December 31, 1995

Schedule No. 4-A

RATE SCHEDULE

WATER

Monthly Service Rates

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final
Residential, General Service, and Multi-Family				
Base Facility Charge:				
Meter Size:				
5/8" x 3/4"	\$10.55	\$11.49	\$15.36	\$12.53
1"	\$26.34	\$28.71	\$38.39	\$31.32
1-1/2"	\$52.69	\$57.42	\$76.79	\$62.63
2"	\$84.29	\$91.87	\$122.86	\$100.21
3"	\$168.58	\$183.73	\$245.71	\$200.42
4"	\$263.41	\$287.09	\$383.93	\$313.15
6"	\$526.81	\$574.16	\$767.84	\$626.31

Gallage Charge, per 1,000 Gallons \$3.60 \$3.92 \$4.52 \$2.87

Bulk Service

6" - Hammock Dunes - BFC	\$195.79	\$213.39	\$285.64	\$184.59
Gallage Charge, per 1,000 Gallons	\$1.01	\$1.10	\$1.26	\$0.95

Irrigation Service - All Classes

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final
Base Facility Charge:				
Meter Size:				
5/8" x 3/4"	\$5.27	\$5.75	\$7.68	\$6.26
1"	\$26.34	\$28.71	\$38.39	\$31.32
1-1/2"	\$52.69	\$57.42	\$76.79	\$62.63
2"	\$84.29	\$91.87	\$122.86	\$100.21
3"	\$168.58	\$183.73	\$245.71	\$200.42
4"	\$263.41	\$287.09	\$383.93	\$313.15
6"	\$526.81	\$574.16	\$767.84	\$626.31
Gallage Charge, per 1,000 Gallons	\$3.60	\$3.92	\$4.52	\$2.87

Private Fire Protection

Line Size	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final
4"	\$87.89	\$95.68	\$31.97	\$26.10
6"	\$175.60	\$191.38	\$63.87	\$52.19
8"	\$280.95	\$306.20	\$102.18	\$83.51
10"	\$403.83	\$440.13	\$146.88	\$120.04
12"	\$754.94	\$822.80	\$274.58	\$224.43

Public Fire Hydrants

Per Hydrant - Per Year	\$100.00	\$100.00	\$0.00	\$0.00
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Typical Residential Bills

5/8" x 3/4" meter				
3,000 Gallons	\$21.35	\$23.25	\$28.92	\$21.14
5,000 Gallons	\$28.55	\$31.09	\$37.96	\$26.89
10,000 Gallons	\$46.55	\$50.69	\$60.56	\$41.26

PALM COAST UTILITY CORPORATION
FLAGLER COUNTY
 Docket No. 951056-WS
 Test Year Ended: December 31, 1995

Schedule No. 4-B

RATE SCHEDULE

WASTEWATER

Monthly Service Rates

	Rates Prior to <u>Filing</u>	Commission Approved <u>Interim</u>	Utility Requested <u>Final</u>	Commission Approved <u>Final</u>
<u>Residential Service</u>				
Base Facility Charge: All meter sizes	\$11.10	\$12.75	\$13.46	\$10.42
Gallorage Charge Per 1,000 gallons (8,000 gallon cap)	\$3.61	\$3.36	\$4.66	\$2.81
<u>General Service</u>				
Base Facility Charge: Meter Size:				
5/8" x 3/4"	\$11.10	\$12.75	\$13.46	\$10.42
1"	\$27.72	\$31.85	\$33.65	\$26.06
1-1/2"	\$55.44	\$63.68	\$67.31	\$55.46
2"	\$88.69	\$101.88	\$107.69	\$88.73
3"	\$177.39	\$203.77	\$215.38	\$177.46
4"	\$277.18	\$318.40	\$336.53	\$277.29
6"	\$554.35	\$636.79	\$673.05	\$554.58
8"				
Gallorage Charge, per 1,000 Gallons	\$3.52	\$4.04	\$5.60	\$3.38

Reuse

	Rates Prior to <u>Filing</u>	Commission Approved <u>Interim</u>	Utility Requested <u>Final</u>	Commission Approved <u>Final</u>
Per 1,000 gallons	\$0.00	\$0.00	\$0.67	\$0.10

Typical Residential Bill

<u>5/8" x 3/4" meter</u>				1172
3,000 Gallons	\$21.93	\$22.83	\$27.44	\$18.87
5,000 Gallons	\$29.15	\$29.55	\$36.76	\$24.49
10,000 Gallons	\$32.76	\$32.91	\$41.42	\$27.31
(Sewer Cap - 8,000 Gallons)				

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PALM COAST UTILITY CORPORATION
 FLAGLER COUNTY
 Docket No. 951056-WS
 Test Year Ended: December 31, 1995

Schedule 5-A

RATE SCHEDULE

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

WATER

	Commission Approved Final	Rate Decrease
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Residential, General Service, and Multi-Family

Base Facility Charge:

Meter Size:	Commission Approved Final	Rate Decrease
5/8" x 3/4"	\$12.53	\$0.13
1"	\$31.32	\$0.32
1-1/2"	\$62.63	\$0.63
2"	\$100.21	\$1.02
3"	\$200.42	\$2.03
4"	\$313.15	\$3.17
6"	\$626.31	\$6.34

Gallage Charge, per 1,000 Gallons	\$2.87	\$0.03
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Bulk Service

6" - Hammock Dunes - BFC	\$184.59	\$1.87
Gallage Charge, per 1,000 Gallons	\$0.95	\$0.01

Irrigation Service - All Classes

	Commission Approved Final	Rate Decrease
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Base Facility Charge:

Meter Size:	Commission Approved Final	Rate Decrease
5/8" x 3/4"	\$6.26	\$0.06
1"	\$31.32	\$0.32
1-1/2"	\$62.63	\$0.63
2"	\$100.21	\$1.02
3"	\$200.42	\$2.03
4"	\$313.15	\$3.17
6"	\$626.31	\$6.34

Gallage Charge, per 1,000 Gallons	\$2.87	\$0.03
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Private Fire Protection

	Commission Approved Final	Rate Decrease
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Line Size

4"	\$26.10	\$0.26
6"	\$52.19	\$0.53
8"	\$83.51	\$0.85
10"	\$120.04	\$1.22
12"	\$224.43	\$2.27

Public Fire Hydrants

Per Hydrant - Per Year	\$0.00	\$0.00
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Schedule 5-B

PALM COAST UTILITY CORPORATION
 FLAGLER COUNTY
 Docket No. 951056-WS
 Test Year Ended: December 31, 1995

RATE SCHEDULE

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

Wastewater

Monthly Rates

Commission
 Approved
Final

Rate
Decrease

Residential Service

Base Facility Charge: All meter sizes	\$10.42	\$0.18
Gallorage Charge Per 1,000 gallons (8,000 gallon cap)	\$2.81	\$0.05

General Service

Base Facility Charge: Meter Size:		
5/8" x 3/4"	\$10.42	\$0.18
1"	\$26.06	\$0.44
1-1/2"	\$55.46	\$0.94
2"	\$88.73	\$1.51
3"	\$177.46	\$3.02
4"	\$277.29	\$4.71
6"	\$554.58	\$9.43
8"		
Gallorage Charge, per 1,000 Gallons	\$3.38	\$0.06

WATER SYSTEM USED AND USEFUL COMPARISON

A/C No.	WATER SYSTEM Description	13 Month Avg	Guastella (PCUC) Used & Useful	Amaya (Staff) Used & Useful	Biddy (OPC) Used & Useful	Commission Used & Useful
INTANGIBLE PLANT						
301.1	Organization	\$6,130	100.0%	100.00%	100.00%	100.00%
302.1	Franchises	\$2,664	100.0%	100.00%	100.00%	100.00%
339.1	Other Plant & Misc. Equipment	\$207,527	100.0%	100.00%	100.00%	100.00%
SOURCE OF SUPPLY AND PUMPING PLANT						
303.2	Land & Land Rights	\$123,422	100.0%	100.00%	44.62%	100.00%
304.2	Structures & Improvements	\$105,208	81.9%	64.71%	44.62%	64.57%
305.2	Collect. & Impound. Reservoirs	\$0				
306.2	Lake, River & Other Intakes	\$0				
307.2	Wells & Springs	\$4,628,702	81.9%	64.71%	44.62%	64.57%
308.2	Infiltration Galleries & Tunnels	\$0				
309.2	Supply Mains	\$2,191,871	100.0%	100.00%	44.62%	64.57%
310.2	Power Generation Equipment	\$0				
311.2	Pumping Equipment - Non high service pumping	\$307,352	81.9%	64.71%	44.62%	64.57%
311.2	Pumping Equipment - High service pumping	\$106,924	84.4%	74.99%	44.62%	75.60%
339.2	Other Plant & Misc. Equipment	\$95,961	81.9%	64.71%	44.62%	64.57%
WATER TREATMENT PLANT						
303.3	Land & Land Rights	\$280,476	100.0%	100.00%	58.73%	100.00%
304.3	Structures & Improvements - LS wtp	\$1,251,136	100.0%	100.00%	58.73%	100.00%
304.3	Structures & Improvements - RO wtp	\$2,693,952	91.44%	100.00%	58.73%	100.00%
320.3	Water Treatment Equipment - LS wtp	\$4,077,923	100.0%	100.00%	58.73%	100.00%
320.3	Water Treatment Equipment - RO wtp membrane	\$2,972,454	91.44%	34.46%	58.73%	33.88%
320.3	Water Treatment Equipment - RO wtp non-membrane train	\$2,216,126	91.44%	100.00%	58.73%	100.00%
339.3	Other Plant & Misc. Equipment	\$0				
TRANSMISSION & DISTRIBUTION PLANT						
303.4	Land & Land Rights	\$100,734	100.0%	100.00%	59.82%	100.00%
304.4	Structures & Improvements	\$5,499	100.0%	100.00%	100.00%	100.00%
330.4	Distr. Reservoirs & Standpipes	\$1,969,660	100.0%	100.00%	59.82%	100.00%
331.4	Distribution Mains	\$18,096,693	63.3%	23.49%	24.57%	23.91%
331.4	Transmission Mains	\$7,799,367	71.9%	72.46%	24.57%	32.27%
333.4	Services	\$1,035,265	91.7%	72.40%	75.20%	73.70%
334.4	Meters & Meter Installations	\$2,213,614	100.0%	100.00%	100.00%	100.00%
335.4	Hydrants	\$2,445,677	95.8%	94.8%	24.57%	94.84%
339.4	Other Plant & Misc. Equipment	\$0				
GENERAL PLANT						
303.5	Land & Land Rights	\$0				
304.5	Structures & Improvements	\$529,769	100.0%	100.00%	86.80%	90.98%
340.5	Office Furniture & Equipment	\$347,153	100.0%	100.00%	86.80%	90.98%
341.5	Transportation Equipment	\$615,236	100.0%	100.00%	100.00%	100.00%
342.5	Stores Equipment	\$6,026	100.0%	100.00%	100.00%	100.00%
343.5	Tools, Shop & Garage Equipment	\$158,641	100.0%	100.00%	100.00%	100.00%
344.5	Laboratory Equipment	\$20,722	100.0%	100.00%	100.00%	100.00%
345.5	Power Operated Equipment	\$209,759	100.0%	100.00%	100.00%	100.00%
346.5	Communication Equipment	\$52,483	100.0%	100.00%	100.00%	100.00%
347.5	Miscellaneous Equipment	\$1,514	100.0%	100.00%	100.00%	100.00%
348.5	Other Tangible Plant	\$0				
331	Advanced Mains - Beachside	\$1,052,041	100.0%	100.0%	100.0%	100.0%
331	Advanced Mains - Palm Coast	\$36,799	100.0%	100.0%	100.0%	100.0%
103	Future Use Plant	\$196,151	0.0%	0.0%	0.0%	0.0%
107	Advanced Property	\$2,384,793	0.0%	0.0%	0.0%	0.0%
	Total	\$60,545,424				

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ATTACHMENT 1
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WASTERWATER SYSTEM USED AND USEFUL COMPARISON

A/C No.	WASTEWATER SYSTEM Description	13 Month Avg	Guastella (PCUC) Used & Useful	Amaya (Staff) Used & Useful	Biddy (OPC) Used & Useful	Commission Used & Useful
	INTANGIBLE PLANT					
351.1	Organization	\$6,130	100.00%	100.00%	100.00%	100.00%
352.1	Franchises	\$2,684	100.00%	100.00%	100.00%	100.00%
389.1	Other Plant & Misc. Equipment	\$121,386	100.00%	100.00%	100.00%	100.00%
	COLLECTION PLANT					
353.2	Land & Land Rights	\$0				
354.2	Structures & Improvements	\$6,560	100.00%	100.00%	100.00%	100.00%
360.2	Collection Sewers - Force Mains	\$4,419,866	78.96%	58.52%	21.95%	69.99%
361.2	Collection Sewers - Gravity Mains	\$22,184,181	59.84%	34.47%	21.95%	34.29%
361.2	Collection Sewers - PEP Mains	\$5,669,279	25.36%	6.33%	6.02%	7.66%
361.2	Collection Sewers - PEP tanks	\$2,050,021	100.00%	100.00%	6.02%	100.00%
362.2	Special Collecting Structures	\$0				
363.2	Services to Customers	\$2,964,847	57.04%	34.47%	34.21%	34.29%
364.2	Flow Measuring Devices	\$0				
365.2	Flow Measuring Installations	\$0				
389.2	Other Plant & Misc. Equipment	\$0				
	SYSTEM PUMPING PLANT					
353.3	Land & Land Rights	\$207,043	100.00%	100.00%	21.95%	100.00%
354.3	Structures & Improvements	\$101,995	57.12%	29.75%	21.95%	38.73%
370.3	Receiving Wells	\$0				
371.3	Pumping Equipment	\$4,146,720	57.12%	29.75%	21.95%	38.73%
389.3	Other Plant & Misc. Equipment	\$0				
	TREATMENT AND DISPOSAL PLANT					
353.4	Land & Land Rights	\$420,934	100.00%	100.00%	66.17%	100.00%
354.4	Structures & Improvements - Treatment Equipment	\$5,150,633	75.29%	51.41%	42.80%	46.44%
354.4	Structures & Improvements - Disposal Equipment	\$217,145	100.00%	74.75%	50.35%	66.28%
380.4	Treatment Equipment	\$2,695,261	75.29%	51.41%	42.80%	46.44%
380.4	Disposal Equipment	\$2,518,768	100.00%	74.75%	50.35%	66.28%
381.4	Plant Sewers	\$0				
382.4	Outfall Sewer Lines	\$0				
389.4	Other Plant & Misc. Equipment	\$0				
	GENERAL PLANT					
353.5	Land & Land Rights	\$0				
354.5	Structures & Improvements	\$534,224	100.00%	100.00%	86.80%	90.98%
390.5	Office Furniture & Equipment	\$350,072	100.00%	100.00%	86.80%	90.98%
391.5	Transportation Equipment	\$620,409	100.00%	100.00%	100.00%	100.00%
392.5	Stores Equipment	\$6,076	100.00%	100.00%	100.00%	100.00%
393.5	Tools, Shop & Garage Equipment	\$159,974	100.00%	100.00%	100.00%	100.00%
394.5	Laboratory Equipment	\$20,896	100.00%	100.00%	100.00%	100.00%
395.5	Power Operated Equipment	\$211,523	100.00%	100.00%	100.00%	100.00%
396.5	Communication Equipment	\$52,925	100.00%	100.00%	100.00%	100.00%
397.5	Miscellaneous Equipment	\$1,527	100.00%	100.00%	100.00%	100.00%
398.5	Other Tangible Plant	\$0		100.00%	100.00%	
361	Advanced Mains	\$13,789	100.00%	100.00%	100.00%	100.00%
361	Advanced Mains	\$15,721	100.00%	100.00%	100.00%	100.00%
103	Future Use Plant	\$210,801	0.00%	0.00%	0.00%	0.00%
	Total	\$55,081,391				