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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of CONTINENTAL COUNTRY CLUB, INC. for an increase in water and wastewater rates in Sumter County, Florida.	)	DOCKET NO. 881178-WS ORDER NO. 21680 ISSUED: 8-4-89

The following Commissioners participated in the disposition of this matter:

BETTY EASLEY
GERALD L. GUNTER

APPEARANCES:

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On behalf of the Commission Staff

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FINAL ORDER SETTING RATES AND CHARGES, ESTABLISHING SERVICE AVAILABILITY POLICY AND CHARGES, MISCELLANEOUS SERVICE CHARGES, AND METER INSTALLATION CHARGES, AND RELEASING ESCROW ACCOUNT CONTAINING INTERIM SERVICE AVAILABILITY CHARGES

BY THE COMMISSION:

BACKGROUND

On January 13, 1987, the Sumter County Board of Commissioners adopted a resolution pursuant to Section 367.171, Florida Statutes, transferring jurisdiction over the privately-owned water and wastewater utilities to this Commission. By Order No. 19854, issued on August 22, 1988, we granted Continental Country Club, Inc., (Continental or the utility) water and wastewater certificates under the grandfathering provisions of Section 367.171, Florida Statutes.

Continental serves approximately 780 mobile home lots, a 104-unit master-metered condominium complex called Sandalwood Condominium, a clubhouse, sales and maintenance offices, and a pool. The cost of water and wastewater service is presently included in the monthly maintenance fee for the mobile home lots. These maintenance fees were previously established by court order for most lot owners. The maintenance fee is an aggregate charge for various community services including garbage collection, lawn care, pool maintenance, street lighting, and recreational and boat storage facilities. The customers in the condominium complex are charged a per unit amount for water and wastewater services. The general service customers are not billed for water and wastewater service.

In its grandfather application, Continental asked this Commission to set separate utility rates for the mobile home lot owners, but new utility rates were not requested for general service customers or for the Sandalwood Condominium. In Order No. 19854, we agreed that revision of utility rates was probably needed. We observed, however, that previously existing rates were generally retained in a grandfather proceeding and, accordingly, denied the requested revision of utility rates. Instead, we ordered Continental to file a rate case.

The utility filed its completed minimum filing requirements (MFRs) on November 23, 1988, and that date was established as the official date of filing. The utility's filing is based on the projected test year ending March 31, 1990, using actual data for the base period ended June 30, 1988, and expected expansion costs for the water system.

By Order No. 20639, issued on January 20, 1989, we suspended the utility's proposed rates. We did not authorize an interim rate increase. However, we did approve interim service availability charges, subject to refund.

Upon our own motion, a hearing was held on this matter on May 31 and June 1, 1989, in Leesburg, Florida. At the outset of the hearing, oral argument was heard on the Office of Public Counsel's Motion to Limit Issues of Fact or in the Alternative Motion for Summary Judgment and Request for Hearing (OPC's Motion). The panel took OPC's Motion under advisement.

Continental, the Office of Public Counsel (OPC), the Continental Community Resident Homeowners Association, Inc. (CCRHA or the Homeowners), the Continental Community Resident Homeowners Organization, Inc. (CCRHO), and our Staff participated in the hearing. Testimony and exhibits were received from various expert and customer witnesses on the issues identified in Prehearing Order No. 21287, issued May 25, 1989, in this proceeding. CCRHA, or the Homeowners, were represented by legal counsel for the group of mobile home park customers who had filed a lawsuit against Continental, Continental Country Club, Inc. vs. James A. Savoie, et al., in the Sumter County Circuit Court (the circuit court case). CCRHO intervened with legal counsel at a very late point in the proceeding to represent the mobile home park customers who have recently contracted to purchase the entire Continental development. The utility, OPC and the Homeowners filed post hearing statements or briefs subsequent to the hearing.

FINDINGS OF FACT

Having heard the evidence presented at the public hearing held on May 31 and June 1, 1989, and having reviewed the briefs of the parties and the recommendations of our Staff, we now enter our findings and conclusions.

WHAT CONSIDERATION SHOULD THIS COMMISSION GIVE TO THE HOMEOWNERS' CONTRACTS AND THE TWO COURT DECISIONS CONSTRUING THEM?

The parties in this matter have fundamentally conflicting views on the appropriate legal interpretation to be given to Continental Country Club, Inc. vs. James A. Savoie, et al., the decision rendered by the Circuit Court in and for Sumter County, Florida, and Continental Country Club v. Savoie, 538 So.2d 464 (5th D.C.A. 1988), the appellate decision rendered by the Fifth District Court of Appeal. Those court decisions were generated by a dispute between the Homeowners and an earlier owner of Continental over the appropriate maintenance fee to be charged the homeowners for various community services, including garbage collection, lawn care, pool maintenance, street lighting, recreational and boat storage facilities, and water and sewer services (the package of services).

When the Homeowners purchased their lots from earlier owners of Continental, they received varying contracts and deeds including varying provisions setting out either a specific maintenance fee amount or a formula to be utilized for calculating the appropriate maintenance fee amount to be paid for the package of services. Because the earlier owner of Continental charged in excess of what the Homeowners considered to be the appropriate maintenance charges, they filed suit in Sumter County Circuit Court. For the Homeowners whose contracts and deeds provided for the calculation of the fee based on Continental's "out of pocket" expenses incurred in providing the services, that Court determined that the appropriate maintenance fee charges should not include elements for depreciation, interest or any return on investment.

Continental appealed the Circuit Court's decision to the Fifth District Court of Appeal (the 5th DCA). The 5th DCA affirmed in most respects the Circuit Court's decision regarding the Homeowners' contracts, except that part stating the Homeowners had the right to require Continental to charge the Sandalwood Condominium the same maintenance fee per condominium unit charged each resident of the mobile home park.

Throughout this proceeding, therefore, it has been the position of the Homeowners, both the CCRHA and the CCRHO, and the OPC that these court decisions require this Commission to set rates that reflect the terms of the Homeowners' covenants

and restrictions as interpreted by the two court decisions. The OPC's Motion requested that we grant the Homeowners summary judgment or, at least, limit this proceeding to only those issues left open after full acceptance of the terms of the Homeowners' contracts. The OPC has repeatedly stated that we should set the rate base of this utility at zero because the Homeowners have contributed all of the assets of the utility by the purchases of their lots. They assert that any rates we set should reflect the specific terms and provisions of the Homeowners' varying contracts.

The OPC has argued throughout this proceeding, as well as in its Post-Hearing Brief, that this Commission will "impair" the vested rights of the Homeowners, in violation of Section 367.011(4), Florida Statutes, if it does not set rates which honor their contracts. OPC points out that Section 367.011(4), Florida Statutes, states in part:

> This chapter shall not impair or take away vested rights other than procedural rights or benefits.

The OPC also argues that this Commission will violate the legal doctrines of res judicata, collateral estoppel, and equitable estoppel if it does not presume that the utility has ". . .received contributions which eliminate that portion of rate base which requires recovery of depreciation, interest and a return on equity." (OPC's Brief, Page 1) The doctrine of res judicata is the rule that a final judgment or decree on the merits by a court of competent jurisdiction is conclusive of the rights of the parties in all later suits on points and matters determined in that former suit. In order to apply, the parties, the cause of action, and the relief sought must be identical to that involved in the former suit. Collateral estoppel is the principle that a judgment in a prior action may be conclusive where a subsequent suit is based on a different cause of action. The doctrine of equitable estoppel means that when one has induced another to change his position to his detriment by some action or omission, one cannot then raise legal or statutory defenses to avoid the consequences of that action or omission. All of these doctrines are cited by OPC to support the proposition that it is inappropriate for this Commission to set rates in any fashion that does not follow the conclusive determinations of the two court decisions regarding the terms of the contracts between Continental and the Homeowners.

Continental filed a Response to OPC's Motion and argued at the hearing that it should not be granted because Chapter 367, Florida Statutes, sets out the appropriate elements of rate-making for this Commission to consider. The utility also argued that the doctrines of res judicata, collateral estoppel and equitable estoppel do not apply in this proceeding because the court decisions involved different issues.

We find that this Commission must set rates for this utility pursuant to Section 367.081(2), Florida Statutes, which requires that we:

> . . . fix rates which are just, reasonable, compensatory and not unfairly discriminatory. In every such proceeding, the commission shall consider the value and the quality of the service and the cost of providing the service, which shall include, but not be limited to, debt interest, the requirements of the utility for working capital; maintenance, depreciation, tax, and operating expenses incurred in the operation of all property used and useful in the public service; and a fair return on the investment of the utility in property used and useful in the public service.

Section 367.081(2), Florida Statutes, clearly dictates how this Commission shall set rates. We must consider the cost of providing the service and this consideration shall include debt interest, depreciation and a fair return on the investment of the utility in property used and useful in the public service. The current owner of Continental, Redman Industries, Inc., acquired this utility in a Chapter 11 reorganization bankruptcy proceeding in August, 1986. Therefore, it is clear that the current capitalization of the utility has been provided by the current owner. We cannot ignore the requirement set forth in Section 367.081(2), Florida Statutes, to provide a fair return on that investment because such would be an unconstitutional "taking" of private property for the public use. Nor can this Commission ignore all of the other elements so clearly set forth in the statute as those that must be considered in setting rates that are "just, reasonable, compensatory, and not unfairly discriminatory."

It is evident that the provisions of the Homeowners' contracts and the decisions of the courts construing them squarely collide with our mandate set forth in Section 367.081(4), Florida Statutes. To set rates that address all of the peculiarities of each of the several classes of contracts (created by the different maintenance fees in existence at the different time periods in which the individual Homeowners purchased lots), not to mention the separate arrangement under which the Sandalwood Condominium was served, would be to discriminate amongst all the customers, both present and future. Such a permanent type of discrimination could not be considered to fall within the realm of not "unfairly discriminatory".

We are not without guidance on this issue from the courts. In Cohee v. Crestridge Utilities Corp., 324 So.2d 155 (2nd D.C.A. 1975), a case very similar to the instant case in that a group of homeowners had sued a utility for increasing its rates prior to the Commission receiving jurisdiction over the utility, the Second District Court of Appeal stated that:

> As a result of the Pasco County Commission resolution and the Public Service Commission order granting the water certificate, the operation of Crestridge's water service is now clearly under the jurisdiction of the Public Service Commission. Fla.Stat. Section 367.171 (1973) Thus, Crestridge argues that the issuance of the water certificate was tantamount to the approval of the water rates which were being charged when the certificate was issued. On the other hand, the plaintiffs contend that the courts rather than the Public Service Commission have jurisdiction since the plaintiffs' claims are for breach of contract. In support of their position they point to Fla.Stat. Section 367.011(4) (1973) which provides that Chapter 367 (the Water and Sewer Regulatory Law) "shall not impair or take away vested rights other than procedural rights or benefits."
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> The Supreme Court in Miami Bridge Co. v. Railroad Commission, 1944, 155 Fla. 366, 20 So.2d 356, stated:

> The State as an attribute of sovereignty is endowed with inherent power to regulate the rates to be charged by a public utility for its products or service. Contracts by public service corporations for their services or products, because of the interest of the public therein, are not to be classed with personal and private contracts, the impairment of which is forbidden by constitutional provisions. 16 C.J.S. Constitutional Law, pp. 766-773, Section 327.

> Therefore, despite the fact that Crestridge had a pre-existing contract concerning its rates, now that Crestridge is under the jurisdiction of the Public Service Commission, these rates may be ordered changed by that body. The Public Service Commission has authority to raise as well as lower rates established by a pre-existing contract when deemed necessary in the public interest. State v. Burr, 1920, 79 Fla. 290, 84 So. 61.

The Court went on to reverse the lower court's summary judgment for the utility, stating that the plaintiffs were entitled to an adjudication of whether the utility had breached its contract by going to the higher rates prior to the Commission's jurisdiction and that this could only be done in a court of law. Nevertheless, the Court also said, after setting out the full text of Section 367.081(2), Florida Statutes, that ". . .it would appear that the Commission would not even be authorized to take into consideration the pre-existing contract in its determination of reasonable rates." Although this was not the question before the Court, it does throw some light on the instant factual situation.

In H. Miller & Sons, Inc. v. Hawkins, 373 So.2d 913 (Fla. 1979), the Florida Supreme Court held that this Commission could modify a private contract between a developer and a

utility as a valid exercise of the police power. The Court stated:

> The Commission's decision was based upon the well-settled principle that contracts with public utilities are made subject to the reserved authority of the state, under the police power of express statutory or constitutional authority, to modify the contract in the interest of the public welfare without unconstitutional impairment of contracts. Midland Realty Co. v. Kansas City Power & Light Co., 300 U.S. 109, . . . Miami Bridge Co. v. Railroad Commission, 155 Fla. 366. . . .The Commission felt, and the Utility naturally agreed, that excluding Miller from the authorized increase would be unjustly discriminatory. Furthermore, the effect of ruling in favor of Miller would have been to allow a private party to circumvent by contract the police power of the state, which is impermissible. Union Dry Goods Co. v. Georgia Public Service Commission, 248 U.S. 372, ...
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> Miller does not dispute the validity of the general rule but argues it is inapplicable where there has been no express finding that the contract is unreasonable and adversely affects the public interest. Central Kansas Power Co. v. State Corporation Commission, 181 Kan. 817, 316 P.2d 277, 286 (1957) ("contracts cannot be waived aside by mere lip service invocation of the police power"). While it is undoubtedly true that contractual agreements under constitutional protection may not be easily disregarded, such was not the case in the instant Orders. The test for specificity in Commission orders is that they contain "a succinct and sufficient statement of the ultimate facts upon which the Commission relied . . . ." Occidental Chemical Co. v.

Mayo, 351 So.2d 336, 341 (Fla.1977); Deel Motors, Inc. v. Dept. of Commerce, 252 So.2d 389 (Fla. 1st DCA 1971). The Commission directly addressed this issue in Order 7851. We agree with the following excerpt from that order:

> We believe the plain and unequivocal mandates of Section 367.101, Florida Statutes, that service availability charges and conditions be just and reasonable, a fact too well known to require further discourse, coupled with references to "public welfare" and application of legal rates without discrimination, spell out adequately the "public interest or welfare". We do not believe there is any magic attached to the words, but such may be enunciated, without their use. Such was done in Order No. 7650.
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> PSC Order 7851 at 2.

Both of the above cases give us guidance as to our authority to modify contracts. In the instant case, we find that we must disregard the contracts in order to set rates for this utility in accordance with Chapter 367, Florida Statutes. We do not come to this decision without great concern for the Homeowners, but we see this as our only legal choice.

THE PUBLIC SERVICE COMMISSION'S PRIMARY JURISDICTION

Hill Top Developers v. Holiday Pines Service, 478 So.2d 368 (Fla.2nd DCA 1985), gives some direction as to the appropriate relationship between this Commission and the courts of the State of Florida when it comes to matters over which we have been given exclusive jurisdiction pursuant to Section 367.011, Florida Statutes. In the Hill Top case, the central issue was whether a trial court had subject matter jurisdiction to enforce a charge imposed by a regulated utility without such charge first receiving the approval of this Commission. The utility had filed suit in circuit court to enforce a charge

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against a developer for which it had not received prior Commission approval. The circuit court awarded the utility the balance of the unapproved service availability charges it had attempted to collect from the developer. When the developer appealed the decision, the Second District Court of Appeal overturned the trial court's decision citing the primary jurisdiction of the Public Service Commission over the water and sewer rates of the utility and the preemption doctrine. The Court stated:

> This matter should have been determined by the trial court through application of the judge-made "primary jurisdiction" doctrine, recognized in Florida, State ex rel. Shevin v. Tampa Electric Company, 291 So.2d 45, 46 (Fla. 2d DCA 1974), which is designed and intended to achieve a "proper relationship between the courts and administrative agencies charged with particular regulatory duties." United States v. Western P.R. Co., 352 U.S. 59,63, 77 S.Ct. 161, 1 L.Ed.2d 126 (1956). In Mercury Motor Express, Inc. v. Brinke, 475 F.2d 1086 (5th Cir.1973), the United States Court of Appeals for the Fifth Circuit explicated the doctrine in terms distinctly pertinent to this matter when it was before the trial court:
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> > . . . primary jurisdiction comes into play when a court and an administrative agency have concurrent jurisdiction over the same matter, and no statutory provision coordinates the work of the court and of the agency. The doctrine operates, when applicable, to postpone judicial consideration of a case to administrative determination of important questions involved by an agency with special competence in the area. It does not defeat the court's jurisdiction over the

> case, but coordinates the work of the court and the agency by permitting the agency to rule first and giving the court the benefit of the agency's views. . . 475 F.2d at 1091-1092.

* * * * *

As logical as application of the primary jurisdiction doctrine to the matter at hand would have been, it was not followed. The trial court's entry of a judgment in favor of HPSC thus requires us to consider still another principle commonly known as the "preemption doctrine." That doctrine, also recognized in Florida, Maxwell v. School Board of Broward County, 330 So.2d 177 (Fla. 4th DCA 1976), insures that a legislatively intended allocation of jurisdiction between administrative agencies and the judiciary is maintained without the disruption which would flow from judicial incursion into the province of the agency. See Laborers International Union of North America, Local 517 v. The Greater Orlando Aviation Authority, 385 So.2d 716 (Fla. 5th DCA 1980). We conclude upon the present record that the power and authority of the PSC are preemptive. It is plain beyond any doubt that in formulating Chapter 367, the Legislature desired exclusive jurisdiction to rest with the PSC to regulate utilities such as the HPSC and to fix charges for service availability. Section 367.011(2) and 367.101, Fla.Stat.; see Richter v. Florida Power Corp., 366 So.2d 798 (Fla.2d DCA 1979). The trial court, by asserting its jurisdiction and awarding HPSC a judgment, literally cast itself in the role of the PSC. It is by honoring the jurisdictional exclusivity of the PSC that the very collision which has occurred here between an administrative agency and the judiciary would have been avoided. Stated

> differently, in entering a judgment in favor of HPSC, the trial court placed its imprimatur upon the service availability charge assessed against HTD and denied to the PSC its statutorily delegated responsibility to determine the validity of that charge.
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> Finally, our disposition of this matter in no measure offends Article I, Section 21 of the Florida Constitution. Access to the judiciary is not foreclosed by our decision; resort to the judiciary is available following utilization of the administrative process. Section 350.128(1), Fla.Stat.; Scholastic Systems, Inc. v. LeLoup, 307 So.2d 166 (Fla. 1974). Once a charge of this kind becomes finally determined in accordance with the statutory scheme, a juridically cognizable debt would exist if the charge were not satisfied.

We do not find that the courts that rendered the two decisions regarding the Homeowners' contracts acted improperly by disregarding our primary jurisdiction over the subject matter. To the contrary, it has been established that neither court was made aware of this Commission's jurisdiction. Although OPC has argued that this lack of knowledge was the failure of the utility and that it should not, therefore, work to the utility's benefit, we believe that the significant fact is that these courts did not have any opportunity to recognize our primary jurisdiction in the matter of water and sewer rates.

WHAT IS THE IMPACT OF THE BANKRUPTCY OF CONTINENTAL ON THIS COMMISSION'S RATE-SETTING IN THIS PROCEEDING?

On our request, the parties discussed in their briefs the question of what impact Continental's bankruptcy had on the obligation of the utility to honor the Homeowners' and Sandalwood contracts. OPC counsel stated that his conferences with attorneys possessing such expertise made him confident that the validity of these contracts has not been impaired and that the utility must honor them.

The utility, on the other hand, stated that Continental's reorganization extinguished any obligation on its part to honor these contracts. In their brief, the Homeowners argued that Redman Industries, Inc., had the legal opportunity to abandon these contracts in that proceeding, and since it did not do so, the utility must be held to honor them.

We find that our concern with these contracts does not turn on the determination of whether they were extinguished in the bankruptcy proceeding. As has been set out above, the contracts must be disregarded if we are to set rates for this utility pursuant to Section 367.081(2), Florida Statutes. For this reason, we hereby deny OPC's Motion.

WHAT CONSIDERATION SHOULD THIS COMMISSION GIVE THE SANDALWOOD CONDOMINIUM MASTER AGREEMENT? WHAT ADJUSTMENTS, IF ANY, ARE APPROPRIATE TO REFLECT THAT AGREEMENT?

Both the OPC and the Homeowners have proposed that we should set rates that honor the Sandalwood Master Agreement. Pursuant to that Agreement and an Addendum thereto, the Sandalwood Condominium paid a $10,000 tap on fee and agreed to pay the rates set out therein. However, it was established at the hearing that these rates were not actually charged by the utility nor paid by the Sandalwood Condominium owners. What appears to have been happening is that, for the three years prior to our receiving jurisdiction, the utility was accepting and Sandalwood Condominium was paying $1872 as a flat rate for both water and sewer service, although this arrangement was not contained in any contract. Conflicting evidence was presented as to why the utility was not charging a gallonage charge and whether it had the authority under the Agreement to charge for sewer at all.

OPC and the Homeowners argue that the rates we grandfathered in for Sandalwood Condominium in our certification proceeding prior to this rate case were incorrect. It is unclear from the evidence presented that the rates we grandfathered in are incorrect. The utility explained that it had not been charging a gallonage charge, although it was authorized to charge one by its Agreement and the Addendum, because the Sandalwood Condominium master meter was in need of repair. Therefore, we do not find it appropriate to order any refund of the rates we put into effect in the grandfather proceeding.

The OPC and the Homeowners have also argued that, if we decide to disregard the Master Agreement, we should require the utility to refund the $10,000 tap on fee paid by Sandalwood Condominium as consideration for its contract. Even though we find that we must disregard the Agreement as to the appropriate rates for this utility, the appropriate rate-making treatment must be given to the payment of the $10,000 tap on fee. The utility has treated the $10,000 tap on fee as a contribution-in-aid-of-construction (CIAC), which in our view is the appropriate rate-making treatment for the tap on fee.

In addition, OPC and the Homeowners have asserted that the utility should refund the $9,646.51 paid by the Sandalwood Condominium for the repair of a lift station. We find such a refund inappropriate because we cannot discern from the record in this proceeding whose responsibility it was to do such repairs. It is as likely that it was the Sandalwood Condominium's responsibility to do such repairs as it is that it was the utility's. We have made no adjustment in reference to this amount because the record is so unclear as to its nature. If it were to be considered an addition to plant, we would offset such an addition with a matching adjustment to CIAC. Therefore, because these adjustments would result in no impact on the utility's rate base, we find no adjustment is needed. Therefore, the utility will not be earning any return on this $9,646.51 repair cost.

ARE ANY ADJUSTMENTS REFLECTING THE HOMEOWNERS' CONTRACTS APPROPRIATE?

As we have already discussed, we find that we must disregard the Homeowners' contracts in setting rates for this utility. Therefore, we must likewise deny the fundamental adjustment proposed by OPC and the Homeowners--that this utility's rate base be considered to be zero since, pursuant to the Homeowners' contracts, all of the utility's investment has been contributed.

In the event we do not set rates pursuant to the Homeowners' contracts, OPC and the Homeowners have proposed that the utility should be required to impute CIAC subsequent to 1982. The utility has calculated CIAC by imputing contributions for the years 1973-1982. However, it did not impute contributions for the years after 1982. To the OPC's

and the Homeowners' argument that the utility should impute contributions for the years since 1982, the utility's response is that the costs incurred for water and wastewater system improvements during the prior ownership were capitalized as fixed assets for both book and tax purposes. Therefore, the utility believes it would not be appropriate to impute contributions since 1982.

OPC states in its brief, however, that the utility's Witness MacFarlane failed to carry the burden of proof when cross-examined regarding Continental's federal tax return for 1983. Witness MacFarlane agreed that no depreciation expense was claimed in 1983 under the category described as 15-year public utility property. Therefore, OPC states that the record does not support the utility's position that post-1982 improvements were capitalized. However, Witness MacFarlane did attempt to reference another entry on the 1983 tax return whereby depreciation of utility assets might be claimed under a different category. He did not expound on that point. Since the subject tax returns were in OPC's possession prior to the hearing, OPC had adequate opportunity to discover whether depreciation of utility plant might be elsewhere on the tax schedule. OPC's line of questioning was restrictive. We do not find that the suggestion that, because no entry appears on a particular line of the tax return schedule that OPC referenced, demonstrates that the utility's position that the former owner capitalized the improvements to the water and wastewater systems occurring after 1982 is not accurate. Therefore, we find the adjustment proposed by OPC and the Homeowners is not appropriate.

QUALITY OF SERVICE

The quality of service determination is based on testimony regarding compliance with state regulations and customer testimony from the public hearing. Witness Noblitt provided testimony regarding compliance with the Department of Environmental Regulation's (DER) requirements. She indicated that the capacity of the water plant was marginal prior to the improvements. The improvements include two new larger pumps at existing wells in combination with elevated storage. Also, an auxiliary power generator was required as an emergency power source. These improvements should be completed by the end of June and will provide sufficient capacity to meet current demands without service interruptions, thereby, maintaining DER requirements.

The water quality meets all state and federal maximum contaminant levels. Witness Noblitt further indicated that there was no need for additional treatment based on a review of the chemical analyses. Witness Ebbitt testified that the wastewater plant was in compliance with all DER requirements. The facilities were maintained properly and had sufficient capacity to meet current demands.

Approximately 15 customers provided testimony at the hearing on May 31, 1989. The majority of those customers indicated that the quality of service was satisfactory, some even said very good. There were two customers that complained about rust in the water. Both customers indicated that the problems occurred at the Sandalwood Condominium near Buildings 23 and 24. This appears to be an isolated occurrence and may be due to Sandalwood's service connections. Another possible explanation is the high iron content at Well #1. However, any problems that may have resulted from this well have been eliminated since the well was retired in the design of the new water plant modifications.

The intervenors in this case did not provide positions on the quality of service in their prehearing statements or in their briefs. Based on the utility's compliance with state regulations and the customer testimony, we find that the quality of service provided by this utility is satisfactory.

RATE BASE

To establish the utility's overall revenue requirements, this Commission must determine the value of the utility's rate base, which represents the investment on which the utility is given an opportunity to earn a reasonable return. A utility's rate base consists of various components, including net utility plant-in-service, working capital, et cetera. Attached to this Order as Schedules Nos. 1-A and 1-B are our calculation of the utility's water and sewer rate bases. Our adjustments to rate base are itemized on Schedule No. 1-C.

Plant-in-Service

1) Pre-August, 1986, Construction Costs - Continental's application included schedules depicting the actual and, in some respects, the best estimates of the cost of constructing the water and wastewater systems. The expenditure for plant

construction affects the rate base calculation in two respects: first, as a measurement of the investment in plant and second, as a basis for evaluating the requested acquisition adjustment. Continental was reorganized in August, 1986, pursuant to a plan of reorganization submitted by Redman Industries, Inc., a principal creditor of the former owner. Redman contends that its investment in the utility system in 1986 was $1,813,600. This amount exceeds the reported cost of plant facilities added before 1986, when accumulated depreciation and CIAC are also considered. Because the reported acquisition price exceeded the original cost amount (net plant less CIAC), a "positive" acquisition adjustment was recorded, which amount the utility contends should also be included in the rate base determination.

Utility Witness MacFarlane agreed that some of the reported construction costs before August of 1986 should be excluded because of incomplete documentation. This removal of undocumented plant reduces the net plant investment amount in the projected test year. Before considering related depreciation, the reduction is $45,389 for the water division and $36,047 for the wastewater division. Subsequent to the hearing, the utility prepared accounting schedules to show how this correction and other adjustments discussed during the hearing ultimately affect the rate base calculation. Those schedules indicate that the net reduction to plant for the projected test year would be $30,149 for the water division and $30,061 for the wastewater division. We find it appropriate to remove these undocumented charges from the rate base calculation.

2) Original Investment in Plant - As already discussed, certain plant construction costs before 1986 were inadequately documented and the utility agreed that reducing the plant balance was appropriate. Witness MacFarlane also agreed that certain distribution and collection facilities serving the Sandalwood project should be considered contributed properties. Further, retirement of certain water transmission mains in 1984 and 1985 also affects the original cost amount as of August, 1986. When these plant reductions, plant retirements, and increased CIAC provisions are considered, the original cost of construction is accordingly reduced. Removal of undocumented plant charges and plant retirements affects the CIAC imputation proposed by Witness MacFarlane. When the plant and CIAC accounts are adjusted based upon evidence in the

record, and their related accumulated depreciation and amortization accounts are likewise adjusted, the resulting net original cost balance is $1,220,280. This amount represents a $187,612 reduction relative to the $1,407,892 amount reported in the MFRs. The original cost balance at August 31, 1986, is used to measure the acquisition adjustment, without regard to whether that provision should be included in the rate base amount. Therefore, based upon evidence in the record, we find the original cost of construction to be $1,220,280 at August 31, 1986.

3) Reclassification of Well #1 - The utility's water supply system previously included four wells. Pursuant to a plan submitted to DER, Well #1 will be removed from service. That facility will be used as a source of irrigation. Well #1 was installed in 1973 at an approximate cost of $10,000. Since that well will be removed from utility service, but not abandoned, Witness MacFarlane agreed that facility should be classified as non-utility property. This reclassification results in a $10,000 reduction to plant with a concurrent $4,355 offsetting adjustment to accumulated depreciation. Depreciation expense is also reduced $333. We find it appropriate to reduce net plant investment by $5,645 to reflect the removal of Well #1 from utility service. Well #3 will remain in use as a backup source for emergency service.

4) 1983-1985 Plant Additions - In its brief, OPC contends that there were plant additions in 1983 through 1985 that were installed to replace or refurbish plant as a result of neglect or bad installation. OPC recommends that all costs associated with the repairs/replacements of distribution lines and collection lines should be removed from rate base. The costs were identified as all post-1974 water mains and services amounting to $206,407 and post-1974 sewer lines amounting to $34,130.

In 1981, Utility Witness Springstead's engineering firm prepared a feasibility report on Continental. The report recommended that new 6 inch and 8 inch mains should be installed where needed to provide adequate fire flow capacity. Witness Springstead explained that the utility system was designed at the time that it was built as a RV park. Later, the concept was changed to a mobile home park. A study on the water use revealed a high consumption of 533 gallons per day

per capita. It was determined that the Phase 1 and 2 water mains were not adequately sized for present demands and fire protection, and would have to be replaced with larger mains.

Replacement of the water mains in Phase 1, the original Continental service area, occurred in June, 1984. The Phase 1 area is described in Witness Springstead's testimony as the Continental area, which is separate from the Timberwoods area where the water mains were to be refurbished or replaced due to bad installation. The cost for the Phase 1 replacements was $102,990. This cost is half of the $206,407 OPC erroneously excluded from water mains due to neglect or bad installation. This work was necessary to correct the underdesigned distribution system, caused by the obvious unforeseen change in the character of the service area.

The remaining costs that OPC contends should be excluded from rate base were incurred for either the Timberwoods area or then undeveloped areas. The feasibility report indicated that new 6 inch and 8 inch mains should also be installed in the Timberwoods area where needed to provide adequate flow capacity. Also, the water mains in the north portion of the Timberwoods area needed to be refurbished except where they were to be replaced, and service connections needed rebuilding. The areas needing refurbishing were areas that had leaking joints and leaking connections at the mechanical fittings. Witness Springstead indicated that there were some problems with the initial installation. There were also undeveloped areas that needed new water mains.

The record does not provide a distinct breakdown of costs for replacement or refurbishment of water transmission mains in the Timberwoods area. It does appear, however, that at least a portion of the 1985 plant additions resulted from problems with the initial installation. The need for the post-1974 improvements to the distribution and collection lines is undisputed. We believe that it is inappropriate to disallow costs for correcting the deficiencies of the system since such a regulatory response would give a new owner of a utility no incentive to make necessary improvements.

Based on the evidence that certain costs were necessary to correct the underdesigned system and were not due to neglect or bad installation, and that the remaining costs were due either to new construction or to correct deficiencies to improve the

quality of service provided to the customers, we find no adjustments to the post-1974 distribution and collection lines are appropriate.

5) Retirement of Water Transmission Mains in 1984 and 1985
According to Witness MacFarlane, water transmission mains that were installed in 1973 (Phase 1) were retired in 1984 upon installation of lines with greater capacity for fire fighting capability. Trending replacement costs back to the date of original installation, a $24,400 estimate of the original construction cost was reported. If the retirement of the initial construction cost was treated as an extraordinary retirement, Witness MacFarlane agreed that the amortization treatment afforded extraordinary retirement losses (5 years) would have been completed before the projected test year.

Witness MacFarlane testified that it was his understanding that replacement only occurred in the initial area of development (Phase 1), and that the mains installed in 1974 in the newer section (Timberwoods) were later refurbished, but not replaced. Utility Witness Springstead, however, testified that some mains in the Timberwoods section were replaced because of faulty installation. The record does not reveal the extent of mains replaced in Timberwoods. It is, however, evident that transmission mains in the Timberwoods area were retired and some concurrent reduction to the original cost of construction is, therefore, appropriate. Based upon the evidence in the record, we find it appropriate to reduce plant by $24,400 to reflect the retirement of mains in Phase 1. Absent any showing by the utility to the contrary, we find $24,400 to be a reasonable estimate of the original cost of the mains retired in the Timberwoods area in 1985. Therefore, we find it appropriate to reduce plant-in-service by $48,800 to reflect the approximate cost of transmission mains retired in 1984 and 1985. A concurrent adjustment of $20,109 to remove the accumulated depreciation related to this combined $48,800 reduction to plant is also appropriate. Because the utility agreed that an extraordinary retirement entry was in order, the accumulated depreciation account is charged with less than the $48,800 plant construction cost.

Although the test year plant accounts were increased to show the estimated cost of new pumping and chlorination equipment, pro forma adjustments to show retirement of the replaced equipment were not presented. Witness MacFarlane

prepared an exhibit to show the approximate cost of the retired pumping and chlorination equipment. That exhibit shows an ordinary retirement entry, whereby the $6,789 estimated original cost of the replaced equipment is removed from the plant account and equally removed from accumulated depreciation. Based the record, we hereby approve this $6,789 pro forma adjustment to the plant and accumulated depreciation accounts.

6) Acquisition Adjustment of $1,813,600 Inappropriate - The $1,813,600 acquisition price that was assigned to the utility assets for bookkeeping purposes, which is also the basis used for the utility's requested acquisition adjustment in this case, was derived from an appraisal report prepared by Mr. Walter Lampe. That report indicates that Mr. Lampe, a real estate appraiser, was rendering his "Opinion of Value" with regard to four separate parcels: vacant acreage, mobile home lots, an amenity package, and the utility plant.

According to testimony by Witness MacFarlane, Mr. Lampe evaluated each parcel independent of the others. Mr. Lampe did not base his appraisal upon an allocation of the actual cost related to the reorganization of Continental. When the full measure of cash paid and obligations assumed under new ownership by Redman Industries, Inc., was determined, some of Mr. Lampe's appraisal values, including the amount assigned to the utility properties, were adopted. However, the actual obligations exceeded the $6,479,000 appraisal amount reported by Mr. Lampe. It appears that the actual acquisition price relating to this reorganization was at least $7,970,000. Witness MacFarlane testified that a revaluation of the acquired properties was necessary so that the asset values would correspond to the added cash investments and assumed obligations. Witness MacFarlane testified that he believed the revaluation was performed pursuant to generally accepted accounting principles.

Therefore, we find that the $1,813,600 amount that was assigned, rightly or wrongly, to the utility system was not the result of an allocation procedure.

The utility has asked this Commission to include an acquisition adjustment in the rate base calculation. Our policy has been that rate base inclusion of an acquisition adjustment is permitted only to the extent extraordinary

measures attend a transfer of utility ownership. On August 6, 1986, a bankruptcy court approved a plan for reorganization for Continental whereby the former owner, Donald W. Freeman, relinquished his ownership of the company's stock, conditions were set forth to govern payment of creditors, and the proponent of the plan of reorganization, Redman Industries, Inc., provided $100,000 in new equity capital. Redman Industries, Inc., was previously the single largest creditor of Continental. Following reorganization of Continental, an overall revaluation of the company's assets was deemed necessary since the total obligations that survived the bankruptcy case and the new capital investments exceeded the recorded book value of the company's assets. That revaluation included an assignment of $1,813,600 to the company's utility assets. That sum corresponds to the "Opinion of Value" prepared by Mr. Walter Lampe, in his capacity as appraiser evaluating the worth of four asset categories: vacant acreage, mobile home lots, an amenity package, and utility properties. The record indicates that Mr. Lampe used a discounted cash flow approach to evaluate the utility system based upon a stream of projected income.

The utility contends that the acquisition price of this utility system should be the $1,813,600 appraisal amount in August, 1986, and that this amount should be considered the beginning point for measuring its investment in utility properties. Because this acquisition price exceeds the previously recorded cost of plant facilities (less CIAC and related reserve accounts), a "positive" acquisition adjustment is recorded. The original cost of the acquired plant facilities, as adjusted to reflect removal of undocumented charges, retirements, and adjustments to CIAC, was $1,220,280 as of August, 1986. Thus the positive acquisition adjustment to be considered in this case is $593,320. This balance is reduced by subsequent amortization and used and useful corrections to yield the utility's proposed provision for an acquisition adjustment in its rate base calculation.

OPC Witness Effron testified that the utility's proposed acquisition adjustment should not be included in the rate base calculation. He testified that the original cost amount should not be disturbed simply due to a change in ownership. He also testified that an objective basis for concluding that the acquisition price exceeded original cost was missing. Since Continental's assets were acquired in the aggregate, there

being no separate cash expenditure for each parcel independent of the others, Witness Effron argued that the reported acquisition price merely represented the subjective judgment of the appraiser, which should not be relied upon as the real purchase price of the utility system.

Mr. Lampe was not present at the hearing to explain his basis for appraisal of the utility system. Nor were the work schedules prepared in support of his $1,813,600 appraisal amount available for inspection. Witness MacFarlane reported that Mr. Lampe testified on July 25, 1986, before the bankruptcy court as to the "liquidation" value of Continental's property. Recalling Mr. Lampe's testimony, Witness MacFarlane reported that Mr. Lampe testified that the utility assets had an average liquidation value of $1,250,000. Since the liquidation value would apparently represent 80% of the non-liquidated value, Witness MacFarlane concluded that the range of values would be from $1,300,000 to $1,813,600. Since Mr. Lampe did not attend the rate case hearing, it is impossible to determine why the uppermost value was reported in his appraisal letter of August 12, 1986.

Witness MacFarlane produced preliminary schedules prepared by Mr. Lampe that indicated that the possible range of values for the utility would be between $1,165,000 and $1,750,000. Both values represent the present value of a stream of future revenues reduced by exactly 50% to represent income after expenses. The lower and upper valuation amounts correspond to average monthly bills of $30 and $45 per resident, respectively, with lesser per unit charges for the Sandalwood project. Witness MacFarlane did not know how Mr. Lampe established those projected bills. Witness MarFarlane did not know how the 50% provision for expenses was determined. He agreed that rates would be higher if projected rates were designed to yield recovery of an acquisition adjustment.

Witness MacFarlane acknowledged that our policy regarding rate base inclusion of an acquisition adjustment requires some showing of extraordinary measures. He testified that, in his view, the bankruptcy of Continental was an extraordinary event.

We agree with OPC Witness Effron that the reported acquisition price is not a proper indicator of the actual purchase price for the utility assets. The $1,813,600 reported amount is not the bottom nor even the midpoint of the possible

values, but instead the "highest" possible amount. The valuation is based upon a stream of future income, but the derivation of the monthly billings is totally unexplained. Also unexplained was the assumption that expenses would exactly equal 50% of revenues. The utility's own application shows that expenses exceed 50% of revenues, and those revenues are designed to yield a return on the requested acquisition adjustment. Since an objective "purchase price" cannot be determined from the record, a comparison with the original cost amount cannot be made, which cancels any consideration of an acquisition adjustment.

Also disturbing is the premise that a company emerging from bankruptcy, where some debts are generally discarded, would arrive at a larger investment in utility plant equipment than before. We reject the proposition that the Company's former bankrupt condition is cause for increasing the investment in plant facilities. Even given the lack of adequate support for Mr. Lampe's appraisals, the lower scales of his proposed ranges are not much different from the original cost amount.

The utility contends that its bankruptcy is an extraordinary or unusual event that would justify including its reported acquisition price in the rate base equation. Bankruptcy proceedings may be unusually unpleasant for creditors, and a creditor's assumption of equity ownership and responsibility an unusual result. The record reveals that some market value assessment of Continental's assets was needed. The record does not demonstrate that these conditions justify allowing a rate base balance in excess of original cost.

If the original cost amount understated the worth of the utility assets upon reorganization, a sound basis for concluding so is needed. Mr. Lampe's appraisal under present value income assumptions, with unexplained premises concerning revenues and expenses, provides no assurance that this method yielded the more correct estimate of their worth. We find it appropriate to deny the utility's request for an acquisition adjustment.

7) Pro Forma Adjustment for Meter Installation and Sundry Water Plant Improvements - In its MFRs, the utility requested water plant improvements and meter installation costs to be included in the projected test year ending March 31, 1990. The

estimated costs of the water plant improvements and meter installations were $208,154 and $87,192, respectively. The utility supported the meter installation cost by including the invoices and general ledger reports in Exhibit 15. The actual cost was only slightly higher than the estimate. The majority of the work was completed prior to the projected test year. There was $11,763 spent during the first month of the projected test year to complete the work. OPC did not mention the meter installations in its brief. Therefore, we find it appropriate to allow $87,192 as an addition to rate base.

The water plant improvements were substantiated by utility Witness Springstead. The improvements include new pumps, pumphouses, chlorinators, plant piping, a standby generator, a telemetering system, and activation of the elevated storage tank. The need for the improvements is undisputed. DER Witness Noblitt stated that the modifications to the system would greatly improve the utility's ability to meet current demands. Utility Witness Springstead testified that the water plant improvements were for the existing customers, and if additional lots are constructed, additional capacity would very likely be needed.

The water plant improvements were contracted by Merideth Environmental Services for an initial cost of $206,775. The contract was revised on April 14, 1989, to include a detention tank and temporary electrical controls to wells 2 and 4, which resulted in a revised cost of $219,039. The utility also provided invoices totalling $18,414 for the engineering work on the project. The total cost for the water plant improvements is $237,453.

The improvements had not been completed at the time of the June 1, 1989 hearing. The pumps were placed in service in May and connected to the elevated storage tank, but the pumphouses, telemetry and chlorination systems were not completed by the hearing. The standby generator had been delivered but not placed into service. The completion date for all the work was scheduled for June 10, 1989.

In its brief, OPC argued that since only one-third of the cost of the improvements were on-line by the hearing date, all costs associated with current plant improvements, which have not been placed in service, should be removed from plant in service. An alternate position as stated in its brief was that

the improvements should be removed for that portion of the test year when they are not going to be in service. Also, expenses should be adjusted to eliminate direct costs known not to have occurred.

Utility Witness MacFarlane testified that the projected test year ending March 31, 1990, was chosen because the plant improvements were scheduled to be completed before March 31, 1989. Continental asked for a projected test year in order to include the improvements 100%, not 75% because they may not be in service for three months of the projected test year. Witness MacFarlane indicated that had he known that they would not be in service until June, he would have probably asked for a projected test year ended June of 1990 rather than March of 1990. He further stated that the improvements are recognizable and because they will be in service by the time these rates are established, they should be included 100%.

We are persuaded by the utility for several reasons. The need for the improvements is undisputed. The improvements are basically for the existing customers and improve the quality of service provided by the utility. The improvements will be completed by the end of June, 1989, which places them in service for 9 months of the projected test year. The plant will be in service by the time the approved rates go into effect. We find it reasonable to conclude that the projected test year was chosen to include the extraordinary amount of plant additions in their entirety, and an unforeseen three month delay should not cause a reduction to the costs. Furthermore, we note that the projected test year expense for purchased power was reduced by $7,029, mainly due to the efficiency of the two new pumps in combination with the elevated storage. We find that it is inappropriate for the customers to benefit from the full amount of reduced purchased power costs due to the plant improvements while the utility is allowed only a portion of those improvements in rate base.

Therefore, we find it appropriate to allow $237,453 for the water plant improvements and $87,192 for the meter installations, or a total pro forma plant addition of $324,645.

8) Used and Useful Adjustments - The utility performed used and useful analyses in the MFRs for the historical test year ended June 30, 1988, and for the projected test year ending March 31, 1990. The projected test year calculations

utilize the historical data and incorporate the pro forma water plant modifications. The modifications include new 500 gallon per minute (gpm) pumps at Wells #2 and #4, in combination with a 100,000 gallon elevated storage tank. Well #1 will be retired because of high iron content. Well #3 will continue as backup to the potable water system and used as a primary source for golf course irrigation.

In the water source of supply, both OPC and the utility used a capacity of 960,000 gallons per day (gpd), which is the 16 hour equivalent of the capacity of the two new wells (1000 gpm x 1440 gpm/day x 16/24). The fire flow demand used by both was also the same at 1500 gpm for three hours. The nominal difference in the calculations is due to the maximum daily demand. The utility used a historical maximum demand of 708,000 gpd, while OPC used the average day times a theoretical peaking factor of two to arrive at a demand of 681,246 gpd. It is unknown why OPC Witness Demeza attempted to use a theoretical number when historical data was available. One possible explanation might be that the meter installation program could have an effect on historical data. However, Witness Demeza added that when a customer is metered, there is a reduction in the water that is used but only for a short period of time. Therefore, historical data still appears appropriate in the maximum day demand calculation. The resulting used and useful calculations are 100% by the utility and 99% by OPC. The difference is immaterial for rate-setting purposes. Therefore, we find the source of supply based on historical data to be 100% used and useful .

The utility requested 50% of the cost of Well #3, which provides the backup capacity should one of the remaining two wells break down. The primary use for Well #3 is golf course irrigation. The utility argued that if Well #3 did not exist, it would be required to drill a third well for the required redundancy capacity. At the hearing, Witness Demeza explained that the capacity of Well #3 was recently reduced from 825 gpm to 180 gpm for the potable water system, due to DER's requirement of a 30 minute chlorine contact time. In its brief, OPC argued that if Well #3 can only produce 180 gpm, despite its 825 gpm capacity, rate base should be reduced proportionately. We agree and find well #3 (180 gpm/825 gpm) to be 22% used and useful. This results in a $3,982 reduction to rate base.

The elevated storage tank went into service in May 1989. Utility Witness MacFarlane explained the reasons why it should be considered 100% used and useful at his deposition, the relevant portions of which were submitted into the record. The 100,000 gallon tank can just barely meet the peak hour demands plus fire flow requirements. OPC made no adjustment to storage in its brief. Therefore, we find the elevated storage tank to be 100% used and useful.

The water transmission and distribution and wastewater collection and pumping systems all have the same used and useful calculation. Both the utility and OPC divide the units served by the developable lots with service to reach a 91.5% used and useful. The utility uses margin reserve to reach a 97% used and useful and then rounds off to 100%. At 97%, it is obvious that the existing systems are not overdesigned for future growth.

OPC's disagreement is with the allowance of margin reserve. OPC Witness Demeza testified that margin reserve should be the responsibility of the owner, not the user of the utility. Witness Demeza contends that it is a challenge for the engineer and owner to find the most cost effective system that will accept additions when required by additional development. The fallacy in this testimony is that a utility must have sufficient plant to accept additional connections today, but not be compensated until some future date. Under this theoretical scenario, a utility could never be compensated in a rate case for the required additional capacity until its service area is completely built-out and its plant completely utilized.

Utility Witness MacFarlane testified that this Commission has recognized in its regulation of all types of utilities that protecting service quality while maintaining an ability to serve new customers is an obligation of a utility. He stated that if supply and treatment facilities are exactly matched to existing customer needs, then the addition of just a few more customers can cause a deterioration of the current customers' service quality. We agree that a margin reserve is appropriate in used and useful calculations. Therefore, we find the water transmission and distribution and wastewater collection and pumping systems to be 100% used and useful.

The wastewater treatment plant has a capacity of 400,000

gpd. Both the utility and OPC use the average day of the maximum month (171,000 gpd) and divide by the capacity to reach a 43% used and useful. The only difference in the final calculations is that the utility adds a margin reserve to reach a used and useful of 45%. Since we have found a margin reserve is appropriate for the previously mentioned reasons, we find the wastewater treatment plant to be 45% used and useful.

The final used and useful calculation is for the wastewater general plant-equipment account. The utility requested 100% used and useful and OPC recommended a used and useful of 43%. Neither the utility nor OPC provided adequate support for their calculations. It appears OPC arbitrarily assigned the 43% used and useful from its wastewater plant calculations. Because the general plant account contains equipment that is used for existing customers, we find it to be 100% used and useful.

9) Contributions-in-Aid-of-Construction - When our used and useful calculation includes an allowance for additional customer growth, also described as a margin of reserve, it has been our policy to offset that growth consideration by the additional CIAC that will be collected when those customers are connected. That this treatment is a matter of Commission policy was acknowledged by Utility Witness MacFarlane and OPC Witness Effron. Witness MacFarlane testified that he disagreed with this practice of imputing CIAC to correspond with projected customer growth. Witness Effron testified that this offsetting treatment was appropriate.

Witness MarFarlane argued that the imputation of future CIAC diminishes the utility's ability to earn a fair rate of return on its continuing investment in plant needed to serve incremental customer growth. Since some investment in margin of reserve will also be needed in future periods, reducing the present margin of reserve by future CIAC is improper in Witness MarFarlane's opinion.

Witness Effron testified that he did not prepare margin of reserve calculations since he was not an engineer, but if the margin of reserve was intended as an allowance for future customer growth, ". . .it would only be fair and consistent to recognize any CIAC that might be commensurate with that growth taking place."

The record includes testimony both supporting and opposing the imputation of CIAC as an offsetting adjustment to the margin of reserve provision. If the margin reserve is considered a continuing investment in additional capacity, which capacity must be replenished as future customers connect so that adequate capacity will exist for even later customer growth, the practice of imputing future CIAC does diminish the allowance afforded this continuing investment. If the margin reserve is intended as a matching provision particular to that specific customer growth occuring 18 months after the approved test year, then the offsetting of future plant and future CIAC, both being post test year conditions, has merit. Therefore, in accordance with our policy, our calculation of rate base includes additional CIAC to represent meter connection fees and service availability charges for the 54 customers counted in the margin of service provision. The corresponding adjustments are $50,760 (54 x $940) for the water division and $59,400 (54 x $1,100) for the wastewater division.

The utility's MFRs included a schedule to depict the CIAC amounts for the projected test year. The reported balances were $114,420 for the water division and $239,080 for the wastewater division. The reported amounts included a $10,000 cash contribution received from Sandalwood Condominiums and $2,636 for meter installation costs in 1983 and 1984. The remaining balances, or $106,784 for the water division and $234,080 for the wastewater division, would reportedly correspond with the imputation procedure described in Rule 25-30.570, Florida Administrative Code. Pursuant to this Rule, if competent substantial evidence as to the amount of CIAC is not submitted, CIAC shall be imputed to the extent plant costs have been recorded for tax purposes as expenses relating to land sales, assuming tax information is available. If tax information is unavailable, the imputed CIAC shall be in proportion to the cost of water distribution and transmission facilities and sewage collection facilities.

Utility Witness MacFarlane testified that his inquiries disclosed that plant construction costs after reorganization of Continental have been capitalized both for book and tax purposes. He also testified that construction costs were likewise capitalized during ownership by the immediate former owner. Because he was unsure about the accounting treatment employed by earlier owners, Witness MacFarlane imputed CIAC to the extent that previously constructed transmission,

distribution, and collection facilities "could have been charged to cost of sales for tax purposes as the lots were sold". To compute his imputed CIAC amount, Witness MacFarlane added 1982 and earlier construction costs for mains, services, meters, and hydrants (totalling $346,937) for the water division and mains, manholes, and lift stations (totalling $710,235) for the wastewater division, and dividing these construction totals by 922 developable lots, per unit charges of $376 and $770 were calculated. Since 284 lots were sold before April of 1982, the total CIAC amounts would be $106,784 and $218,680 pursuant to this calculation.

The reported CIAC in the MFRs for the wastewater division was incorrectly added, which error in summation resulted in a $15,400 overstatement of CIAC. Since errors in calculation are properly corrected when noted, we find an immediate $15,400 reduction to the reported CIAC for the wastewater division to be appropriate.

Witness MacFarlane testified that the distribution and collection facilities serving the Sandalwood project should properly be considered contributed properties. This adjustment increases CIAC by $28,000 and $59,400 for the respective water and wastewater systems. Witness MacFarlane also agreed that certain construction costs should be omitted because of incomplete documentation. However, because the previously discussed imputation amount included $31,325 for meters that were undocumented, a corresponding $9,656 ($31,325/922 x 284) reduction to CIAC also results. The imputed CIAC also includes a proportionate share of $48,800 in transmission mains that were retired in 1984 and 1985. When that amount is removed from the plant investment column, the portion which is considered contributed property must be excluded for consistency. The corresponding adjustment is $14,768 ($48,800/922 x 284). Therefore, we find it appropriate to reduce CIAC for the water division by the combined $24,424 amount relating to retirement of mains and removal of undocumented plant.

Pursuant to our Order No. 20639, issued on January 20, 1989, we authorized collection of interim service availability charges. Witness MacFarlane agreed that collection of these payments would increase CIAC and correspondingly reduce rate base. Assuming that, on average, three customers would be added each month, pre-test year new CIAC would be $5,040 and $6,600 for the water and wastewater systems. For the projected

test year, on an average basis, the additional CIAC would be $15,120 and $19,800 for the water and wastewater systems. We have included these adjustments to the CIAC account in our determination of rate base.

As has been our policy, we find it appropriate that additional CIAC be recognized as an offset to the margin of reserve allowance. Those adjustments add $50,760 and $59,400 to the respective water and wastewater CIAC balances

Based on all our adjustments above, the corrected CIAC amounts are $191,316 for the water division and $368,880 for the wastewater division. These are also the appropriate CIAC totals for our rate base calculation.

OPC Witness Effron testified that additional CIAC should be imputed for years subsequent to 1982, based upon additional customer connections multiplied by the $376 unit water cost and the $770 unit wastewater cost provided by Witness MacFarlane. Witness Effron noted that his proposed adjustment was based on pre-1982 construction costs. His adjustment is apparently based upon the assumption that the price for each lot sold after 1982 included some measure of pre-1982 construction costs. No evidence to support that position was presented by Witness Effron.

Utility Witness MacFarlane testified that, before and following reorganization, Continental had capitalized construction costs both for tax and bookkeeping purposes. If those costs were not deducted for bookkeeping purposes or tax purposes, there is no obvious correlation between the price of a lot and the cost of building utility systems.

During cross-examination, Witness MacFarlane was asked whether depreciation relative to the claimed investment in utility assets was reported on a particular line in the tax return of Continental, which category refers to use of accelerated cost recovery (ACRS) for 15-year public utility property. Witness MacFarlane agreed that water and sewer assets would be included in the category of 15-year public utility property if the filing party claimed ACRS rates. He also agreed that no depreciation expense was reported by Continental on this particular line from 1982 to 1985.

Witness MacFarlane indicated that depreciation relative to

the utility assets for Continental may have been reported elsewhere on the tax depreciation schedule. Since the subject tax returns were in OPC's possession before the hearing, the opportunity to discovery whether depreciation of utility plant was reported on another line or whether accelerated depreciation was actually claimed was readily available. OPC's questions regarding a particular line on the tax return were restrictive and Witness MacFarlane's testimony that utility assets were capitalized was not disproved. Since Continental was not operating as a regulated public utility before this Commission's regulation, and, except with regard to Sandalwood, customers were charged maintenance fees rather than separate water and sewer charges, it is unclear whether 15-year ACRS rates would apply in Continental's specific case.

10) Accumulated Depreciation - The balances reported for accumulated depreciation in the MFRs, or $243,155 for the water division and $321,029 for the wastewater division, included sums which relate to undocumented plant. The reported balance for the water division did not include adjustments to reflect retirement of replaced water mains, a pro forma adjustment to reflect replacement of pumping and chlorination equipment, or a reclassification of Well #1 to a non-utility account. An addition to water plant in 1988, which was incorrectly classified to a maintenance account, necessitates a further adjustment. The reported balance for the wastewater division included depreciation that was accrued subsequent to retirement of a package treatment plant, which resulted in an overstatement of that account. We find an adjustment to reflect the actual cost of certain water plant improvements to be appropriate, which adjustment necessitates a further correction to the reserve account. When these various adjustments are considered, the corrected accumulated depreciation, after used and useful adjustments, is $192,784 and $314,127 for the respective water and wastewater divisions.

11) Working Capital - The utility's requested allowance for working capital is based upon the formula approach, whereby one-eighth of the utility's operating expenses is used as an estimate of working capital needs. OPC Witness Effron testified that the formula approach was an arbitrary method of computing working capital which does not accurately address the utility's actual cash working capital requirements. Witness Effron testified that the formula approach was based upon the assumption that a utility incurs expenses about 45 days before

recovery of those costs from customers. Witness Effron argued that while the formula approach might approximate the lag in collection of revenues, it did not consider the offsetting consideration that a lag in payment in expenses would also be expected. He suggested that the lag in payment might surpass the lag in collection of revenues. He recommended a zero provision for working capital because a "positive" working capital amount had not been established.

Utility Witness MacFarlane testified that the formula approach was widely recognized as a reasonable means of estimating working capital. He reported that Continental pays its creditors in a timely manner and because it renders service before collecting receipts, it was entitled to an allowance for working capital. Witness MacFarlane argued that ". . .the formula approach is justified when compared to a costly but detailed lead/lag study or a balance sheet approach which is virtually impossible due to the number of nonregulated operations conducted by Continental Country Club, Inc.". During cross-examination, Witness MacFarlane admitted that some expenses, such as electricity and interest, are typically paid after the benefits are received by a utility. In its brief, OPC argues that the utility has failed to establish its need of a working capital allowance.

This Commission has adopted the balance sheet approach to measure a utility's working capital requirement because it yields a more exact calculation of the utility's actual working capital condition during the test year. Absent evidence that the balance sheet approach would yield greater current and deferred assets than matching liabilities, it has been our practice to exclude working capital from the rate base equation.

Recently, in Docket No. 880883-WS, we initiated proceedings to streamline procedures relating to water and sewer rate cases. By Order No. 21202, we directed our Staff to initiate rulemaking regarding the use of the formula approach to calculate working capital with the added condition that a separate provision for deferred charges would not be permitted. This simplification of the working capital equation is expected to result in reduced rate case expenses. However, our decision was to initiate rulemaking, not to change our policy by that Order.

Obviously, the formula approach is but an estimate of a

utility's need for working capital. Witness MacFarlane testified that a balance sheet approach was "virtually impossible" because of the unregulated activities of Continental. The utility's application includes a balance sheet for the total company, which schedule does show an excess of current assets over current liabilities, but because of the magnitude of the amounts listed therein and the descriptions of the accounts, it appears likely that the portion related to the utility operation would be small. The cost of preparing a detailed lead/lag study of a complicated, month by month analysis of balance sheet accounts, where many nonregulated activities must be identified and excluded, would have contributed to increased rate case charges and a corresponding request for greater revenues. It is not improbable that revenues for recovery of those added rate case charges would approach, if not surpass, the revenues associated with the currently requested working capital provision. In addition, it may be appropriate to consider that the utility did not request a separate allowance for its deferred rate case charges, which amount alone would exceed the requested working capital amount.

We find it appropriate to approve the use of the formula approach to compute working capital. Because the utility operation was inextricably intermingled with other community service operations and because development activities by Continental add a further separation complication, the balance sheet approach for measurement of working capital is difficult, if not impossible, to apply in this somewhat unique case. Other than speculation about what a lead/lag study might reveal, the only evidence in the record concerning the utility's true working capital needs is Witness MacFarlane's testimony that Continental pays its creditors in a timely fashion and bills its customers in arrears. The working capital allowance using the formula approach amounts are $11,021 for the water division and $13,798 for the wastewater division.

12) Test Year Rate Base - Using the beginning balance and the month-ending account balances for the test year, we find $726,895 and $381,415 to be the respective rate base totals for the water and wastewater divisions. The utility's water and wastewater rate base amounts are shown on Schedules Nos. 1-A and 1-B attached hereto. Our adjustments to the rate base calculations are shown on the attached Schedule No. 1-C.

COST OF CAPITAL

1) Capital Structure - For the historical year ended June 30, 1988, Continental's capital structure was all debt related. On the average, about 11% was payable to the Internal Revenue Service and an unsecured creditor fund, with the remaining 89% owed to Continental's parent company, Redman Industries, Inc. That intercompany obligation was shown as being equivalent to equity investment since Redman's capital did not include any outstanding debt. Based upon those sources of funding, an overall cost of capital of 11.87% was reported by the utility.

For the projected test year ending March 31, 1990, the liabilities to outside parties were reduced based upon scheduled payments of principal, and a further obligation to the parent company was added to represent the expected cost of water plant improvements. However, because Redman itself was acquired by a highly leveraged company, the intercompany obligation was adjusted to approximate the capital structure of the new owner. As adjusted, the utility's capital structure consists of 9.5% equity investment and 90.5% debt. The requested return on equity is 14.35% and the weighted cost of debt is about 10.52%. The requested overall cost of capital is 10.88%.

There is no evidence in the record to indicate that Continental's proposed capital structure should not be accepted in this proceeding. OPC Witness Effron used the 10.88% weighted cost of capital derived from this capital structure to portray the utility's return on investment in the event a rate of return was granted in this case. In its brief, OPC contends that all capital must be deemed contributed since recovery of interest was not permitted in court decisions concerning the maintenance fee.

We find it appropriate to accept the utility's proposed capital structure to compute the cost of capital for this proceeding. The utility's cost of capital is shown on attached Schedule No. 2, which also shows a reconciliation of sources of funding with the combined water and wastewater rate base amounts.

2) Return on Equity - The utility's requested return on its equity investment is based upon the leverage formula

pursuant to our Order No. 19718, issued in Docket No. 880006-WS. That Order indicates that the appropriate return on equity should be 14.35% when the equity portion of the capital structure is less than 40%. The equity portion of the utility's capital structure is 9.46%.

All parties agreed, in their prehearing statements, that the leverage formula should be used to establish the appropriate return on equity investment if earnings were included in the approved rates. Our policy has been that an authorized range is established for the allowed equity return for subsequent surveillance and interim rate considerations. Using that range of 100 basis points around the allowed return, the authorized range of reasonbleness would be 13.35% to 15.35%. Based upon evidence of record, and prior agreement concerning use of the current leverage formula, and the utility's capital structure, we find it appropriate to establish a 14.35% return on equity investment.

3) Overall Rate of Return - The utility's requested return on investment is 10.88%, which is also equal to the requested cost of capital for this proceeding. The cost of capital is determined by weighing the equity and debt portions in the capital structure and their respective cost rates. There is no evidence in the record to indicate that the utility's proposed cost of capital is unreasonable. OPC Witness Effron used this 10.88% weighted cost to portray the utility's return on investment in the event a rate of return was granted in this case. Accordingly, based upon evidence in the record, we hereby approve a 10.88% overall cost of capital, with a range of reasonableness of 10.78% to 10.97%. Attached as Schedules Nos. 3-A and 3-B are the operating income statements for the respective water and wastewater systems. Our adjustments are itemized on Schedule No. 3-C, with further discussion provided below.

OPERATING INCOME

1) Professional Fees - Our audit report reviewed certain errors in classifying consulting fees which relate to a non-utility court case ($554) and the utility's application ($553) for a certificate from this Commission. Our auditor proposed removal of the $554 non-utility expense and capitalization of the $553 fee related to obtaining a

certificate. OPC Witness Effron adopted these proposed adjustments in his prefiled testimony. Utility Witness MacFarlane also agreed that these adjustments were appropriate. Since there is no dispute regarding these corrections, we find it appropriate to reduce test year expenses by $1,107 while adding $553 to the intangible plant account.

2) Engineering Study - The utility requested a pro forma adjustment of $1,860 to record an amortization of a $9300 engineering study on the existing system to be written off over 5 years. The cost would then be split between the water and wastewater accounts. In its brief, OPC argues that the need for this study has not been substantiated and the ratepayers should not have to cover costs associated with identifying engineering problems. However, Utility Witness MacFarlane stated that the study identified certain areas which Continental must recognize as needing improvement. The study caused most of the improvements under construction in the water system. Witness MacFarlane further stated that, in his opinion, this type of review should be done periodically by any small utility in order to furnish safe and efficient service. We agree and, therefore, find that the need for this study was adequately explained. The utility provided copies of invoices at the hearing supporting the $9300 cost. OPC argued in its brief that while Exhibit #16 was identified for the record, it was never admitted into evidence. Exhibit #16 was not admitted immediately into evidence in the afternoon session of the hearing, however, it was admitted into evidence in the evening session. Therefore, we will allow the pro forma expense of $1,860.

3) Other Pro Forma Adjustments - Pursuant to a request by a panel member, Witness MacFarlane prepared a late-filed exhibit to explain why operating expenses for the projected test year were greater than those reported for the base year ended June 30, 1988. This information allows us to perform a benchmark test. That exhibit shows inclusion of the following pro forma adjustments to convert the June, 1988, base year to the March, 1990, projected year:

$10,800	Employee hired to assist in maintaining water and wastewater systems and to handle new meter reading responsibility.

$ 4,720	Additional wages to reflect field superintendent devoting 100% rather than 80% of his time to utility matters.
$ 1,277	Employee benefits and insurance relating to above wages.
$ 4,276	Increased annual expense of contract operator at treatment plants.
$ 5,762	Estimated cost of separate billing for utility service.
$ 7,200	Estimated expense for accounting and reporting requirements, and office personnel and management time to operate the utility system as a distinct entity.

We find that each of the above pro forma adjustments should be allowed as reasonable amounts in the projection of test year expenses.

4) Rate Case Expense

The utility's revenue request at the hearing date included a provision for recovery of projected rate case costs of $60,000, which amount would be amortized over four years and equally divided between the water and wastewater divisions. In prefiled testimony, Witness MacFarlane reported that the utility would submit an exhibit to show actual costs as of the hearing date and estimated completion costs. That exhibit showing projected total rate case costs of $69,266 was admitted into evidence during the hearing. The projected rate case cost includes $11,900 for expenses during and subsequent to the hearing. Our review of this exhibit did not reveal any material misstatement of actual costs. It is our policy, generally, to permit admission of actual cost data to replace obviously inexact estimates. Amortization of this amount over four years will yield an $8,658 test year expense for the water division and a similar amount for the wastewater division. The record does not indicate that the revised rate case cost is an unreasonable amount, and therefore its recovery is not unreasonable.

5) Increased Labor Costs - The utility's reported expenses for the projected test year did not include a $7,760 amount to represent increased labor costs for the wastewater division. Utility Witness MacFarlane proposed an adjustment in his prefiled testimony to correct this error. OPC Witness Effron agreed that this error should be corrected. We, therefore, find it appropriate to approve the $7,760 adjustment proposed by the utility and OPC.

6) Car Insurance - After reviewing the components included in a "management fee" charged to the utility operation, OPC Witness Effron proposed an adjustment to reduce a $3,432 annual expense for car insurance to $1,200 unless the utility could substantiate the reasonableness of the reported expense. In his rebuttal testimony, Witness MacFarlane disagreed with the proposed reduction for insurance, noting that the expense related to use of a truck rather an automobile. He further reported that Continental was charged the same insurance amount per truck as all other subsidiaries of Redman Industries, Inc., which amount was $3,432.74 for the fiscal year ended March 31, 1988, and $3,729.32 for the fiscal year ended March 31, 1989. For car insurance, the corresponding annual amounts were $1,373.10 and $1,491.73. Witness MacFarlane argued that the expense might be larger than expected because of the number of potential drivers and the greater protection that corporations generally require.

During cross-examination, Witness MacFarlane admitted that no documentation had been submitted to prove that the cost to Redman equalled the allocated amount. Simply reporting that the "truck" insurance is equally charged to each subsidiary does not demonstrate that the amount is a reasonable sum. It is reasonable to assume that the insured vehicle is a maintenance truck used within the service community in Wildwood, that under these circumstances the large difference between auto and truck insurance would seem to be diminished at least within this community, and that this greater expense may be due to greater insurance rates in other areas or totally different transportation equipment. The record does not support the reported $3,432 insurance amount, and we therefore approve OPC Witness Effron's proposed $1,200 insurance provision.

7) Misclassified Addition to Plant - During the hearing, Witness MacFarlane agreed that a $1,900 test year maintenance

expense was actually a misclassified addition to plant and that the expense should be reduced accordingly. Since that plant item was subsequently retired, the correcting entry is charged to accumulated depreciation. Therefore, we find it appropriate to reduce test year expenses for the water division by $1,900.

8) Amortization of Replacement Wastewater Pump - During the hearing, Witness MacFarlane also agreed that maintenance expense for the wastewater division should be reduced by $616 to amortize the replacement of a wastewater pump over two years. We find it appropriate, therefore, to reduce test year expense by this $616 amount.

9) Purchased Power - The utility incurred $14,102 in purchased power water expense for the historical test year, and requested no changes to this account for the projected test year expense. The utility performed an engineering estimate of projected test year electrical usage for the proposed motors at Wells #2 and #4, which was requested by our Staff since it appeared some efficiency might be gained by using the proposed larger more efficient pumps in combination with elevated storage. Based on its engineering estimate, the utility agreed to an $8,202 reduction to the projected test year purchased power account. However, the utility used 91,004,000 projected test year gallons in its calculation, which included an assumed consumption of 7500 gallons per month per equivalent residential connection (ERC) and an allowable water loss of 10%. We find 9,000 gallons per month per ERC to be more appropriate. This increases the projected test year consumption to 98,166,000 gallons. After adding the 10% allowance for water losses, the revised projected test year gallonage is 109,070,000 gallons. Using this gallonage in the estimated provided by the utility, the revised projected purchased power expense is $7,073, which is a $7,029 reduction to expenses. We find this adjustment appropriate to match the projections for both purchased power and test year gallonage.

REVENUE REQUIREMENT

The appropriate revenue requirement for a utility results from our independent consideration of its rate base, its cost of capital, and its operating expenses. Based upon the adjustments discussed above, we find the utility's annual revenue requirements to be $209,521 for the water division and

$175,523 for the wastewater division. These revenues are designed to give the utility an opportunity to earn the approved overall rate of return of 10.88%

RATES AND CHARGES

1) Meter Installation Charges - In its application, the utility requested meter installation charges for the 1 1/2 inch, 2 inch and larger meter sizes. Witness MacFarlane testified that the utility planned to install the meters to serve the remaining 100 lots in CCC at no charge to the customers. However, any new development seeking service would be master-metered and charged a meter installation charge.

We find that the utility's proposal to charge some future customers, but not all, for meter installation is discriminatory. Therefore, we find it appropriate to establish meter installation charges for all meter sizes for all future customers.

2) Interim Service Availability Charges Made Final - Because Continental had no service availability policy or charges when it came under this Commission's jurisdiction, over 800 customers in the mobile home park have connected with no service availability charge. The utility's only CIAC consists of a $10,000 contribution from Sandalwood and imputed CIAC. The utility's application proposes only meter installation charges for meters 1 1/2 inch and larger. No plant capacity charges were requested.

By Order No. 20639, issued on January 20, 1989, we approved interim service availability charges based on our analysis of information in the utility's filing regarding its investment, capacity, and growth projections. Interim main extension charges were approved for those areas in which water and wastewater lines have already been installed by the utility. The requirement of donated on-site and off-site lines was approved for those areas where the utility has not installed lines. Interim plant capacity charges for water and wastewater were approved which we projected would achieve a 75% contribution level at design capacity. The utility was required to deposit all interim contributions into an escrow account.

Witness MacFarlane indicated that if service availability charges are assessed, the utility would like to be on the low end of the range, meaning the minimum level allowed by Rule 25-30.580, Florida Administrative Code. However, he also acknowledged that the interim charges fall within the range set by this Commission, of up to 75% of the net invested cost of the plant.

Witness MacFarlane testified that the interim charge for water would produce about a 38% CIAC level at design capacity because of the number of existing connections (800 customers connected with no service availability charge) versus the total number of connections when the plant will be 100% used and useful (the water plant is projected to be 100% used and useful at the end of the projected test year). Because the utility did not collect service availability charges from the first 800 customers, the small number of future customers who will pay a service availability charge will not be sufficient to generate enough CIAC to achieve our 75% target CIAC level at design capacity.

Our analysis of the interim water plant capacity charge indicates that $340 per ERC represents about 85% of the total cost of the water treatment plant cost per ERC. To generate a plant capacity charge which would result in the utility's having a 75% contribution level at design capacity would cause the few remaining customers who connect to pay far more per ERC than their fair share of the cost of the water system.

Witness MacFarlane also testified that, although the wastewater system has a great deal of excess capacity, the utility's CIAC level will meet Commission guidelines. The utility currently has a 24% contribution level. Because the utility has so much excess capacity, and its projected growth is so slow, 3 ERCs per month, the analysis required looking out 30 years into the future. However, within the next 10 to 20 years it appears that the interim wastewater plant capacity charge will result in a contribution level which is within the guidelines of Rule 25-30.580, Florida Administrative Code. We will not base our decision on a projection beyond 10 to 20 years because of the inherent uncertainties regarding growth and the changing regulatory standards for wastewater treatment plants.

Witness MacFarlane also testified as to the utility's

costs involved in installing meters. The contractor's bid to install water meters and reset the meter box was $47 each. The bid to locate the water service and install the meter was $142 each. Continental was to provide the meter. Locating the service will only be necessary for the lots where a service was previously installed. The cost of the meter, $50, should be added to the contractor's bid for the labor to install the meters. Therefore, it appears that the interim meter installation charges are in line with the actual cost to install a new meter.

We find it appropriate to make the interim service availability charges final. The utility shall notify customers and developers, in writing, of the actual cost to install 2" and larger meters prior to the installation. The funds in the escrow account shall be released to the utility upon the effective date of this Order. The following are the utility's proposed and the Commission-approved final service availability charges:

	Utility Proposed	Commission-Approved Final
Meter Installation		
5/8" X 3/4"	N/A	$100
3/4"	N/A	100
1"	N/A	125
1 1/2"	$374	150
2"	464	Actual Cost
Over 2"	Actual Cost	Actual Cost
Water Plant Capacity	N/A	$340.00 per ERC
Water Main Extension (1)	N/A	$500.00 per ERC or
Donated On-site and Off-site lines (2)		
Wastewater Plant Capacity	N/A	$350.00 per ERC
Wastewater Main Extension (1)	N/A	$750.00 per ERC or
Donated On-site and Off-site lines (2)		

(1) In those areas where the utility has installed lines
(2) In those areas where the utility has not installed lines

3) Miscellaneous Service Charges - Rule 25-30.345, Florida

Administrative Code, provides that a utility may have miscellaneous service charges. Staff Advisory Bulletin (SAB) No. 13, Second Revised, defines four categories of miscellaneous service charges and provides the typical charge for each category. The utility's original request to collect miscellaneous service charges did not include the specific charges set out in SAB 13, Second Revised. However, Witness MacFarlane acknowledged that it was the utility's intent to request the charges contained in SAB 13.

The utility's existing tariff does not contain miscellaneous service charges and the utility has never collected those types of charges. Witness MacFarlane testified that the utility's collection of the charges might generate $600 to $1000 per year.

Upon consideration, we find it appropriate to authorize the utility to collect miscellaneous service charges, as follows:

Type of Service	Water	Wastewater
Initial Connection	$ 15	$ 15
Normal Reconnection	15	15
Violation Reconnection	15	Actual Cost
Premises Visit	10	10

When both water and wastewater services are provided, only a single charge is appropriate unless circumstances beyond the control of the utility require multiple actions.

4) Customer Deposits - Rule 25-30.311, Florida Administrative Code, provides the guidelines for collection of customer deposits. Witness MacFarlane testified at the hearing that the reason the utility wanted authority to collect customer deposits was only to guard against the situations of bad-paying customers or rental type customers. It was not anticipated that Continental would go out and secure deposits from all of its existing ratepayers. That philosophy is consistent with the Rule. We find it appropriate to authorize the utility to collect customer deposits pursuant to Rule 25-30.311, Florida Administrative Code.

5) Gallonage Cap for Wastewater - Witness MacFarlane testified at the deposition that the utility's failure to

request a cap on the gallons on which residential wastewater customer bills will be calculated was an oversight. He indicated that the utility proposed a 6,000 gallon per month cap. The cap recognizes that some water is used for irrigation and other purposes which is not returned to the wastewater system. Those gallons should not be included in the customer's bill for wastewater service.

It is our policy to have a cap on the gallons used to calculate residential wastewater bills. The cap represents the maximum water usage that should be included to calculate the residential wastewater bill. The utility's proposed cap of 6,000 gallons per month appears to be a reasonable estimate of the maximum water usage for which residential customers should be billed for wastewater service. We are persuaded by Witness MacFarlane's testimony that even if the water usage is greater than that anticipated by the utility, the additional usage will probably be for irrigation and should not be used to calculate the residential wastewater bills. Therefore, we find it appropriate to approve a 6,000 gallons per month cap for residential wastewater customers.

6) Appropriate Bills and Gallons to Determine Base Facility Charge - The utility's proposed bills for water and wastewater are based on the number of customers in the historical test year plus an estimated three additional residential connections per month through the projected test year. OPC Witness Effron proposed that the utility is legally required to charge all lots for service, whether or not those lots are individually owned and occupied. He stated that the number of bills should be increased by 1,050 to recognize revenue from base charges to unoccupied lots. However, when cross-examined at the hearing, Witness Effron repeatedly stated that he did not intend to address issues of rate design. In OPC's brief, no mention was made of the additional bills.

Witness MacFarlane refuted Witness Effron's testimony by stating in his rebuttal testimony that those who use service should pay for it. A utility cannot bill an empty lot which does not have service. He also pointed out the inconsistency between Witness Effron's proposal and the concept of used and useful adjustments. We find, therefore, that the number of bills proposed by the utility for water and wastewater are appropriate. We do not find it appropriate to add 1050 bills for undeveloped lots, as OPC suggested. The utility's

arguments that it cannot bill for service which is not rendered and the proposal's inconsistency with the concept of used and useful adjustments are persuasive.

There was a substantial amount of conflicting testimony regarding the number of gallons of water per bill which should be used for the projected billing analysis. The utility proposes using an estimated 7,500 gallons per residential bill (250 GPD) and OPC proposes using an estimated 10,500 gallons (350 GPD). The projected usage for Sandalwood Condominiums (6 inch meter) is based on the actual usage in the historic test year.

Both Witnesses MacFarlane and Effron testified that, currently, the residents of Continental are using in excess of 12,000 gallons of water per month. Witness MacFarlane testified that his experience indicated that 12,000 gallons per month is unusually high for a mobile home park. OPC Witness DeMeza testified that the lawns are beautiful and most of the water is for the lawns. Witnesses MacFarlane and Effron also testified that they expected the usage to decrease with metered rates. The discrepancy of opinion is how much the usage will decrease when metered rates are implemented.

Witness MacFarlane testified that Rule 25-30.055, Florida Administrative Code, regarding systems with a capacity or proposed capacity to serve 100 or fewer persons, specifically mentions that an ERC is equal to 250 GPD for the purposes of that Rule only. Also, the customer demographics of Continental would establish that the population is mostly retired people with two persons per household. Therefore, 250 GPD is a better estimate of the projected average consumption of the customers of Continental than 350 GPD would be. The 350 GPD standard is an assumption of 3.5 persons per household using 100 GPD. He also testified that an estimate might be derived from a review of other mobile home parks in the central Florida area with similar demographics and circumstances. The utility submitted a series of billing analysis of other water utilities serving mobile home parks, one of which had recently converted from a master meter to individual meters. Those standards reflect even less usage per month than the utility is proposing.

Witness DeMeza testified that even 350 GPD is a conservative figure. However, that number was used as a minimum because the Commission has adopted it from DER. He

testified that it will certainly not be anywhere near the 250 GPD and perhaps much higher than 350 GPD.

Witness Effron testified that although Continental consists of mobile homes, the nature of the homes more closely resembles a development of single family residences than other mobile home development. Therefore, he believes that it would be reasonable to assume a usage pattern consistent with that of single family residences will be established when the customers begin to be charged for water consumption, that being 10,500 gallons per month or 350 GPD. Both parties agree that the water usage for the residents of Continental is unusually high for a mobile home park, probably because of the generous irrigation being done with free water. We are in a position of predicting how much water the residents will continue to use with metered rates for water service. We find that both parties presented logical assumptions. The utility's projection using 250 GPD based on two persons per household is persuasive, as is OPC's position that there will be some conservation, but not as much as that proposed by the utility.

We find it appropriate, therefore, to use an average of the two proposals, or 9,000 gallons per residential bill. The projected usage for Sandalwood must be based on the historical usage.

The utility's projected gallons for the wastewater billing analysis are based on 3,500 gallons per residential bill. OPC offered no position on this particular assumption. Witness MacFarlane testified that customers are billed for wastewater service based on water usage, with a cap (for residential customers). Therefore, that testimony contradicts the utility's proposal to use 3,500 gallons per bill for general service customers' wastewater usage. The general service customers will be billed for wastewater service based on water usage, with no cap. Therefore, we find that the gallons for general service customers' wastewater bills must be the same as the gallons projected for water usage.

An estimate of the appropriate gallons to be used for residential wastewater bills is complicated by the lack of a billing analysis in this case. We normally use a consolidated factor from a historical billing analysis which reflects the water usage for all bills at the various usage levels up to the proposed cap. The water usage in excess of the cap is excluded from the consolidated factor. Without a billing analysis, we

can only guess as to the appropriate gallons to use for residential wastewater. The utility proposed 3,500 gallons per bill. We are persuaded that that is a reasonable projection of the residential gallons which should be included, given the proposed cap of 6,000 gallons. We, therefore, approve the total gallons proposed by the utility for residential wastewater bills.

In summary, we find that the projected number of bills proposed by the utility are appropriate. The gallons for water should be based on an average of 9,000 gallons per residential bill. The gallons for Sandalwood (6 inch meter) should be based on the historical usage. The residential wastewater gallons should be based on 3500 gallons per residential bill. The general service wastewater gallons should be the same as the water gallons. The following schedule represents the bills and gallons we find appropriate to determine the base facility and gallonage charges for water and wastewater.

	Water		Wastewater	
	Bills	Gallons (000)	Bills	Gallons (000)
Residential	10,014	90,126	10,014	35,049
General Service				
5/8" x 3/4"	84	756	84	756
3"	12	1,728	12	1,728
6"	12	5,556	12	5,556

The final rates are based on the utility's approved revenue requirements, the appropriate numbers of bills and gallons, and the approved cap for residential wastewater bills. The approved rates are designed using the base facility charge rate structure. It is this Commission's policy to use the base facility charge design because of its ability to track costs and to give the customers some control over their water and wastewater bills. Each customer pays his pro rata share of the related costs necessary to provide service through the base facility charge and only the actual usage is paid for through the gallonage charge.

The approved rates for water service are uniform for residential and general service customers. The approved rates for wastewater service include a base charge for all residential customers regardless of meter size with a cap of 6,000 gallons of usage per month on which the gallonage charge

may be billed. There is no cap on usage for general service wastewater bills. The utility's proposed rates were designed using the base facility charge rate structure and no contrary positions were taken.

The utility's proposed wastewater gallonage charge is uniform for residential and general service customers. The utility stated that the rate structure already provides a differential charge because, unlike a residential customer with a gallonage cap, a general service customer will be charged a wastewater gallonage charge based on 100% of its water usage whether or not all that water consumption was returned to the wastewater plant. Finally, considering the consumption charge includes 100% of the return on the wastewater rate base there seems to be a sufficient differential charge for the cost of wastewater service without creating a further differential in the wastewater gallonage charge.

However, Witness MacFarlane testified that it is Commission policy to set a differential between the residential and general service wastewater gallonage charges. The differential is designed to recognize that a greater portion of the residential customer's water will return to the wastewater system than the water usage of residential customers. Therefore, we include the standard differential in the approved final wastewater gallonage charges

Customer testimony was offered at the hearing that Sandalwood Condominium has been deducting the cost of the electricity for a lift station from its monthly bill. The continuation of that practice was not offered as an issue in this case and no provision has been made for it. Therefore, the final rates set by this Commission are the only rates which the utility will be authorized to charge and collect.

The approved final rates for water and wastewater are shown on Schedules Nos. 4-A and 4-B. The approved rates will be effective for meter readings on or after thirty days from the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon our Staff's verification that the tariffs are consistent with our decision and that the proposed customer notice is adequate.

There are no outstanding matters pending in this case and, therefore, upon the submission and our approval of revised tariff sheets reflecting our decisions herein, this docket may be closed.

CONCLUSIONS OF LAW

1) This Commission has primary jurisdiction to determine the rates and charges of Continental Country Club, Inc., pursuant to Sections 367.011, 367.081, 367.082, and 367.101, Florida Statutes.

2) As the applicant in this case, the utility has the burden of proof that its proposed rates and charges are justified.

3) The Homeowners' contracts and the Sandalwood Condominium Master Agreement conflict with the Commission's mandate to set rates pursuant to Section 367.081(2), Florida Statutes, and therefore, they must not be considered in setting rates for this utility.

4) The two court decisions construing the Homeowners' contracts and the Sandalwood Condominium Master Agreement must be disregarded because they conflict with this Commission's requirement to set rates pursuant to Section 367.081(2), Florida Statutes, regarding the components to be considered in rate-setting and because they were rendered when this Commission had primary jurisdiction over the setting of water and sewer utility rates in Sumter County, Florida.

5) The rates and charges approved herein have been determined pursuant to Section 367.081(2), Florida Statutes, and are, therefore, just, reasonable, compensatory, and not unfairly discriminatory, as required by that statute and applicable case law.

6) We have considered known and imminent changes for this utility, pursuant to Section 367.081, Florida Statutes.

Based upon the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that the application of Continental Country Club, Inc., for an increase in its water and wastewater rates to its customers in Sumter County, Florida, is granted to the extent set forth in the body of this Order. It is further

ORDERED that the utility shall charge the approved final water and wastewater rates, the service availability charges,

and the miscellaneous service charges set forth in the body of this Order. It is further

ORDERED that the final rates approved herein shall be effective for meter readings on or after thirty days from the stamped approval date on the revised tariff sheets. It is further

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

ORDERED that the utility shall notify each customer of the new rates and charges approved herein and explain the reasons therefor. The form of such notice and explanation shall be submitted to the Commission for its prior approval. It is further

ORDERED that each of the specific findings of fact and conclusions of law contained in the body of this Order are approved and ratified in every respect. It is further

ORDERED that all matters contained herein and attached hereto, whether in the form of discourse or schedules, are, by this reference, specifically made integral parts of this Order. It is further

ORDERED that the escrow account containing the interim service availability charges collected by the utility is hereby released. It is further

ORDERED that upon the submission, and our approval, of revised tariff sheets reflecting our decisions herein, this docket may be closed.

By ORDER of the Florida Public Service Commission this 4th day of AUGUST, 1989.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

SFS

by: Chief, Bureau of Records

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

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

ORDER NO. 21680
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CONTINENTAL COUNTRY CLUB, INC.
RATE BASE SCHEDULE
TEST YEAR ENDING 3/31/90

DOCKET NO. 881178-WS
SCHEDULE NO. 1-A

WATER DIVISION ACCOUNT DESCRIPTION	AVERAGE TEST YEAR PER MFRS	UTILITY ADJUSTMENTS	UTILITY BALANCE	COMMISSION ADJUSTMENTS	TEST YEAR PER COMMISSION
Plant in Service	$ 1,147,700	$	$ 1,147,700	$ (88,404)	$ 1,059,296
Land	2,000		2,000		2,000
Accum Depreciation	(243,155)		(243,155)	50,371	(192,784)
Acquisition Adjustment	185,379		185,379	(185,379)	0
Accum Amortization	(10,378)		(10,378)	10,378	0
CIAC	(114,420)		(114,420)	(76,896)	(191,316)
Accum Amortization	31,461		31,461	7,217	38,678
Working Capital	0	12,202	12,202	(1,181)	11,021
	$ 998,587	$ 12,202	$ 1,010,789	$ (283,894)	$ 726,895

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CONTINENTAL COUNTRY CLUB, INC.
RATE BASE SCHEDULE
TEST YEAR ENDING 3/31/90

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SCHEDULE NO. 1-B

WASTEWATER DIVISION ACCOUNT DESCRIPTION	AVERAGE TEST YEAR PER MFRS	UTILITY ADJUSTMENTS	UTILITY BALANCE	COMMISSION ADJUSTMENTS	TEST YEAR PER COMMISSION
Plant in Service	$ 990,864	$	$ 990,864	$ (34,992)	$ 955,872
Land	5,000		5,000		5,000
Accum Depreciation	(321,029)		(321,029)	6,902	(314,127)
Acquisition Adjustment	200,564		200,564	(200,564)	0
Accum Amortization	(11,799)		(11,799)	11,799	0
CIAC	(239,080)		(239,080)	(129,800)	(368,880)
Accum Amortization	62,093		62,093	27,659	89,752
Working Capital		12,969	12,969	829	13,798
	$ 686,613	$ 12,969	$ 699,582	$ (318,167)	$ 381,415

CONTINENTAL COUNTRY CLUB, INC.
RATE BASE SCHEDULE
REVIEW OF ADJUSTMENTS

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SCHEDULE NO. 1-C
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	WATER	SEWER
PLANT IN SERVICE		
1. Reclassify fees related to PSC operating certificate	277	276
2. Adjustment to remove undocumented plant charges	(45,389)	(35,509)
3. Adjustment to reflect revised cost of plant improvements	29,298	
4. Adjustment to assign Well #1 to non-utility account	(10,000)	
5. Used and useful adjustment for Well #3	(7,000)	
6. Retirement of transmission mains in 1984 and 1985	(48,800)	
7. Retirement of pumping and chlorination equipment	(6,789)	
8. Adjusted used and useful amount for wastewater plant		241
9. Rounding adjustment	(1)	
	(88,404)	(34,992)
ACCUMULATED DEPRECIATION		
1. Added reserve for certificate cost	(18)	(18)
2. Reserve related to undocumented plant	15,240	5,448
3. Added reserve related to revised cost of water plant	(963)	
4. Assignment of Well #1 to non-utility account	4,355	
5. Used and useful adjustment for Well #3	3,018	
6. Retirement of transmission mains	20,109	
7. Retirement of pumping and chlorination equipment	6,789	
8. Adjustment to reflect retirement of a 1988 plant addition that was initially classified as an expense	1,841	
9. Adjustment to remove improper accrual of depreciation on retired 100,000 gpd package plant		1,472
	50,371	6,902
ACQUISITION ADJUSTMENT		
Adjustment to remove acquisition adjustment reported in MFRS. This elimination would include any revision due to a lesser original cost balance	(185,379)	(200,564)
ACCUMULATED DEPRECIATION (ACQ ADJ)		
Adjustment to remove reserve relating to acquisition adjustment	10,378	11,799

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CONTINENTAL COUNTRY CLUB, INC.
RATE BASE SCHEDULE
REVIEW OF ADJUSTMENTS

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SCHEDULE NO. 1-C
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	WATER	SEWER
CONTRIBUTIONS IN AID OF CONSTRUCTION		
1. Property CIAC for Sandalwood project	(28,000)	(59,400)
2. Adjustment due to removal of undocumented plant and plant retirements	24,424	
3. Correction of summation error in MFRS		15,400
4. Adjustment to reflect collection of interim service availibility charges and meter fees	(22,560)	(26,400)
5. Imputation of CIAC as offsetting adjustment to margin of reserve provision	(50,760)	(59,400)
	(76,896)	(129,800)
ACCUMULATED AMORTIZATION (CIAC)		
1. Reserve related to Sandalwood Property CIAC	11,483	24,532
2. Adjustment to reserve to reflect reduced CIAC due removal of undocumented plant and retirements	(6,648)	
3. Reserve related to collection of interim service availibility charges and meter fees	717	840
4. Pro forma reserve related to imputed CIAC for margin of reserve	1,665	2,287
	7,217	27,659
WORKING CAPITAL		
Revision due to adjustments to operating and maintentance expenses using formula approach	-1181	829

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CONTINENTAL COUNTRY CLUB, INC.
COST OF CAPITAL SCHEDULE
TEST YEAR ENDING 3/31/90

DOCKET NO. 881178-WS
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COMPONENT	BALANCE PER MFRS	PRO RATA ADJUSTMENTS	ADJUSTED BALANCE	WEIGHT	COST	WEIGHTED COST
Long Term Debt	7,771,458	(6,827,781)	943,677	85.15%	10.65%	9.07%
Notes Payable	380,769	(334,533)	46,236	4.17%	9.26%	0.39%
Notes Payable - IRS	111,538	(97,994)	13,544	1.22%	5.94%	0.07%
Customer Deposits	0	0	0	0.00%		0.00%
Common Equity	863,495	(758,642)	104,853	9.46%	14.35%	1.36%
Deferred Income Taxes	0	0	0	0.00%		0.00%
Investment Tax Credits	0	0	0	0.00%		0.00%
	9,127,260	(8,018,950)	1,108,310	100.00%		10.88%

Range of Reasonableness	High	Low
Equity	15.35%	13.35%
Overall Rate of Return	10.98%	10.79%

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CONTINENTAL COUNTRY CLUB, INC.
OPERATING SCHEDULE
TEST YEAR ENDING 3/31/90

DOCKET NO. 881178-WS
SCHEDULE NO. 3-A

WATER DIVISION ACCOUNT DESCRIPTION	BASE YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR (MFRS)	COMMISSION ADJUSTMENTS	ADJUSTED TEST YEAR	REVENUE INCREASE (DECREASE)	COMMISSION ADJUSTED TEST YEAR
Operating Revenues	$ 8,112	$ 255,311	$ 263,423	$ (251,003)	$ 12,420	$ 197,101	$ 209,521
Operating Expenses							
Operations + Mtce	$ 72,045	$ 25,570	$ 97,615	$ (9,441)	$ 88,174	$	$ 88,174
Depreciation	18,995	15,686	34,681	(5,181)	29,500		29,500
Amortization - Acq Adj	4,684	1,396	6,080	(6,080)	0		0
Amortization - Other	0	930	930		930		930
Taxes Other Than Income	3,706	7,242	10,948	(6,275)	4,673	4,928	9,600
Income Taxes	0	3,195	3,195	(3,195)	0	2,230	2,230
Operating Expenses	$ 99,430	$ 54,019	$ 153,449	$ (30,172)	$ 123,277	$ 7,158	$ 130,434
Operating Income	$ (91,318)	$ 201,292	$ 109,974	$ (220,831)	$ (110,857)	$ 189,943	$ 79,087
Rate Base			$ 1,010,789		$ 726,895		$ 726,895
Rate of Return			10.88%		-15.25%		10.88%

CONTINENTAL COUNTRY CLUB, INC.
OPERATING SCHEDULE
TEST YEAR ENDING 3/31/90

DOCKET NO. 881178-WS
SCHEDULE NO. 3-B

WASTEWATER DIVISION ACCOUNT DESCRIPTION	BASE YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR (MFRS)	COMMISSION ADJUSTMENTS	ADJUSTED TEST YEAR	REVENUE INCREASE (DECREASE)	COMMISSION ADJUSTED TEST YEAR
Operating Revenues	$ 14,352	$ 209,038	$ 223,390	$ (207,924)	$ 15,466	$ 160,057	$ 175,523
Operating Expenses							
Operations + Mtce	$ 84,750	$ 19,002	$ 103,752	$ 6,633	$ 110,385	$	$ 110,385
Depreciation	26,232	(3,276)	22,956	(9,925)	13,031		13,031
Amortization - Acq Adj	5,871	1,850	7,721	(7,721)	0		0
Amortization - Other	0	930	930		930		930
Taxes Other Than Income	3,707	5,998	9,705	(5,198)	4,507	4,001	8,508
Income Taxes	0	2,211	2,211	(2,211)	0	1,171	1,171
Operating Expenses	$ 120,560	$ 26,715	$ 147,275	$ (18,422)	$ 128,853	$ 5,172	$ 134,025
Operating Income	$ (106,208)	$ 182,323	$ 76,115	$ (189,502)	$ (113,387)	$ 154,885	$ 41,498
Rate Base			$ 699,582		$ 381,415		$ 381,415
Rate of Return			10.88%		-29.73%		10.88%

CONTINENTAL COUNTRY CLUB, INC.
OPERATING SCHEDULE
REVIEW OF ADJUSTMENTS

DOCKET NO. 881178-WS
SCHEDULE NO. 3-C
PAGE 1 OF 2

	WATER	SEWER
OPERATING REVENUES		
Adjustment to remove revenue increase per MFRS. Adjusted test year revenues correspond to billing of Sandalwood project only.	(251,003)	(207,924)
OPERATING EXPENSES		
1. Reclassify fees related to PSC operating certificate	(554)	(553)
2. Proposed reduction to vehicle insurance per OPC Witness	(1,116)	(1,116)
3. Adjustment to reflect reduced electricity cost related installation of new plant equipment	(7,029)	7,760
4. Adjustment to reflect increased employee wages that were omitted in MFRS	1,158	1,158
5. Adjustment to reflect increased rate case expense	(1,900)	
6. Adjustment to remove misclassified plant cost		(616)
7. Adjustment to amortize repair cost over two years		
	(9,441)	6,633
DEPRECIATION EXPENSE		
1. Reduction due to removal of undocumented plant costs, various retirements, and increased CIAC	(5,209)	(10,581)
2. Increase due to use of actual cost of plant improvements	1,927	
3. Used and useful adjustment for Well #3	(234)	
4. Revised used and useful expense for wastewater plant upon removal of old WWTP from depreciable base		2,943
5. Effect of imputing CIAC as offset to margin of reserve	(1,665)	(2,287)
	(5,181)	(9,925)
AMORTIZATION EXPENSE - ACQ ADJ		
Adjustment to remove acquisition adjustment reported in MFRS. This elimination would include any revision due to a lesser original cost balance	(6,080)	(7,721)
TAXES OTHER THAN INCOME TAXES		
Reduce provision for gross receipts tax consistent with revenue reduction	(6,275)	(5,198)

CONTINENTAL COUNTRY CLUB, INC.
OPERATING SCHEDULE
REVIEW OF ADJUSTMENTS

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	WATER	SEWER
INCOME TAXES		
Remove proposed provision for income tax expense	(3,195)	(2,211)
OPERATING REVENUES		
Provision for additional revenues to permit recovery of operating expenses, depreciation, and taxes and to yield a 10.88% return on investment	197,101	160,057
TAXES OTHER THANT INCOME TAXES		
Increased provision for gross receipts tax due to greater revenue amount	4,928	4,001
INCOME TAXES		
Income taxes related to adjusted revenue requirement	2,230	1,171

Continental Country Club, Inc.

Schedule of Current, Requested, and Approved Rates

	Monthly Water Rates		
	Current	Utility Requested	Commission Approved
Residential			
Base Facility Charge:			
Meter Size:			
5/8"x3/4"	$0.00	$11.97	$8.19
1"	$0.00	$29.93	$20.47
1-1/2"	$0.00	$59.85	$40.94
2"	$0.00	$95.76	$65.50
3"	$0.00	$191.52	$131.00
4"	$0.00	$299.52	$204.69
6"	$0.00	$598.50	$409.38
Gallonage Charge per 1,000 G.	$0.00	$1.61	$1.22
General Service			
Base Facility Charge:			
Meter Size:			
5/8"x3/4"	$0.00	$11.97	$8.19
1"	$0.00	$29.93	$20.47
1-1/2"	$0.00	$59.85	$40.94
2"	$0.00	$95.76	$65.50
3"	$0.00	$191.52	$131.00
4"	$0.00	$299.52	$204.69
6"	$0.00	$598.50	$409.38
Gallonage Charge per 1,000 G.	$0.00	$1.61	$1.22
Sandalwood Condominium			
Base Facility Charge: Per Unit	$6.50	N/A	N/A
Gallonage Charge per 1,000 G.	$0.77	N/A	N/A

Continental Country Club, Inc.

Schedule of Current, Requested, and Approved Rates

	Monthly Sewer Rates		
	Current	Utility Requested	Commission Approved
Residential			
Base Facility Charge:			
Meter Size:			
All Meter Sizes	$0.00	$10.54	$6.80
Gallonage Charge per 1,000 G. (Maximum 6,000 G.)	$0.00	$2.61	$2.26
General Service			
Base Facility Charge:			
Meter Size:			
5/8"x3/4"	$0.00	$10.54	$6.80
1"	$0.00	$26.35	$17.00
1-1/2"	$0.00	$52.70	$34.00
2"	$0.00	$84.32	$54.41
3"	$0.00	$168.64	$108.81
4"	$0.00	$263.50	$170.02
6"	$0.00	$527.00	$340.03
Gallonage Charge per 1,000 G.	$0.00	$2.61	$2.71
Sandalwood Condominium			
Base Facility Charge:			
Per Unit	$11.50	N/A	N/A
Gallonage Charge per 1,000 G.	$0.20	N/A	N/A