

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a rate)	DOCKET NO. 900338-WS
increase in Seminole County by)	ORDER NO. 23809
Sanlando Utilities Corporation)	ISSUED: 11-27-90
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)	

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER GRANTING FINAL RATES AND CHARGES
AND REQUIRING REPORTS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

On May 23, 1990, Sanlando Utilities Corporation (Sanlando or utility) filed an application for a rate increase and its minimum filing requirements (MFRs). The utility was notified of the deficiencies in the MFRs. On June 20, 1990, the utility amended its MFRs, which corrected the deficiencies. June 20, 1990 was established as the official filing date. In accordance with Section 367.081(8), Florida Statutes, Sanlando requested that this case be processed as a Proposed Agency Action.

In its application, Sanlando requested final rates designed to generate annual revenues of \$1,948,688 for the water system and \$2,690,477 for the wastewater system. These requested revenues exceed the projected test year revenues by \$97,814 (5.28 percent) for water and \$655,613 (32.22 percent) for wastewater, on an annual basis. The test year for final rates is the projected twelve-month period ended December 31, 1991, based on a historical base year of December 31, 1989.

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Sanlando also requested an interim increase in wastewater rates to produce annual revenues of \$2,228,504. These revenues exceed test year revenues by \$273,932 or 14.3 percent. By Order No. 23389, issued August 22, 1990, the Commission suspended the proposed water and wastewater rates and granted annual wastewater revenues of \$2,137,477, on an interim basis. This represents an annual increase of \$182,905 or 9.36 percent. The existing water rates were continued, with \$97,712 held subject to refund pending the conclusion of the proceeding because of possible overearnings.

Sanlando is a class A utility which operates three water and two wastewater utility systems in Seminole County. The Wekiva, Des Pinar and Overstreet water systems serve approximately 9,767 customers and the Wekiva and Des Pinar wastewater systems serve approximately 8,716 customers.

QUALITY OF SERVICE

Our analysis of the overall quality of service provided by the utility is based upon our evaluation of the utility's compliance with the rules of the Department of Environmental Regulation (DER) and other regulatory agencies, the quality of the utility's product of water or wastewater, the operational conditions of the utility's plants, and customer satisfaction. A customer meeting was conducted by our staff to gather information from the customers regarding quality of service and other matters. Their concerns are addressed below.

Sanlando's service area is adjacent to the City of Longwood. The utility provides water service to 8,626 residential customers, 172 multi-family, and 363 commercial customers. Treatment of raw water obtained from several wells within the area includes chlorination and aeration, while collected wastewater is treated by means of a 2.9 million gallons per day (mgd) contact stabilization plant. Effluent is disposed of by spray irrigation and percolation ponds.

At this time, the utility has no outstanding citations or violations on file with DER's Southwest District. However, the following deficiencies were noted by DER officials during the utility's most recent Sanitary Survey, conducted June 14, 1990: (1) A 6 foot by 6 foot by 4 inch thick concrete pad, centered around the well casing, was not provided for protection against direct surface water infiltration adjacent to the well; (2) The inspection

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ladder on the ground storage tank was loose; and (3) The aerator was not being maintained in good operating condition as required. The noted deficiencies had been corrected at the time of our engineering inspection on August 28, 1990. No violations were noted at any of Sanlando's plants during the engineering inspection.

The customer meeting was held on August 29, 1990. Four customers spoke. One customer spoke highly of the quality of service he received and stated his belief that the rate increase is necessary to maintain the high quality of service. Another customer suggested implementing a system to reward customers who conserve water. A third customer had questions regarding the fact that his water service was so much less expensive than his wastewater service. The fourth customer stated that he was not there to oppose the increase and was not certain it was enough of an increase. He did have a complaint about sediment in the water, lack of pressure at different times during the day, and the presence of a chlorine odor in the dry season.

In reviewing the complaints received from the customers during the year, it appeared that the majority of the complaints from customers concerned discontinuation of service because of failure to pay their bills.

Upon consideration of the above, we find that the quality of service provided by Sanlando in treating and distributing water is satisfactory and that the quality of service provided in collecting, treating and disposing wastewater is also satisfactory.

RATE BASE

Our calculations of the appropriate water and wastewater rate bases are attached to this Order as Schedules Nos. 1-A for water and 1-B for wastewater. Our adjustments are attached as Schedule No. 1-C. Those adjustments which are self-explanatory or essentially mechanical in nature are set forth in those schedules without any further discussion in the body of this Order. The major adjustments are discussed below.

Margin Reserve

Margin reserve is the concept whereby the Commission recognizes certain costs which the utility incurs in providing

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extra capacity sufficient to meet short term growth without impairing the utility's ability to provide safe and adequate service to existing customers. Our calculations for margin reserve are based upon the average growth in equivalent residential connections (ERCs) over the past five years. We believe that margin reserve should not exceed 20 percent of the number of ERCs served at the end of the test year.

According to the MFRs and annual reports, Sanlando's water treatment plants experienced an average 6 percent growth over the last five years. It appears that the area served by Sanlando is approaching build-out. However, there are still some open lots for future development. Therefore, we believe a margin reserve is appropriate for inclusion in the used and useful calculation for the water treatment plant.

The Des Pinar wastewater treatment plant has experienced little or no growth over the last five years and is completely built-out. Consequently, Sanlando is requesting no margin reserve for the Des Pinar wastewater treatment plant. The MFRs indicate that the water distribution system and the wastewater collection lines are almost totally contributed property and, therefore, the utility has not requested a margin reserve.

Used and Useful

Sanlando's water treatment plants are interconnected; therefore, only one used and useful calculation is needed. The wastewater treatment plants are not interconnected and separate used and useful calculations can be made for each system.

We calculated the used and useful percentages for the water treatment plants by adding the peak flows, the required fire flows, and the margin reserves, less excessive unaccounted for water, and then dividing by the total plant capacities. The used and useful percentages of the wastewater treatment plants were calculated in a similar manner by adding the average flows of the peak months and margin reserves, less excessive infiltration, and then dividing by the respective plant capacities.

Sanlando's water treatment plants are considered in one used and useful calculation. This calculation results in an 88 percent used and useful determination. By adding a 12 percent margin

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reserve, we find the appropriate used and useful level for Sanlando's water treatment plant to be 100 percent.

The Des Pinar wastewater treatment plant has a used and useful percentage of 94 percent. However, this system is completely built-out. Thus, we believe it is appropriate to round this figure and consider the Des Pinar treatment plant to be 100 percent used and useful.

A typical used and useful analysis of the Wekiva wastewater treatment plant, using flows, would be misleading due to the abnormal circumstances involved. The Wekiva plant discharges the treated effluent into Sweetwater Creek which flows into the Little Wekiva River and ultimately into the Wekiva River. The Wekiva River System has been classified as an Outstanding Florida Waterway and thus enjoys protection from pollution by application of stringent rules governing any substance added to the river. The expansion of the Wekiva wastewater treatment plant was the result of DER requirements to insure adequate backup and wasteload allocation.

Sanlando had originally planned to install a surge tank to handle the need for flow equalization. The surge tank would have functioned as a "holding tank" which would store peak flows until they could be processed at a later time.

The utility, in determining how most effectively to expand its facilities, analyzed several alternatives. One of the alternatives was the addition of a smaller plant expansion which would have added approximately 500,000 gpd, the DER required minimum. The estimated cost of this alternative was \$525,000. This alternative was not deemed optimal due to the need for flow equalization of all three plants in order to comply with DER's requirements regarding reliability of operations in meeting effluent quality standards. In addition, anticipated increases in operating costs caused by three plants of different sizes prompted the utility to investigate the addition of a third plant of identical size to the existing facilities so as to achieve flow equalization and optimum operating efficiency. This alternative represented an additional capital outlay of \$224,000.

The utility was able to locate a used 1 mgd tank for \$749,000 or \$224,000 more than a tank half that size. If we were to utilize the typical used and useful analysis based on flows, only 50

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percent of the new tank would be used and useful and only \$374,500 of the investment would be allowed. This would result in penalizing the utility for making what we consider to be an economically prudent decision.

Had the utility chosen to proceed with the 500,000 gallons per day (gpd) expansion, there would be no question that its facilities would be considered 100 percent used and useful. However, operating costs would have increased more than that which is included in the rate filing due to the inability to achieve flow equalization in operating different size plants at one location, ultimately resulting in the need for additional plant personnel. In addition, the utility would have placed itself in the position of having little to no cushion in terms of capacity, and would have minimized its ability to respond to further changes in required operations resulting from potential negative changes in regulatory requirements. Recognition of their customers' concerns over improving the quality of the effluent being discharged into the Wekiva River was also one of the major reasons that the utility elected to spend the additional \$224,000 and install the larger system.

Upon consideration, we conclude that the \$224,000 of additional capital outlay was prudently invested and was in the best interest of the existing as well as future customers. Thus, we will allow the total \$749,137 investment in rate base. We also find the plant be 100 percent used and useful due to regulatory requirements and prudent investment considerations.

We also find that all other normal treatment plant accounts are 100 percent used and useful. These accounts were 100 percent used and useful in the last rate case and the only changes that have occurred were in the construction of the new tank and other non-capacity increasing items.

The water distribution and wastewater collection lines are also 100 percent used and useful due to the fact that they are almost completely contributed.

Treatment of wastewater by the City of Altamonte Springs

Sanlando sends wastewater from the Wekiva wastewater treatment plant area to the City of Altamonte Springs for treatment. Sanlando is also planning to treat bulk wastewater at the Wekiva

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plant in 1991. The Wekiva plant has the capacity to treat the additional wastewater that is being sent to Altamonte Springs. However, if Sanlando wished to treat this wastewater at Wekiva, we are informed that the system would need retrofitting which would involve new pumps and, possibly, a new plant addition. Therefore, we believe it would be more cost effective to continue sending wastewater to Altamonte Springs.

Sanlando has projected operating expenses in the test year to include sending part of its wastewater, not to exceed 350,000 gpd to the City of Altamonte Springs for treatment. The cost of sending wastewater to Altamonte Springs is projected to be \$131,000 in 1991. Based on the information before us, we find that amount reasonable. However, because of that expense level, we are concerned that Sanlando may choose to stop shipping wastewater to Altamonte Springs and instead, treat the wastewater at the Wekiva plant. If this were to happen, a re-evaluation of the rates approved herein would be considered.

Imputation of CIAC on Margin Reserve

The Commission's policy is that when a margin reserve is included in rate base, the expected customer contributions over this same period should also be included. The imputation of contributions-in-aid-of-construction (CIAC) should not, however, reduce rate base further than if no margin reserve had been allowed. We see no reason not to apply this policy to this utility. Thus, in those instances previously discussed, wherein we have included a margin reserve, CIAC will be imputed on that margin reserve.

Working Capital

The utility requested permission to use the formula method for calculating working capital, which is based on one-eighth of operation and maintenance expenses (O & M). By Order No. 23014, issued on May 31, 1990, the Commission approved the utility's request to use the formula method for calculation of working capital in this rate proceeding.

Sanlando calculated its allowance for working capital based upon its adjusted amount of O & M expenses. However, we have made adjustments to their requested O & M expenses, which are discussed in a subsequent portion of this Order. Accordingly, using the

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formula method, we find the appropriate working capital allowance to be \$191,265 for water and \$240,702 for wastewater. This represents a reduction of \$7,453 and \$6,585, for water and wastewater, respectively.

Rate Base

The utility requested permission to utilize the simple average method to calculate its test year rate base. By Order No. 23014, issued May 31, 1990, we granted their request. Using this method and our decisions and adjustments herein, we find that the appropriate test year rate bases are \$401,590 for the water system and \$2,729,592 for the wastewater system.

COST OF CAPITAL

Common Equity

We believe that when using a fully projected test year, all components of the capital structure should be fully projected including all known or expected changes which may occur. As such, it is appropriate to reflect the changes that will occur to common equity based upon the increased level of rates. However, the utility's projection in its MFRs must be adjusted to reflect adjustments that we have made in the net income of the utility. We have therefore reduced the utility's common equity by \$87,133.

Return on Equity

Commission practice is to use the leverage formula in effect at the time of our vote when establishing a return on equity. Therefore, using the midpoint of the current leverage formula contained in Order No. 23318, we find the appropriate return on equity to be 13.51 percent, with a range of 12.51 percent to 14.51 percent.

Overall Rate of Return

Based upon our decisions herein, we find the appropriate overall cost of capital to be 11.51 percent, with a range of 11.27 percent to 11.75 percent. The capital structure is shown on Schedule No. 2-A, with our adjustments to the capital structure shown on Schedule No. 2-B.

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NET OPERATING INCOME

Attached as Schedules Nos. 3-A and 3-B are our schedules of water and wastewater operating income. Our adjustments thereto are show on Schedule No. 3-C. Those adjustments essentially mechanical in nature or which are self-explanatory are shown on those schedules without further explanation in the text of this Order.

Cost for new well

In 1989, Sanlando incurred engineering costs of \$15,314 for planning for the construction of a new well. These costs were charged to a water expense account. All subsequent costs incurred for this project in 1990 were recorded as Construction-Work-in-Progress (CWIP).

Further, Sanlando indicated that the new well was being constructed on the Des Pinar site and that all related expenses were to be capitalized. We are informed that this well will not be in service until at least 1992 and there are no bids or contracts let relating to this construction at this time. Also, the utility has not received a consumptive use permit from the St. Johns Water Management District. Since this well will not be in service at the time the proposed rates will go into effect, we find it appropriate for the cost to be placed in the CWIP account and not treated as plant-in-service. Therefore, we will capitalize the \$15,314 engineering costs as CWIP and reduce test year expenses by \$16,589. This reduction reflects the \$15,314 incurred in 1989 and the escalation factor of \$1,275 for 1990 and 1991.

Legal Expenses

The utility projected its 1990 and 1991 expenses based upon 1989 base year expenses. There are several items included in the 1989 legal expenses that we find are categorized as non-utility related, provide no benefit to the utility or are non-recurring. We have removed such expenses from the base year legal expense and the escalated factor from the projected test year legal expenses. The adjustments result in a reduction in legal expenses of \$12,732 for the water system and \$15,197 for the wastewater system. The specific adjustments are discussed below.

1. Projection Error: The amount of legal expenses projected for 1991 had an allocation error between the water and wastewater

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systems in the amount of \$4,214. This allocation error overstated the water legal expenses and understated the wastewater legal expenses. This allocation error has a net effect of zero.

2. **Unsupported Legal Services:** During 1989, two bills submitted by the utility's attorney had vague descriptions of the services provided. The attorney is a related-party. He is a shareholder of the utility, a Director of the utility, and also trustee of the utility's pension and retirement fund. This Commission closely scrutinizes related-party transactions.

One of the bills in question totalled \$11,540 and all hours shown were described as "Conferring with Mr. Mandell: concerning general matters." The other bill in question was for \$25,000 and included a written description for "Legal services rendered through December 31, 1989." This bill referenced the code for general matters.

These invoices were listed as audit exceptions in Staff's audit report. The audit report recommended that the total amount of \$36,540 in general legal expenses be removed as unsupported expenses since sufficient detail was not provided to support or identify the benefit received by the utility.

In its response to the audit report, the utility listed many general areas of service provided by the attorney. The utility stated the attorney is an integral part of all matters involving the utility which relate to mixed questions of law, legal policy, and related business considerations and participates on a regular basis in those segments of the day to day operations of the utility. His legal billings are in excess of the duties of a director. The utility also argues that had it chosen to seek outside counsel for legal representation on a retainer basis, the cost would have probably far exceeded the amount disclosed in the audit exception. Finally, the utility argued that, in its opinion, the attorney's counsel and guidance has a value to the utility and its customers far in excess of the costs involved.

The NARUC Class "A" Accounting Instruction No. 2, General Records, states in part:

Each entry shall be supported by such detailed information as will permit a ready identification, analysis and verification of all facts relevant thereto.

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We are not persuaded by the utility's audit response. We were not provided with sufficient description of legal work performed, legal proceedings or any detail supporting the benefit derived by the utility. All utilities are held to the same requirement that expenses recovered through rates must be justified as reasonable and prudently incurred. Just because the utility incurred these amounts does not lend any support to the reasonableness or prudence thereof. The fact that the attorney is a related party requires an even greater degree of scrutiny to assure that expenses are incurred on an arm's-length basis.

The utility was given the opportunity to support and justify these expenses and its attempt was unsatisfactory. Therefore, we will only allow base year legal expenses of \$40,000, which would be a reasonable level if the utility employed in-house counsel. Additionally, we will remove the amounts escalated for 1990 and 1991. Accordingly, we find that test year expenses should be reduced by \$7,457 for water and \$6,353 for wastewater to remove the escalated unsupported legal expense. The utility is placed on notice that in future rate proceedings it must provide greater detail to justify contract or outside legal services.

3. **Non-utility Services:** During 1989, the utility incurred legal expenses for the recapitalization of stock transactions of \$1,065. The expense for the recapitalization of stock is non-utility in nature and should be borne by the stockholders and not the ratepayers. This charge of \$1,065 and the escalation factor should be removed from the test year expenses. Accordingly, we find that the water expenses should be reduced by \$623 and the wastewater expenses should be reduced by \$531.

4. **Capitalized Legal Services:** The base year legal fees included an amount related to easement and covenants work that the utility reflected as expenses. These amounts are appropriately capitalized to the land account. We believe it appropriate to allocate the costs incurred for the easement and covenants between the water and wastewater systems. The land account should, therefore, be increased by \$404 for the water system and \$345 for the wastewater system. The test year expenses should be reduced by the 8.33 percent escalation factor and the cost incurred in 1989. The water and wastewater expenses for the test year should therefore be reduced by \$438 and \$373, for water and wastewater respectively.

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5. **Non-recurring Items:** The utility received invoices in 1989 relating to three categories of non-recurring legal expenses. One type of charge referenced legal proceedings with respect to a wasteload allocation methodology. These charges in 1989 totalled \$6,989. These proceedings ended with a settlement reached in 1990. Another category related to a new Seminole County agreement for purchased wastewater treatment, totalling \$2,705. This agreement has been finalized at this time. The third item related to legal proceedings between Sanlando and the City of Altamonte Springs for \$4,066.

The utility reflected these amounts as expenses in 1989 and projected them forward as 1991 test year expenses. Although these charges are utility-related, they are non-recurring in nature. Further, they should not have been included in base year expenses to be escalated by the inflation factor for the test year. We believe the more appropriate treatment of these charges is to amortize them over a five-year period and include in the test year one-fifth of the total amount with no escalation for inflation. This results in a net reduction of \$12,154.

High Service Pumps

During 1989, the utility incurred \$45,181 in maintenance expenses for replacement of high service pumps. During the audit, it was determined that the amount incurred for 1989 was significantly high than the previous four years. The historical trend for this expense is as follows:

1985	\$12,674
1986	4,299
1987	19,322
1988	16,548
1989	45,181
1990 (Partial Year)	5,467

In its response to the audit report, the utility stated that as a result of high service pump failures, it began an annual inspection program on these assets. This action was occasioned primarily by previously isolated inspections disclosing wear and pitting of the high service pump impellers. Further, as more demands have been placed upon the system resulting both from increases in consumption and additional growth as the utility approached build-out, the frequency of repair increased the

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possibility of having a high service pump failure. The utility contends that this could affect its ability to continue to provide an acceptable level of service. Additionally, the utility stated that subsequent inspections in 1990 have again revealed continued wear and pitting in the impellers.

The utility argues that of the ten maintained pumps in question, four were added from 1985 to 1988. As a result, each individual year's cost does not reflect a "normal" cost associated with maintaining and repairing the high service pumping system. The utility further assumes that as additional plant is added, maintenance costs will be proportionately higher than that experienced in previous years. Finally, the utility argues that while certain repairs may not be required on an annual basis, a dollar level of repairs can be expected to recur annually for a varying assortment of items.

We agree with the utility that an inspection program can possibly prevent the failure of the high service pumps. Certainly, we do not want to impair the utility's ability to provide quality service. The utility, however, has not convinced us that the amount of expense incurred in 1989 will continue on an annual basis for this plant item. We cannot help but wonder why only \$5,467 has been spent as of the middle of the year 1990. Even tripling this amount would still be significantly lower than the \$45,181 spent in 1989.

The utility's argument regarding some other type of maintenance occurring in 1990 which would take the place of the high service pumps is also not convincing. All other maintenance accounts have been left intact, except for lift station maintenance. The utility's projection methodology should have accounted for other normal recurring maintenance. Had the utility planned any other major maintenance projects for 1991, these items should have been specifically identified in its projection methodology.

The utility's argument regarding the plant additions and how those additions would have an effect on maintenance expense levels is unpersuasive. It seems logical that as one adds new additions to plant, maintenance expense would increase in the long-run. However, there should not be an immediate effect since those new assets would not need to be replaced as soon as the older pumps in service.

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In conclusion, the utility was unable to convince us that there were extraordinary circumstances to show that the 1989 level of maintenance expense for the inspection and replacement of high service pumps would continue on an annual basis. In order to allow the utility a sufficient level of expense, we will use a historical average of repair costs as a basis to project the 1991 test year maintenance expense. This results in a reduction to water maintenance expenses of \$27,706.

Lift station maintenance

In 1989, the utility incurred \$39,930 to upgrade six lift stations for its wastewater system. The work involved the relocation of check valves from within the lift stations to an outside vault. The utility recorded this item as a miscellaneous expense and escalated it for the intermediate and projected test years, 1990 and 1991, respectively, for inflation.

Rule 25-30.140(1)(g)2., Florida Administrative Code, states, "any replacement with a retirement unit that materially enhances the value, use, life expectancy, strength, or capacity of the asset prior to replacement shall be capitalized." The audit report stated that this expense should be capitalized because the work performed represented a permanent upgrade in the lift stations' serviceability and use, and therefore, meets the capitalization requirements of the above mentioned rule. The utility states that this repair was necessary in order to facilitate continuing maintenance requirements. Further, the maintenance item did not represent a replacement or a retirement, nor did it materially enhance the lift stations' value, use, life expectancy, strength, or capacity. The utility explained that these needed improvements would simply provide it with the opportunity to obtain the full useful life of the lift stations by allowing a means of accessibility for continued maintenance.

As further support of its position, the utility argued that as the systems continue to age, both the frequency and costs associated with repairs and maintenance continue to escalate at a rate much greater than inflation. One year might be concentrated in lift station repairs and the next year might be concentrated in force main breaks or treatment plant maintenance. The utility argued that while certain repairs may not be required on an annual basis, a dollar level of repairs can be expected to recur annually for a varying assortment of items.

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We do not agree with the utility that these repairs do not meet the requirements of capitalization as described above. We do, however, believe that these costs will not recur on an annual basis and should not be used as a basis for escalating the projected level of normal, recurring test year expenses. Since the utility incurred these costs in order to facilitate future maintenance of the assets, we believe some level of recovery should be allowed in the test year. A more reasonable treatment of this item would be to take the 1989 cost of \$39,930 and amortize it over a 5-year period. This recognizes that the costs were not properly capitalized or a normal recurring expense, but reasonable and utility in nature. Further, it allows an equitable recovery period and recognizes that the utility incurred one expense which will provide greater savings for the ratepayers over the long run. The resulting adjustment is a \$35,269 reduction to wastewater maintenance expense.

Rate Case Expense

In its application, the utility requested total rate case expense of \$120,000. An update of the actual rate case expense incurred was requested, along with supporting documentation and the estimated amount to complete the case. This information showed that the utility's actual request was higher than the original estimate included in its MFRs. In reviewing this updated information, we found several areas that must be adjusted.

1. Accounting Consultant

The utility initially estimated that accounting consultant fees would be \$40,000. The utility's update showed accounting fees of \$60,150 to complete this case. We find this amount to be unreasonably high for numerous reasons.

First, this case was filed under Section 367.081(8), Florida Statutes, which provides that a utility may request that its rate case be processed using the proposed agency action (PAA) procedure. This statute was specifically intended to reduce rate case expense by streamlining rate case procedures.

Second, the utility filed this case using the proposed MFRs, which were intended to reduce the amount of required discovery, which in turn, should have reduced rate case expense.

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Third, as previously stated, by Order No. 23014, the utility was granted permission to use a simple average test year as opposed to a thirteen-month average, and to use the formula method for deriving a working capital allowance as opposed to the more time-consuming balance sheet method. Both procedures should have reduced rate case expense since substantially simpler calculations are involved.

Fourth, the utility recently had a rate case with a projected test year ended December 31, 1986, in which it utilized the accounting services of Arthur Andersen. These services cost the utility \$44,476 to process its 1986 rate case on a PAA basis. For this current rate case, the utility obtained the accounting services of an individual who is employed by a related party as the controller. As such, this individual has a detail working knowledge of the utility's daily operations and financial position. Because of this knowledge, experience, and working relationship that this individual has, and the fact that the utility has had a relatively recent prior rate case, the time spent processing this case should have been substantially reduced.

Fifth, the utility's books and records were in good condition. Therefore, available data should have been used to produce the MFR schedules without an unusual expenditure of time. We recognize that certain schedules require more accounting expertise, nevertheless, we believe that the condition of the utility's books should have reduced the consultant's hours significantly.

Normally, lower salaried personnel would have performed many of the duties that the individual performing the accounting services performed in the preparation of the MFRs and subsequent work. However, since these positions are vacant, he had to perform these duties himself. Had the utility filled these positions, which were not removed from test year expenses, rate case expense would have been further reduced.

Section 367.081(7), Florida Statutes, requires the Commission to determine the reasonableness of rate case expense and disallow any unreasonable amount. In the Orange-Osceola rate case (Docket No. 850031-WS), by Order No. 17366, the Commission reduced rate case expense due to what appeared to be excessive rates charged by a consultant. We believe that a comparable adjustment is necessary in this case due to an excessive number of billed hours at a higher

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rate. Accordingly, we believe that it is appropriate to reduce accounting fees to a more reasonable level.

We are unaware as to why the utility's original estimate is \$20,150 less than its estimate to complete the case. Although we have received supporting documentation as to the duties performed by the accounting consultant, we are not satisfied that the most cost effective person performed those duties. Therefore, we find that the amount of accounting fees included in rate case expense should be limited to the original amount requested of \$40,000.

2. Engineering Consultant

The utility originally estimated that engineering fees would be \$30,000 for this rate case. The updated rate case expense documentation showed the actual cost incurred and the cost to complete the case to be a total of \$30,291. Based upon our review of the supporting documentation, this amount appears reasonable and no adjustment is necessary, other than the miscellaneous expense adjustment discussed below.

3. Legal Services

The utility's attorney charges an hourly billing rate of \$250. The average billing rate for law firms representing water and wastewater utilities in rate cases before the Commission is \$135 per hour. In the Orange-Osceola rate case, mentioned above, the Commission reduced rate case expense due to what appeared to be excessive rates charged by a consultant. The adjustment was not reflective of the quality of the work, but of the level of charges which this Commission deemed appropriately borne by the ratepayer. In the Ocean Reef Club rate case (Docket No. 850646-SU), by Order No. 17760, legal fees were adjusted to reflect the average hourly charges to obtain an attorney specializing in the field of utility law before the Commission. We believe that this same adjustment is appropriate to be made to the rate case expense legal fees charged by the utility's attorney. Therefore, we find that the charges for legal services provided by the attorney should be reduced proportionately to the \$135 per hour charge. This adjustment reduces rate case expense by \$8,379.

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Miscellaneous Expenses

1. Travel expenses - The utility has budgeted \$9,005 for travel expense, which includes \$5,655 in actual travel expense incurred. To complete this rate case, the utility has estimated that it would incur two more trips to Tallahassee for three people, and two additional trips for the engineering consultant to travel to Orlando. One of the prospective trips is for a meeting with Commission staff before the agenda conference and the second trip is for attending the agenda conference. The two trips to Orlando are for the engineering consultant to meet with the utility's officers before incurring the trips to Tallahassee.

The proposed trip for a meeting with Commission staff before the agenda conference is not necessary or required, therefore, all costs assigned for this travel and meeting should be removed. The cost budgeted for this meeting included five hours with each of the consultants. This adjustment requires \$825 for engineering services, \$625 for legal services and \$500 for accounting services to be removed. The adjustment for accounting services has been taken into consideration in a previously discussed adjustment. Accordingly, rate case expense should be reduced by \$3,125 for time and travel combined.

2. In-House Salaries - In its update of actual rate case costs, the utility included a provision for the wages of nine of its employees. The reported amount included regular and overtime pay. Each of the employees' annual salaries is included in test year operating expenses. Based upon Commission practice, the overtime portion is the only additional amount allowable as rate case expense. Thus, we find that it is appropriate to remove \$7,292 from the utility's updated rate case expense.

Based on all the adjustments, we find that the appropriate level of rate case expenses is \$100,740. This reflects a decrease of \$37,587 to Sanlando's revised request.

Income tax expense

Using the total company incremented tax rate, we have made an adjustment to reflect the test year income tax expense on all previously discussed adjustments to operating income and the capital structure.

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Operating Income

Based on our previous adjustments, we find the appropriate operating income to be \$61,074 for the water system and a negative \$51,101 for the wastewater system.

REVENUE REQUIREMENT

Based upon Sanlando's application and our adjustments discussed herein, we find the appropriate annual revenue requirements to be \$1,825,866 for the water system and \$2,648,195 for the wastewater system. This represents an annual decrease of \$25,008 or 1.35 percent for the water system and an annual increase of \$613,331 or 30.14 percent for the wastewater system, and will give the utility the opportunity to recover its expenses and earn an 11.51 percent return on its investment in rate base.

RATES AND CHARGES

Conservation Fund

As stated above, Sanlando's approved revenue requirement for its water system is \$25,008 lower than the test year revenue requirement. Normally, we would order a reduction in rates and a refund. However, Sanlando has some of the lowest water rates in the State of Florida. Using the original rates, the average monthly residential bill is \$13.81. This average is based on a calculated water consumption of 26,551 gallons per month, which is considerably higher than the average use per ERC across the state. If we were to require the utility to lower its already extremely low rates, we would be sending a very adverse sign to the customers. At a time when the utilities in the state need to encourage customers to conserve this resource, the Commission should not provide an incentive for the customer to use even more water.

Therefore, we will treat this amount as a projected conservation expense and require Sanlando to place the \$25,008 in a fund for costs incurred to encourage water conservation. The utility should, within 90 days from the date this Order becomes final, submit a plan which details the actions that it will undertake to implement the conservation incentives. Upon Commission approval of the plan, it should be implemented within six months of the date of the order approving it.

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Rates

The permanent rates requested by the utility are designed to produce annual revenues of \$1,948,688 and \$2,690,477 for the water and wastewater systems, respectively. The requested revenues represent increases of \$97,814 (5.3 percent) for water and \$655,613 (32.2 percent) for wastewater based on the utility's test year 1991 conditions. Since we have determined that the appropriate annual revenue requirements are \$1,825,866 and \$2,648,195 for the respective water and wastewater systems, respectively, we will design final water and wastewater rates to give the utility the opportunity to achieve those annual revenue levels. We will not reduce the current water rates for the reasons just previously discussed and thus will continue the existing water rates. We will retain the base facility charge rate structure because of its ability to track costs and give customers some control over their water and wastewater bills. Each customer pays his or her pro rata share of the related cost necessary to provide service through the base facility charge and for actual usage through the gallonage charge.

We find the following rates to be fair, just and reasonable. Rates for water service are uniform for residential and general service customers. The rates for wastewater service include a base charge for all residential customers regardless of meter size, with a cap of 10,000 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 differential in the gallonage charge for residential and general service wastewater customers is designed to recognize that a portion of a residential customer's water usage will not be returned to the wastewater system.

The approved rates will be effective for meter readings on or after thirty days from the stamped approval date of the revised tariff sheets. The revised tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's decision, that the protest period has expired, and the proposed customer notice is adequate.

The comparison of the utility's original rates, interim rates, requested rates, and the final approved rates are set forth below for comparison.

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WASTEWATER

MONTHLY RATES

	Original Rates	Interim Rates (2)	Utility Requested Final	Commission Approved Final
	-----	-----	-----	-----
<u>Residential</u>				
Base Facility Charge:				
Meter Size:				
All Meter Sizes	\$7.63	\$8.52	\$11.14	\$9.38
Gallonage Charge per 1,000 G. (Maximum 10,000 G.)	\$0.945	\$1.05	\$1.14	\$1.24
<u>General Service and Multiple Dwelling</u>				
Base Facility Charge:				
Meter Size:				
5/8" x 3/4"	\$7.63	\$8.52	\$11.14	\$9.38
3/4"	\$11.31	\$12.63	\$16.71	\$14.07
1"	\$18.65	\$20.83	\$27.85	\$23.45
1-1/2"	\$37.01	\$41.33	\$55.70	\$46.90
2"	\$59.04	\$65.92	\$89.12	\$75.04
3"	\$117.77	\$131.50	\$178.24	\$150.08
4"	\$183.85	\$205.28	\$278.50	\$234.50
6"	\$367.41	\$410.25	\$557.00	\$469.00
8"	\$587.67	\$656.19	\$891.20	\$750.40
Gallonage Charge per 1,000 G.	\$1.14	\$1.28	\$1.36	\$1.49

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MONTHLY RATES

	Original Rates -----	Interim Rates (2) -----	Utility Requested Final -----	Commission Approved Final -----
<u>Bulk Sales</u> -----				
Base Facility Charge:				
Meter Size:				
6"	\$367.41	\$410.25	\$557.00	\$469.00
8"	\$587.67	\$656.19	\$891.20	\$750.40
Gallonge Charge per 1,000 G.	\$1.18	\$1.32	\$1.42	\$1.55
(Gallonge charge based on meter readings from sewage flow meter)				
<u>Flat Rate Service</u> -----				
Residential				
Single Family	\$12.07	\$13.48	\$15.96	\$19.86
Multiple Dwelling Unit	\$12.07	\$13.48	\$15.96	\$19.86

Remarks:

- (1) Projected test year from January 1, 1991 through December 31, 1991.
- (2) The utility requested and was granted a rate increase to reflect the increase in the regulatory assessment fee. The utility stipulated that any necessary refund of that increase would be handled in this rate case docket. Therefore, the rates shown here represent the interim wastewater and regulatory assessment

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Section 367.0816, Florida Statutes, requires that rate case expense be apportioned for recovery over a period of four years. The statute further requires that the rates of the utility be reduced immediately by the amount of rate case expense previously included in the rates. This statute applies to all rate cases filed on or after October 1, 1989. Accordingly, we find that the water rates should be reduced by \$13,600 and the wastewater rates should be reduced by \$11,585 as shown in Schedules Nos. 4A and 4B. The revenue reductions reflect the annual rate case amounts amortized, plus the gross-up for regulatory assessment fees.

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

By Order No. 23389, we authorized Sanlando to collect increased wastewater rates on an interim basis, subject to refund with interest, pending the outcome of this proceeding. Since the final revenue requirement for the wastewater system is larger than the interim wastewater revenue requirement, no refund of interim wastewater rates is required.

However, Docket No. 900510-WS was opened in response to Sanlando request for increased rates due to the regulatory assessment fee increase. By Order No. 23390, issued on August 22, 1990, the utility was granted increased water and wastewater rates to reflect the increased regulatory assessment fee. The utility stipulated in Docket No. 900510-WS that any necessary refund of the rate increase would be addressed in this rate case docket, and subsequently Docket No. 900510-WS was closed. Since there is no increase in water rates, a refund of the regulatory assessment fee water rate increase is required. The increase represents \$36,385 annually or 2.09 percent. Converted to a monthly figure, it amounts to \$3,032 or approximately \$0.18 per ERC. In as much as the refund to each customer would be so small, we do not believe the refund would be justified when weighed against the expenses that would be involved to make the refund. Therefore, we find it appropriate to credit CIAC by the amount of the regulatory assessment fee refund amount, together with applicable interest.

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The amount to credit is for water service rendered on or after September 13, 1990 to the effective date of the final water rates.

Service Availability Charges

The utility's existing service availability policy was "grandfathered" in 1976 after the Commission gained jurisdiction in Seminole County. New customers or developers are required to donate all on-site and off-site water and wastewater lines, pay plant capacity charges based on anticipated usage, pay meter installation charges based on meter size and tap-in charges based on actual cost. The utility has not requested any changes to its service availability policy or charges.

The utility's CIAC level as of December 31, 1989 was 91 percent for water and 88 percent for wastewater. The utility's growth has decreased and build-out is expected to occur within the next three to five years. The projected levels of CIAC for the year ending December 31, 1990, projected test year ending December 31, 1991, and build-out are shown below:

	<u>Water</u>	<u>Wastewater</u>	<u>Combined</u>
12/31/90	90%	77%	83%
12/31/91	91%	78%	84%
Build-out	93%	80%	86%

These levels are not within the guidelines of Rule 25-30.580(1), Florida Administrative Code.

The high contribution level of the utility has been an issue in two prior dockets before the Commission. An exception to Rule 25-30.580(1), Florida Administrative Code, has been allowed in both instances. The three primary elements which are present in this case and have prompted the Commission to allow the utility to continue collecting the service availability fees in the past are: (1) the cause of the high level of CIAC, (2) the proximity to build-out, and (3) future plant expansions. The utility's high level of CIAC is directly attributable to the amount of contributed transmission and distribution lines and collection lines that have been received over the years as a result of the main extension policy rather than the collection of plant capacity charges.

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Additionally, the utility's growth rate has decreased over the last few years and is expected to decrease further. Sanlando representatives have projected the addition of 841 new water connections and 863 wastewater connections after December 31, 1991 through build-out. Of those connections, 429 each for water and wastewater are related to the same parcel of land which has been designated as a planned urban development. Build-out is expected to occur between 1993 and 1995.

Further, the utility has no plans for future plant expansion for the purpose of adding customers beyond the previously mentioned build-out projections. Utility representatives stated that the utility will be required to add another well and auxiliary power to its water system in order to provide service to the balance of its customers as the utility approaches build-out, as well as to continue to provide a satisfactory level of service to its existing capacity needs through build-out. However, the environmental concerns and changing regulations may cause the utility to further expand its facilities to comply with ever changing regulatory requirements related primarily to sludge disposal and effluent reuse and related effluent water quality issues. Sanlando representatives believe that these items will cause substantial additional investment in the utility's present and proposed facilities, which would far exceed the amounts of future CIAC collected.

Elimination of the plant capacity charge alone would not bring the level of CIAC within the guidelines. Even if the plant capacity charge were discontinued, the utility would need to increase its investment in plant by more than \$2.1 million for water, which represents a 17 percent increase, and by more than \$.5 million or 3 percent for wastewater to decrease the CIAC level to 75 percent. The remaining plant additions will certainly reduce the level of CIAC, but without definite plans and building costs we can only speculate as to the final effect on CIAC.

Rule 25-30.580(2), Florida Administrative Code states "In any case where compliance with the guidelines of subsection (1) introduces unusual hardship or unreasonable difficulty, and the Commission, utility, or interested party shows that it is not in the best interests of the customers of the utility to require compliance, the Commission may exempt the utility from the guidelines." We believe that eliminating the plant capacity charge will not materially alter the utility's CIAC level and therefore,

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serves no useful purpose. Based on our discussion herein, we find it appropriate to continue the Utility's existing service availability charges.

Miscellaneous Service Charges

The purpose of miscellaneous service charges is to provide a means by which the utility can recover its costs of providing miscellaneous services from those customers who require the services. Thus, costs are more closely borne by the cost causer rather than the general body of ratepayers.

The utility's existing charges were approved in 1976. Sanlando has requested to increase its charges as shown below. We will approve the increased charges, with the exception of the wastewater violation reconnection charge. Because of the varying costs of making the reconnection, we believe the utility should charge its actual costs. The utility's present, requested and approved miscellaneous service charges follow.

Water

	<u>Present</u>	<u>Utility Requested</u>	<u>Approved</u>
Initial Connection	\$10.00	\$15.00	\$15.00
Normal Reconnection	10.00	15.00	15.00
Violation Reconnection	10.00	15.00	15.00
Premises Visit	5.00	10.00	10.00

Wastewater

	<u>Present</u>	<u>Utility Requested</u>	<u>Approved</u>
Initial Connection	\$10.00	\$15.00	\$15.00
Normal Reconnection	10.00	15.00	15.00
Violation Reconnection	10.00	15.00	Actual Cost
Premises Visit	5.00	10.00	10.00

For clarification, a description of each service for which there is a charge follows:

Initial Connection - This charge would be levied for service initiation at a location where service did not exist previously.

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Normal Reconnection - This charge would be levied for transfer of service to a new customer account at a previously served location or reconnection of service subsequent to a customer requested disconnection.

Violation Reconnection - This charge would be levied prior to reconnection of an existing customer after disconnection of service for cause according to Rule 25-30.320(2), Florida Administrative Code, including a delinquency in bill payment.

Premises Visit Charge, in Lieu of Disconnection - This charge would be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

The tariff should contain a provision that when both water and wastewater services are provided, only a single charge is assessed unless circumstances beyond the control of the utility require multiple actions. The new miscellaneous service charges will be effective for service rendered on or after the stamped approval date on the revised tariff sheets.

REPORTS

This Commission supports the use of spray irrigation whenever feasible. Sanlando is therefore requested to file a brief economic study concerning the feasibility of implementing spray irrigation within 60 days of the effective date of this Order.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application by Sanlando Utilities Corporation for increased water rates is denied and for increased wastewater rates is approved to the extent set forth in the body of this Order. It is further

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

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

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ORDERED that the Utility is authorized to implement the new rates and charges as set forth in the body of this Order. It is further

ORDERED that the approved rates shall be effective for meters read on or after 30 days from the stamped approval date on the revised tariff sheets. It is further

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

ORDERED that the revised tariff sheets will be approved upon staff's verification that they are consistent with our decisions herein, that the protest period has expired, and that the proposed customer notice is adequate. The customer notice shall explain the increased rates and charges and the reasons therefor. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period. The utility shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall also file a proposed customer notice. It is further

ORDERED that the utility shall file a brief economic study of the feasibility of implementing spray irrigation. It is further

ORDERED that the Utility shall submit a plan detailing the actions it will take to implement water conservation initiatives within 90 days of the effective date of this Order. It is further

ORDERED that the Utility shall hold \$25,008 in annual revenues for future expenses specifically related to water conservation. It is further

ORDERED that the corporate undertaking filed by the utility in connection with the interim wastewater rates may be released. It is further

ORDERED that the rates shall be reduced at the expiration of the four-year rate case amortization period, as set forth in the body of this Order. It is further

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ORDERED that the Utility shall record as CIAC the excess revenues collected for water service rendered on or after September 13, 1990, to the effective date of the rates approved herein, caused by the increased regulatory assessment fees granted by Order No. 23390. It is further

ORDERED that this docket may be closed if a timely protest is not filed and upon the Utility's filing and staff's approval of revised tariff sheets.

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



STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

NSD

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.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-

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22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on December 18, 1990.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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SANLANDO UTILITIES CORPORATION
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDING DECEMBER 31, 1991

SCHEDULE NO. 1-A
DOCKET NO. 900338-WS

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
UTILITY PLANT IN SERVICE	\$ 10,981,939	\$ 0	\$ 10,981,939	\$ 0	\$ 10,981,939
LAND	76,174	0	76,174	404	76,578
NON-USED & USEFUL COMPONENTS	0	0	0	0	0
C.W.I.P.	0	0	0	0	0
C.I.A.C.	(9,970,371)	0	(9,970,371)	(137,157)	(10,107,528)
ACCUMULATED DEPRECIATION	(3,392,949)	0	(3,392,949)	0	(3,392,949)
AMORTIZATION OF C.I.A.C.	2,648,746	0	2,648,746	3,539	2,652,285
ADVANCES FOR CONSTRUCTION	0	0	0	0	0
WORKING CAPITAL ALLOWANCE	198,718	0	198,718	(7,453)	191,265
RATE BASE	\$ 542,257	\$ 0	\$ 542,257	(140,667)	\$ 401,590

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SANLANDO UTILITIES CORPORATION
 SCHEDULE OF WASTEWATER RATE BASE
 TEST YEAR ENDING DECEMBER 31, 1991

SCHEDULE NO. 1-B
 DOCKET NO. 900338-WS

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
UTILITY PLANT IN SERVICE	\$ 13,040,055	\$ 0	\$ 13,040,055	\$ 0	\$ 13,040,055
LAND	202,207	0	202,207	345	202,552
NON-USED & USEFUL COMPONENTS	0	0	0	0	0
C.W.I.P.	0	0	0	0	0
C.I.A.C.	(10,175,948)	0	(10,175,948)	0	(10,175,948)
ACCUMULATED DEPRECIATION	(3,988,887)	0	(3,988,887)	0	(3,988,887)
AMORTIZATION OF C.I.A.C.	3,411,118	0	3,411,118	0	3,411,118
ADVANCES FOR CONSTRUCTION	0	0	0	0	0
WORKING CAPITAL ALLOWANCE	247,287	0	247,287	(6,585)	240,702
RATE BASE	\$ 2,735,832	\$ 0	\$ 2,735,832	(6,240)	\$ 2,729,592

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SANLANDO UTILITIES CORPORATION
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDING DECEMBER 31, 1991

SCHEDULE NO. 1-C
PAGE 1 OF 1
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EXPLANATION	ADJUSTMENT	
	WATER	SEWER
1 LAND		
A. Reclassification of legal costs for easement rights	\$ 404	\$ 345
2 CIAC		
B. Imputed CIAC on margin reserve	(137,157)	
3 ACCUMULATED AMORT. OF CIAC		
A. To reflect adjustment on imputed CIAC	3,539	
4 WORKING CAPITAL		
A. Adjustment due to reduced O&M Expenses	(7,453)	(6,585)

SANLANDO UTILITIES CORPORATION
 COST OF CAPITAL
 TEST YEAR ENDING DECEMBER 31, 1991

SCHEDULE NO. 2-A
 DOCKET NO. 900338-WS

DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	WEIGHTED COST	COMMISSION PRO RATA ADJ TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST
1 LONG TERM DEBT	\$ 2,775,575	69.87%	11.12%	7.77%	\$ (538,622)	\$ 2,236,953	71.44%	11.12%	7.94%
2									
3 SHORT TERM DEBT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
4									
5 CUSTOMER DEPOSITS	145,435	3.66%	8.00%	0.29%	(28,223)	117,212	3.74%	8.00%	0.30%
6									
7 PREFERRED STOCK	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
8									
9 COMMON EQUITY	1,026,297	25.84%	13.95%	3.60%	(269,385)	756,912	24.17%	13.51%	3.27%
10									
11 INVESTMENT TAX CREDITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
12									
13 DEFERRED INCOME TAXES	24,946	0.63%	0.00%	0.00%	(4,841)	20,105	0.64%	0.00%	0.00%
14									
15 OTHER CAPITAL	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
16									
17 TOTAL CAPITAL	\$ 3,972,253	100.00%		11.66%	\$ (841,072)	\$ 3,131,182	100.00%		11.51%
18									

19
20
21
22
23
24
25

RANGE OF REASONABLENESS

LOW HIGH

EQUITY

12.51% 14.51%

OVERALL RATE OF RETURN

11.27% 11.75%

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SANLANDO UTILITIES CORPORATION
 ADJUSTMENTS TO CAPITAL STRUCTURE
 TEST YEAR ENDING DECEMBER 31, 1991

SCHEDULE NO. 2-B
 DOCKET NO. 900338-WS

DESCRIPTION	UTILITY ADJUSTED TEST YEAR	ADJUST FOR PROP. REV. INCR.	PRO RATA RECONCILE	NET ADJUSTMENT
1 LONG TERM DEBT	\$ 2,775,575	\$ 0	\$ (538,622)	\$ (538,622)
2				
3 SHORT TERM DEBT	0		0	0
4				
5 CUSTOMER DEPOSITS	145,435		(28,223)	(28,223)
6				
7 PREFERRED STOCK	0		0	0
8				
9 COMMON EQUITY	1,026,297	(87,133)	(182,252)	(269,385)
10				
11 INVESTMENT TAX CREDITS	0		0	0
12				
13 DEFERRED INCOME TAXES	24,946		(4,841)	(4,841)
14				
15 OTHER CAPITAL	0		0	0
16				
17 TOTAL CAPITAL	\$ 3,972,253	\$ (87,133)	\$ (753,938)	\$ (841,072)
18				
19				

SANLANDO UTILITIES CORPORATION
 STATEMENT OF WATER OPERATIONS
 TEST YEAR ENDING DECEMBER 31, 1991

SCHEDULE NO. 3-A
 DOCKET NO. 900338-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE OR (DECREASE)	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 1,850,874	\$ 97,814	\$ 1,948,688	\$ (97,814)	\$ 1,850,874	\$ (25,008)	\$ 1,825,866
2							
3 OPERATING EXPENSES						-1.35%	
4							
5 OPERATION AND MAINTENANCE	\$ 1,573,540	\$ 16,200	\$ 1,589,740	\$ (59,627)	\$ 1,530,113	\$ 0	\$ 1,530,113
6							
7 DEPRECIATION	88,295	0	88,295	0	88,295	0	88,295
8							
9 AMORTIZATION	0	0	0	0	0	0	0
10							
11 TAXES OTHER THAN INCOME	154,485	4,402	158,887	(4,402)	154,485	(1,125)	153,360
12							
13 INCOME TAXES	(3,678)	52,217	48,539	(31,632)	16,907	(9,030)	7,876
14							
15							
16 TOTAL OPERATING EXPENSES	\$ 1,812,642	\$ 72,819	\$ 1,885,461	\$ (95,661)	\$ 1,789,800	\$ (10,156)	\$ 1,779,644
17							
18							
19 OPERATING INCOME	\$ 38,232	\$ 24,995	\$ 63,227	\$ (2,153)	\$ 61,074	\$ (14,852)	\$ 46,222
20							
21							
22 RATE BASE	\$ 542,257		\$ 542,257		\$ 401,590		\$ 401,590
23							
24							
25 RATE OF RETURN	7.05%		11.66%		15.21%		11.51%
26							

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SANLANDO UTILITIES CORPORATION
 STATEMENT OF WASTEWATER OPERATIONS
 TEST YEAR ENDING DECEMBER 31, 1991

SCHEDULE NO. 3-B
 DOCKET NO. 900338-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE OR (DECREASE)	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 2,034,864	\$ 655,613	\$ 2,690,477	\$ (655,613)	\$ 2,034,864	\$ 613,331	\$ 2,648,195
2							
3 OPERATING EXPENSES						30.14%	
4							
5 OPERATION AND MAINTENANCE	\$ 1,964,499	\$ 13,800	\$ 1,978,299	\$ (52,681)	\$ 1,925,618	\$ 0	\$ 1,925,618
6							
7 DEPRECIATION	175,047	0	175,047	0	175,047	0	175,047
8							
9 AMORTIZATION	0	0	0	0	0	0	0
10							
11 TAXES OTHER THAN INCOME	152,217	29,503	181,720	(29,503)	152,217	27,600	179,817
12							
13 INCOME TAXES	(191,884)	228,297	36,413	(203,330)	(166,917)	220,455	53,538
14							
15							
16 TOTAL OPERATING EXPENSES	\$ 2,099,879	\$ 271,600	\$ 2,371,479	\$ (285,514)	\$ 2,085,965	\$ 248,055	\$ 2,334,020
17							
18							
19 OPERATING INCOME	\$ (65,015)	\$ 384,013	\$ 318,998	\$ (370,099)	\$ (51,101)	\$ 365,276	\$ 314,175
20							
21							
22 RATE BASE	\$ 2,735,832		\$ 2,735,832		\$ 2,729,592		\$ 2,729,592
23							
24							
25 RATE OF RETURN	-2.38%		11.66%		-1.87%		11.51%
26							
27							
28							
29							

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SANLANDO UTILITIES CORPORATION
 ADJUSTMENTS TO OPERATING STATEMENT
 TEST YEAR ENDING DECEMBER 31, 1991

SCHEDULE NO. 3-C
 PAGE 1 OF 1
 DOCKET NO. 900338-WS

EXPLANATION	ADJUSTMENT	
	WATER	SEWER

1 OPERATING REVENUES		
A. Adjustment to reverse utility's requested revenue increase	\$ (97,814)	\$ (655,613)
	-----	-----
2 OPERATION AND MAINTENANCE EXPENSE		
A. To remove expense for new well	(16,589)	
B. Adjustments relating to legal fees:		
1. Realloc. projection error	(4,214)	4,214
2. Unsupported charges for general services	(7,457)	(6,353)
3. Misclassified stock transactions	(623)	(531)
4. Misclassified easement costs	(438)	(373)
5. Amortization of non-recurring billings		(12,154)
C. Adjustment to normalize maintenance for high service pumps	(27,706)	
D. Adjustment to amortize lift station repairs		(35,269)
E. Adjustment to rate case expense	(2,600)	(2,215)
	-----	-----
TOTAL	\$ (59,627)	\$ (52,681)
	-----	-----
3 TAXES OTHER THAN INCOME		
A. Reg. assess. fees on rev. incr.	(4,402)	(29,503)
	-----	-----
4 INCOME TAXES		
A. To reflect income taxes on adjusted test year income.	\$ (31,632)	\$ (203,330)
	-----	-----

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SANLANDO UTILITIES CORPORATION
ADJUSTMENTS TO OPERATING STATEMENT
TEST YEAR ENDING DECEMBER 31, 1991

SCHEDULE NO. 3-C
PAGE 2 of 2
DOCKET NO. 900338-WS

EXPLANATION	ADJUSTMENT	
	WATER	SEWER
6 REVENUE REQUIREMENT		
A. To reflect the increase in the revenues required	\$ (\$25,008)	\$ 613,331
7 TAXES OTHER THAN INCOME		
A. RAF on revenue increase recomm.	\$ (1,125)	\$ 27,600
8 INCOME TAXES		
A. To reflect income taxes relating to revenue requirements.	\$ (9,030)	\$ 220,455

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RATE SCHEDULE

SCHEDULE OF RATES
AND RATE DECREASE
IN FOUR YEARS

WATER

Monthly Rates

	Rates -----	Rate Decrease -----
Residential -----		
Base Facility Charge:		
Meter Size:		
5/8"x3/4"	\$3.93	\$0.03
3/4"	\$5.90	\$0.05
1"	\$9.84	\$0.08
1-1/2"	\$19.67	\$0.15
2"	\$31.48	\$0.25
Gallonage Charge per 1,000 G.	\$0.346	\$0.00
General Service, Multiple Dwelling Service, and Bulk Sales -----		
Base Facility Charge:		
Meter Size:		
5/8"x3/4"	\$3.93	\$0.03
3/4"	\$5.90	\$0.05
1"	\$9.84	\$0.08
1-1/2"	\$19.67	\$0.15
2"	\$31.48	\$0.25
3"	\$62.95	\$0.49
4"	\$98.37	\$0.77
6"	\$196.73	\$1.53
Gallonage Charge per 1,000 G.	\$0.346	\$0.00

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Schedule No. 4A
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RATE SCHEDULE

SCHEDULE OF RATES
AND RATE DECREASE
IN FOUR YEARS

WATER

Monthly Rates

	Rates	Rate Decrease
	-----	-----
Private Fire Protection Service		

Base Facility Charge:		
Line Size:		
1-1/2"	\$78.61	\$0.61
2"	\$125.79	\$0.98
3"	\$251.56	\$1.96
4"	\$393.07	\$3.07
6"	\$786.14	\$6.13
8"	\$1,257.86	\$9.81

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Schedule No. 4B
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RATE SCHEDULE

SCHEDULE OF RATES
 AND RATE DECREASE
 IN FOUR YEARS

WASTEWATER

Monthly Rates

	Rates -----	Rate Decrease -----
Residential -----		
Base Facility Charge:		
Meter Size:		
All Meter Sizes	\$9.38	\$0.04
Gallonge Charge per 1,000 G. (Maximum 10,000 G.)	\$1.24	\$0.01
General Service and Multiple Dwelling -----		
Base Facility Charge:		
Meter Size:		
5/8"x3/4"	\$9.38	\$0.04
3/4"	\$14.07	\$0.06
1"	\$23.45	\$0.11
1-1/2"	\$46.90	\$0.21
2"	\$75.04	\$0.34
3"	\$150.08	\$0.69
4"	\$234.50	\$1.07
6"	\$469.00	\$2.15
8"	\$750.40	\$3.44
Gallonge Charge per 1,000 G.	\$1.49	\$0.01

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RATE SCHEDULE

SCHEDULE OF RATES
AND RATE DECREASE
IN FOUR YEARS

WASTEWATER

Monthly Rates

	Rates -----	Rate Decrease -----
Bulk Sales -----		
Base Facility Charge:		
Meter Size:		
6"	\$469.00	\$2.15
8"	\$750.40	\$3.44
Gallonge Charge per 1,000 G.	\$1.55	\$0.01
(Gallonge charge based on meter readings from sewage flow meter)		
Flat Rate Service -----		
Residential		
Single Family	\$19.86	\$0.09
Multiple Dwelling Unit	\$19.86	\$0.09