

FLORIDA PUBLIC SERVICE COMMISSION

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101 East Gaines Street
Tallahassee, Florida 32399-0850

MEMORANDUM

SEPTEMBER 29, 1994

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM : DIVISION OF WATER AND WASTEWATER (MONIZ, WILLIAMS, WEBB, *sm* *KLW* *PVM* *KW* *PL*
RUBERRY, AMAYA, STARLING) *PL*
DIVISION OF LEGAL SERVICES (PIERSON) *PL*
DIVISION OF AUDITING AND FINANCIAL ANALYSIS (MAUREY) *ALM*

RE : UTILITY: ST. GEORGE ISLAND UTILITY CO., LTD. *1994* *M/S*
DOCKET NO.: 940109-WU
COUNTY: FRANKLIN
CASE: APPLICATION FOR A RATE INCREASE

AGENDA : OCTOBER 7, 1994 - SPECIAL AGENDA - POST HEARING DECISION
- PARTICIPATION IS LIMITED TO COMMISSIONERS AND STAFF

CRITICAL DATES: 8-MONTH EXPIRATION DATE EXTENDED TO OCTOBER 16,
1994

SPECIAL INSTRUCTIONS: NONE

Location of File - [I:\PSC\WAW\WP\940109A.RCM]

DOCUMENT NUMBER-DATE

09976 SEP 29 1994

FPSC-RECORDS/REPORTING

TABLE OF CONTENTS

<u>ISSUE</u>		<u>PAGE</u>
	Case Background	5
	<u>QUALITY OF SERVICE</u>	
1	Quality of Service (Starling)	11
	<u>RATE BASE</u>	
2	Original Cost of Water System (Starling, Pierson, Moniz)	20
3	Pro forma Adjustment for Engineering Design Fees (Amaya)	52
4	Reduction of Plant in Service (K. Williams)	53
5	Adjustment for Utility Affiliates (K. Williams)	54
6	Plant Adjustments CIAC (Moniz)	56
7	Matching of Rate Base with Revenues and Expense (K. Williams)	60
8	Test Year Rate Base (Webb)	63
	<u>COST OF CAPITAL</u>	
9	Capital Structure for Ratemaking (Maurey)	64
10	Weighted Average Cost of Capital (Maurey)	67
	<u>NET OPERATING INCOME</u>	
11	Pro forma Adjustments as Related to Dismissed Case (Moniz)	69
12	Appropriate Expenses as related to Other Class B Water Utilities (Moniz)	71
13	Test Year Expense Adjustment related to Utility Affiliates (K. Williams)	73
14	Reduction of Employee Salaries and Wages (Webb, Starling)	78
15	Reduction of Pensions and Benefits (Lester, Webb)	81
16	Reduction for Engineering Contractual Services (Amaya)	83
17	Adjustment to Contractual Services -Accounting (K. Williams)	85
18	Adjustment to Reduce Legal Contractual Services (Pierson, Webb)	89
19	Adjustment to Management Fees (Amaya, Moniz)	91
20	Adjustment to Contractual Services -Other (Starling)	96
21	Transportation Expenses (Amaya, Moniz)	100

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

22	Insurance Expenses (Webb)	103
23	Unaccounted for Water (Amaya)	105
24	Bad Debt Expense (K. Williams)	109
25	Miscellaneous Expenses (Webb)	111
26	Rate Case Expense (Moniz)	113
27	Amortization Expense Adjustment for System analysis, Aerator Analysis, Hydrological Study, and Fire protection Studies (Starling)	120
28	Taxes and Other Income (Moniz)	129
29	Test Year Expense Adjustment to Eliminate Old Generator (Amaya)	130
30	Appropriate Matching of Revenues and Expenses (K. Williams)	131
31	Test Year Operating Income (Webb)	136

REVENUE REQUIREMENT

32	Revenue Requirement (Webb)	137
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RATES AND CHARGES

33	Appropriate Rates and Charges (Rasberry)	138
34	Service Availability (Rasberry, Amaya)	140
35	Escrow of Service Availability Charges (Rasberry, Rendell)	143
36	Four-Year Rate Reduction (Rasberry)	145
37	Refund (Moniz, Rasberry)	147
38	Allowance for Funds Prudently Invested (AFPI) (Amaya, Webb)	149

OTHER ISSUES

39	Utility Books and Records (K. Williams)	150
40	Appropriate and Maximum Number of ERC's (Amaya)	153
41	Required Additional Capacity (Amaya)	157
42	Proposed Findings of Fact (Pierson)	165
43	Close Docket (Rasberry)	190

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ACCOUNTING & RATE SCHEDULES

1A	Rate Base	191
1B	Rate Base Adjustments	192
1C	Year End Plant Balances	194
2A	Capital Structure	195
2B	Capital Structure Adjustments	196
3A	Statement of Water Operations	197
3B	NOI Adjustments	198
3C	O&M Adjustments	200
4	Rate Schedule	201
5	Rate Reduction Schedule	202
6	AFPI	203

CASE BACKGROUND

St. George Island Utility, Ltd. (St. George, SGIU or utility) is a Class B water utility providing service for approximately 993 water customers in Franklin County. For the test year ended December 31, 1992, the utility reported, in its application, operating revenues of \$314,517 and a net operating loss of \$428,201.

On January 31, 1994, the utility filed an application for approval of interim and permanent rate increases pursuant to Sections 367.081 and 367.082, Florida Statutes. The utility satisfied the Minimum Filing Requirements (MFRs) for a rate increase, and this date was designated as the official filing date. The utility's present rate of return was established in Order No. 21122, issued on April 24, 1989, in Docket No. 871177-WU.

St. George requested interim water rates designed to generate annual revenues of \$435,453. The requested revenues would exceed test year revenues by \$120,935 for a requested interim increase of 38.45%. The utility requested final water rates designed to generate annual revenues of \$742,718, which exceed test year revenues by \$428,201 for a 136.15% increase. The utility stated in its filing that the final rates requested would be sufficient to recover a 8.07% rate of return on its rate base. The utility's application for increased rates is based on the test year ended December 31, 1992 for both interim and final.

On March 14, 1994, Order No. PSC-94-0291-PCO-WU was issued acknowledging the intervention of the Office of Public Counsel (OPC). On March 18, 1994, Order No. PSC-94-0461-FOF-WU was issued suspending the permanent rate increase request and granting interim rates subject to refund. This Order also provided that the utility provide a bond in the amount of \$34,307 as guarantee for any potential refund of interim water revenues. On March 21, 1994, Order No. PSC-94-0320-PCO-WU was issued establishing procedure for this case. On May 13, 1994, Order No. PSC-94-0571-CFO-WU was issued granting the request by the Utility for confidential treatment of its 1987, 1988, 1989, 1990, 1991, and 1992 tax returns and associated work papers while in the possession of the Office of Public Counsel; and resolving discovery motions filed by the Office of Public Counsel. On May 16, 1994, Order No. PSC-94-0573-PCO-WU was issued granting the petition to intervene filed by the St. George Island Water Sewer District (District). And on July 14, 1994, Prehearing Order No. PSC-94-0856-PHO-WU was issued.

On July 12, 1994, the Prehearing Conference was held and there were forty-two (42) issues identified. The technical hearing was held in Apalachicola on July 20, and 21, 1994, and was continued in

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

Tallahassee on August 3, 9, and was concluded on August 10, 1994.

During the Hearing in Apalachicola approximately 19 customers were present to offer testimony. In the morning session of August 20th, 10 customers of the Utility offered testimony against the rate increase and complained about the quality of the water. One of these 10 customers represented 99 customers of 300 Ocean Mile, St. George Island, Florida. In the evening session 9 more customers testified, and several letters were presented by customers that could not be present; all protesting the rate increase request and complaining about the poor quality of water. Barbara Sanders appearing on behalf of St. George Island Water and Sewer District also reported that she had received 18 call-ins from other customers wishing to make their opposition to this rate increase request known to the Commission.

At the hearing the following stipulations were approved:

STIPULATIONS

St. George, OPC, the District, and Staff have stipulated to the following:

1. Plant in service should be reduced by \$2,067 for lack of support documentation, as per Audit Exception No. 5.
2. Plant in service should be reduced by \$876 for unsupported costs associated with the third well, as per Audit Exception No. 9.
3. Plant in service should be reduced by \$2,370 for duplicative recording of Coloney Company invoices as stated in Audit Exception No. 10.
4. Plant in service should be reduced by \$12,518 to remove costs associated with the 50,000 gallon storage tank as stated in Audit Exception No. 12. In addition, corresponding adjustments should be made to reduce accumulated depreciation by \$629 and depreciation expense by \$358.
5. Plant in service should be adjusted for plant retirements as stated in Audit Exception No. 8, as follows:
 - a. An adjustment should be made to increase plant in service by \$1,675 and accumulated depreciation by \$168. In December of 1988 an adjustment was made to retire a copier on the island; however, the copier was never recorded on the books.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

- b. An adjustment should be made to reduce plant in service by \$7,029, accumulated depreciation by \$3,866 and depreciation expense by \$351, to record the retirement of a pump at well #1 which was replaced. In February 1989 the pump was replaced with a new pump but the retirement was not recorded.
 - c. An adjustment should be made to reduce plant in service by \$10,378, accumulated depreciation by \$2,077, and depreciation expense by \$519, to record the retirement of a pump at well #2. In July 1989 the pump was replaced but the retirement was not recorded on the company's books.
 - d. An adjustment should be made to decrease plant in service by \$3,654, accumulated depreciation by \$972 and depreciation expense by \$244 to retire a Harris 3M Copier that was not recorded.
- 6. Plant in service should be reduced by \$3,098 of transportation expenses, as stated in Audit Exception No. 7.
 - 7. Land and Land Rights should be reduced by \$570 to remove non-utility related charges per Audit Exception No. 4.
 - 8. Materials and supplies should be reduced by \$4,851 as stated under Audit Exception No. 22.
 - 9. Chemical expenses should be reduced by \$657 as per Audit Exception No. 21.
 - 10. CIAC should be increased by \$29,759, plant should be increased by \$13,423, accumulated amortization of CIAC should be increased by \$2,702, and depreciation expense should be increased by \$298, to record contributions paid by the St. George Island Volunteer Fire Department and Higdon and Bates.
 - 11. Accumulated Depreciation should be increased by \$10,327, as per Audit Exception No. 15.
 - 12. Accumulated Amortization of CIAC should be increased by \$10,635, as per Audit Exception No. 16.
 - 13. Depreciation expense should be increased by \$5,432, as per Audit Exception No. 27.
 - 14. The utility's depreciation rates should be adjusted as set forth in Rule 25-30.140, Florida Administrative Code. Depreciation expense should be reduced by \$8,802, and accumulated depreciation should be reduced by \$3,564.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

15. Plant in service should be reduced by \$12,665, as per Audit Exception No. 6.

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

16. Plant in service should be increased by \$1,941, as shown in Audit Exception No. 11, for the utility's new generator.
17. Advances for Construction should be decreased by \$9,257, as stated in Audit Exception No. 20.
18. The cost rate for customer deposits should be reduced in accordance with Rule 25-30.111, Florida Administrative Code.
19. The cost of common equity should be set using the leverage formula in effect at the time of the Agenda Conference for the final order in this proceeding. The range for the cost of equity should be plus or minus 100 basis points.
20. Used and useful shall be determined in the following manner:
- a. All Source of Supply, Treatment and General Plant is considered 100% used and useful.
 - b. All Transmission and Distribution Plant is considered 100% used and useful except for the distribution mains (less than 8" diameter) in Account 331.4 Transmission & Distribution Mains serving certain subdivisions within the area known as the Plantation, which lines were constructed for the benefit of the developer. The cost of distribution lines (less than 8" diameter) within the following subdivisions will be subject to a used & useful factor equal to used lots divided by total lots, as follows:

DOCKET NO. 940109-WU
 SEPTEMBER 29, 1994

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

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

The used and useful factor will be applied to the original cost of 2" and 6" mains, valves and fittings in the designated Plantation areas per the inventory on the 1992 Baskerville Donovan system drawings. See Attachment A, which details the mains and valves. The appropriate test year average balance in Account 331.4 will be reduced by the non-used and useful amount of designated Plantation area original cost.

- c. Accumulated depreciation and depreciation expense for Acct 331.4 will be adjusted to reflect the net used and useful factor in Plant Account 331.4 after accounting for the used and useful in the designated Plantation areas.
- d. AFPI will be calculated and collected from new customers in the above designated Plantation areas.
- e. The term "used lots" in this stipulation includes all lots in the designated Plantation areas for which a) the fully applicable service availability charge has been paid or b) a \$500 service availability charge has been

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

prepaid and a base facility charge is being paid in accordance with the terms of the settlement agreement under Order No. 23649, whether or not there is a meter.

Finally, St. George, OPC, and Staff have stipulated to, and the District has taken no position on, the following:

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

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 1: Is the quality of service provided by St. George Island Utility Co., Ltd. satisfactory?

RECOMMENDATION: Yes. (AMAYA)

POSITION OF PARTIES

SGIU: The quality of service provided by SGIU is satisfactory, and has improved dramatically since Mr. Brown took direct responsibility for the management of the utility. SGIU has implemented the programs directed by the Commission, is able to meet peak load demand without interruption of service, and experiences few customer complaints.

PUBLIC COUNSEL: The record shows that this Utility is constantly in trouble with the DEP. Customer testimony shows the practical side of the Utility's shortcomings: less than satisfactory quality of service. While the DEP cites, the customers endure.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: In accordance with Rule 25-30.433(1), Florida Administrative Code, staff's recommendation on the overall quality of service provided by the utility is derived from the evaluation of three separate components of water operations: (1) Quality of the Utility's product; (2) Operational conditions of the Utility's plant and facilities; and (3) Utility's attempt to address customer satisfaction.

1. Quality of the Utility's product.

Staff Witness McKeown testified that the water system is meeting or exceeding primary drinking water standards, but notes some secondary standards deviations. (TR 816) The primary drinking water standards are mostly based on health effects. Secondary drinking water standards are not as critical to human health, and are primarily based on aesthetics and noticed by utility customers where primary standards are not. Such secondary standards deviations include exceeding the action level for copper for which the DEP has stated the Utility must have taken a specific action (prepared a corrosion control study that will detail proposed corrective actions for DEP approval) by June 30, 1994; turbidity levels in the ground storage tank exceed the maximum contaminant level (MCL) periodically; initially Well No. 3 exceeded the MCL for color, and hydrogen sulfide (H₂S) is an inherent problem in this area of the state. (TR 816-817)

With respect to the H₂S, DEP rejected the report submitted by the utility that was required by the Partial Final Judgment (PFJ). Mr. Bidy testified that he does not believe the aerator analysis was deficient or defective. (TR 1206) Using the utility's values for dissolved and un-ionized sulfides, DEP calculated that a lower percentage of the H₂S is being removed than the 90% required by the PFJ. (TR 820) Utility Witness Bidy testifies that there is no MCL for H₂S (TR 1204), relates the history of the aerator report, and states that a response to DEP's November 18, 1993 letter will be submitted no later than July 31, 1994. (TR 1205, 1206) During cross-examination, Mr. Bidy stated that an addendum to the aerator report was finished and given to the utility on July 31st. (TR 1212) Additionally, Mr. Brown testified that the aerator analysis report and the updated mapping have been completed and delivered to DEP. (TR 1262) Utility Witness Seidman questions the amount of testing and degree of changes being requested by DEP regarding the H₂S, but notes that it is required under a Consent Order. (TR 110) Mr. Brown stated that the utility's engineers have said that the real problem on St. George Island is not the hydrogen sulfide level in the water necessarily when it leaves the plant, it is that it builds up in lines and the way to solve that is to have constant flushing on a daily basis. (TR 574-75)

Mr. Garrett testified that the company has not failed a water quality test since he took over as operation's manager in December 1990. (TR 869) Since the utility is meeting or exceeding primary drinking water standards as testified to by staff witness McKeown, staff believes the quality of the utility's product is satisfactory.

2. Operational conditions of the Utility's plant and facilities.

Utility Witness Seidman addressed the utility's posture in the last rate case. He stated that in the final order, Order No. 21122, the Commission identified 19 compliance requirements. (TR 73) Order No. 21122, issued April 24, 1989, specifically required:

- plans for a new well w/in 90 days from date of Order
- chlorine booster station at west end of system w/in 90 days from date of Order
- proposal for establishment of a cross-connection control program w/in 90 days from date of Order
- improved security around wells, treatment facilities and storage facilities w/in 30 days from date of Order

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

- repair and maintain backup generator w/in 30 days from date of Order
- plans for repair and/or replacement of aerator w/in 90 days from date of Order
- plans for 500,000 gallon storage facility w/in 90 days from date of Order
- establish/implement program to measure and record all flushing of lines by fire department, employees, or other entities w/in 30 days from date of Order
- proposal to establish/implement workable leak detection & repair program w/in 90 days from date of Order
- publish emergency phone number at all wells, treatment and storage facilities and utility office and on all bills w/in 30 days from date of Order
- utility to make reasonable effort to gather all of its books and records for all years since the inception of the utility; if necessary, submit report of all missing items w/evidence of search w/in 90 days from date of Order
- make reasonable effort to gather all invoices and contracts which related to construction of utility system
- from date of order maintain books in substantial compliance with USOA and Regulations to Govern the Preservation of Records of Electric, Gas and Water Utilities
- from date of order utility is to make duplicate copies of any utility records needed by attorneys, accountants, etc.
- from date of order utility to maintain all its books and records at one location so as to lessen likelihood of misplacement of further records
- w/in 60 days from date of Order utility shall prepare an analysis of all customer deposits collected since inception w/statement as to payment record
- w/in 90 days from date of Order utility shall calculate amount of interest compounded since each deposit was received and refund that amount to each affected customer
- w/in 90 days from date of Order utility shall refund all deposits in compliance with 25-30.311(5), Fla. Admin. Code
- utility shall maintain or acquire the services of a manager that has experience in water or sewer operations or is otherwise skilled in management. The utility shall also inform the Commission within 30 days if it no longer employs such a manager

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

As stated by Utility witness Brown, such improvements required by the final order were necessary and proper. He testified that "The utility badly needed to upgrade its overall operation, including better management and more capital expenditures for improvements necessary to meet the growth demand on St. George Island." (TR 270) Since the last rate case, SGIU has: installed an elevated storage tank, installed a third well capable of producing 500 gpm, installed a backup chlorination system to provide redundancy, installed a new generator, and is making substantial other improvements. (TR 273-74)

Currently the utility is maintaining the required chlorine residual throughout the distribution system; as stated by Witness McKeown "With the installation and continued operation of the chlorine booster station and increased water main flushing, the last two inspections have readily shown free chlorine residuals to be available." (TR 817)

Witness McKeown addressed the Utility's problem with maintaining a 20 psi minimum pressure throughout the distribution system as required by Rule 62-555.350, Florida Administrative Code (formerly 17-555.350). (TR 811) However, as testified to both by customers of the utility and by Mr. Garrett, system pressure has improved. (TR 384-435, 880-881, 884) The utility has installed an altitude valve and two new high service pumps with variable speed drives, such that the Utility can now maintain a psi of 65 or higher throughout its system. The variable speed drives will minimize or eliminate the water hammer problem the utility was experiencing. (TR 608) The high speed pumps, variable speed drives and the altitude valve were not mandated, those improvements were initiated by Mr. Brown and Mr. Garrett; as Brown testified "... that's probably the first time recently that we have gotten ahead of the curve in terms of doing something because we know it needs to be done rather than doing it because DEP or somebody suggested it." Mr. Garrett made a similar statement. (TR 612-13, 881)

Additionally, Utility Witness Bidy testified to possible causes for the Utility having fallen below the 20 psi requirement, such as State Park employees reportedly tampered with pressure recording equipment during the May 24 weekend making that data suspect, and the low pressure on July 4 may have been coincident with State Park personnel replenishing their water storage tanks. (TR 1201-02)

Mr. McKeown further testified that the Utility's wells are in a location which complies with Rule 62-555.312 (formerly 17-555.312), Fla. Admin. Code and that the Utility has certified operators as required by Rule 62-602 (formerly 17-602). (TR 813)

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

Also, he stated that the overall maintenance of the wells is generally good, although he points out a concern for Well No. 2. (TR 813-14) Mr. Bidy addressed Mr. McKeown's concerns regarding Well No. 2 and testified that "The more likely source of the light gray to white clay like material found in the aerator is the residue of granular chlorination of the ground storage tank...". (TR 1202)

McKeown notes that DEP still has not received an acceptable set of record drawings as required by the PFJ. (TR 814-15) Mr. Bidy addressed Mr. McKeown's discussion of the requirement for the Utility to develop current and accurate water distribution system maps by detailing the chronology of preparing the maps. (TR 1202-04) Bidy testified that they estimated completion of the maps no later than July 31, 1994. (TR 1203-04, 1206) He further testified that the first submittal of the map was August 31, 1992 and that the map was based upon the best engineering information available at the time. He testified that it is normal for large systems to file a map and then update and revise at a later date. (TR 1206) The Partial Final Judgment of April 1992 required the maps to be completed and submitted to DEP (formerly DER) by September 1, 1992. (TR 814, EXH 1)

McKeown further testified that the wells, plant and distribution system are not in compliance with all other provisions of Ch. 62 (formerly 17), Fla. Admin. Code. (TR 817-18) During an August 1993 inspection, Mr. McKeown noted two new deficient areas: the leaks in the ground storage tank and a need to clean the aerator. He went on to say that other areas of non-compliance were the failure on the utility's part to obtain a permit before modifying the aerator and failure to increase supply to support system demand. (TR 818)

McKeown testified that the Utility now has full emergency supply capability, since it replaced the unreliable generator at the treatment plant and included a generator at the third well. (TR 812) As testified to by both McKeown and Utility Witness Baltzley, the Florida Rural Water Association has been assisting the Utility in its leak detection (water loss reduction) program for some time (TR 815, 1188) and McKeown believes it should be an ongoing program.

The Utility has essentially established a cross-connection control program in accordance with Rule 62-555.360 (formerly 17-555.360), Fla. Admin. Code. Mr. McKeown testified that "The last inspection identified one minor area of concern which was that all reports required to be generated by the PFJ were not being sent to us." (TR 813) He goes on to say, however, that "We should note that cross-connection control programs are difficult to manage,

especially with a person who does not spend 100% of their time on this program. We expect minor oversight to occur, but will continue to judge the program by its overall effectiveness...". (TR 813) Mr. McKeown believes that the utility did not aggressively pursue this program so he believes it is necessary for him to review the utility's cross-connection control documentation. (TR 813)

Based on the above, staff believes that the operational conditions of the plant and facilities are satisfactory.

3. Utility's attempt to address customer satisfaction.

Coloney and Brown testified that there have been few billing complaints and customer response indicates general satisfaction with the quality of service. (TR 159, 272-273) In its Proposed Findings of Fact, SGIU states that personnel have been made available to deal with emergencies on a 24-hours a day, seven days a week basis. (Proposed Findings of Fact, No. 3)

The customer testimony portions of the hearing were held on Wednesday morning and Wednesday evening, July 20, 1994 in Apalachicola. On Wednesday morning, 7 customers testified and Ms. Sanders asked that 3 additional names be read into the record as opposing the rate increase. On Wednesday evening, 9 customers testified, 2 had written letters which Ms. Sanders had, and 18 asked that their names be read into the record as opposing the rate increase. One customer stated that he was representing 99 units at 300 Ocean Mile. Many customers thought the requested rate increase was too much. Several customers complained about the quality of the water -- either too much chlorine, it smelled bad, it left deposits on fixtures so fixtures had to be replaced, and one customer stated the water rotted his copper piping. Four customers specifically addressed their concerns regarding the need for fire protection. Two customers stated that they filter the water, one customer distills the water and one customer stated that she buys bottled water. One customer stated that he, too, had to replace water heater elements but is not sure if that's the utility's fault, he states that "It's the type of water that we get down here." (TR 411) Additional concerns were heard regarding water pressure; although several customers testified that the pressure was better recently, but two customers were not sure how long that would last. One customer testified about a recent water outage which lasted 4 to 5 minutes, and when questioned by staff, stated that the Utility had explained that occurrence as being caused by the volunteer fire department using water at both ends of the island. (TR 34-36) As stated by Public Counsel in its brief, this customer characterized SGIU as a "banana republic water company" due to her loss of water while in her shower (TR 33) and drew

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

parallels between her Venezuela experience and St George Island Utility. As also noted by Public Counsel, one customer dubbed the Utility "St. George Island Utility, a/k/a Brown Water Company." (TR 23)

As previously stated, the Utility is meeting or exceeding primary drinking water standards, and therefore, the water quality is considered satisfactory. (TR 816) DEP is alert to the fact that the Utility exceeded the MCL with respect to copper testing and is overseeing the Utility's further action in that regard. (TR 816) In addition, Baltzley testified that the FRWA has been working with system personnel to comply with the Lead and Copper Rule. (TR 1189) Customer concerns regarding fire protection are covered in Issue 27.

Public Counsel states that the Utility has many DEP violations. The Utility is still under a consent order from November 1989 (EXH 1, 34) for which DEP sought and received relief in the form of a Partial Final Judgment (PFJ) in April 1992. (TR 818) As testified to by Utility Witness Bidy, the utility is in compliance except for completion of some minor items of the consent order. (TR 1208) Mr. Seidman also made a similar statement. (TR 1067) Staff believes of importance also is that part of the utility's delays in providing the system maps and aerator report resulted because of failure to pay Baskerville-Donovan; Bidy stated that at the time of his testimony SGIU owed Baskerville-Donovan \$81,462.80. (TR 1211)

Mr. Garrett testified that the Utility has had one overall outage for approximately 15 to 20 minutes when the chlorination system blew up, but the only time reference made is that this was since he took over as operation's manager (December 1990). (TR 868, 869) Utility Witness Coloney testified that "... there have been no outages in recent years even during such peak periods as Memorial Day weekend and the Fourth of July." (TR 158) His professional opinion is that the quality of service is satisfactory and acceptable. (TR 160) It is noted, however, that Garrett further testified that "... over the recent Memorial Day weekend, wells 1 and 2 operating together could not keep up with the demand. I then manually switched over to well no. 3 until the Memorial Day weekend demand went down, and well no. 3 was able to consistently keep up with the demand without calling on our reserve storage on the island." (TR 880)

Staff notes that Well No. 3 was not cleared by DEP for service until February 25, 1994. (TR 819) It was originally cited in the consent order in 1989 as follows:

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

14. On or before December 1, 1989, Respondent shall submit an application for a permit for a new potable water supply well (Well #3).

(EXH 1) Had Well No. 3 not been on-line this Memorial Day, there could have been an outage.

Mr. Seidman testified that the final order in the 1989 rate case contained conditions and identified many areas in which the utility needed to improve. (TR 44) Coloney and Brown both testified that since the last rate case there have been enormous and substantive improvements to the reliability and quality of service and both enumerate the various improvements. (TR 159, 273-74, 555-56, 560, 572-73, 608) Garrett also testifies to the various improvements and changes made at the Utility. (TR 878-881) Additionally, when questioned by staff, Mr. Garrett replied that there are no specific operational problems at the Utility. (TR 883) Mr. McKeown stated that since Mr. Garrett has been the lead certified operator that the treatment plant has been very well maintained. (TR 814) Utility Witness Baltzley also mentions plant improvements due to Mr. Garrett's efforts. (TR 1189) Mr. Brown testified with respect to the directions in the 1989 rate case final order that "The utility badly needed to upgrade its overall operation, including better management and more capital expenditures for improvements necessary to meet the growth demand on St. George Island." (TR 270) Mr. Brown relates his unsuccessful attempts at employing professional managers but decided in late 1990 to take over day to day management himself. (TR 271) He goes on to testify that "Since the later part of 1990, the utility's overall efficiency has improved tremendously, and the overall quality of water service on St. George Island is extremely high." (TR 272) Perhaps Mr. Seidman summed it up best when he stated that "After a long, arduous and often frustrating process, as the Commission is well aware, I believe the Utility is now operating in a satisfactory manner." (TR 45, 73)

There have been many improvements since the last rate case, although Staff notes that there is still room for improvement; the record indicates that the utility has made strides towards becoming a reliable and efficient utility. Mr. Coloney stated his belief in his prefiled rebuttal testimony that SGIU is in "substantial" compliance with all of DEP's statutes, rules and regulations. (TR 163) When questioned by one Commissioner, Mr. Coloney stated that once certain improvements have been completed, SGIU would be in compliance. (TR 243-45) Mr. Brown testified that "The utility company is now in full compliance with all PSC and DER requirements." (TR 277) Staff believes that the utility is still deficient with certain compliance requirements, but notes that such areas are currently being addressed by the utility (e.g., system

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

maps, aerator report, ground storage tank leaks, and capacity). Further, staff has also addressed compliance in Issue 19 regarding management fees. Based on all of the above, Staff believes that the utility is currently providing marginal satisfactory quality of service. The utility, however, is on the threshold of unsatisfactory service due to certain compliance items and inadequate capacity. The concern regarding capacity is further addressed in Issues 40 and 41.

RATE BASE

ISSUE 2: Has St. George accurately stated the original cost of the water system?

RECOMMENDATION: No. Staff recommends that a \$379,948 reduction to the utility's test year plant in service is appropriate. This results in a reduction to depreciation expense of \$9,385. (STARLING, PIERSON, MONIZ)

POSITION OF PARTIES

UTILITY: Yes. The issue of original cost was fully litigated in the prior rate case involving SGIU. No new evidence has been presented in this proceeding. Under *res judicata* and *collateral estoppel*, the Commission cannot revisit original cost issues in this proceeding. The evidence in this proceeding supports the prior determination.

PUBLIC COUNSEL: No. Contemporaneous, objective evidence in this record shows the original cost of this system as of 12/31/1979 to be \$830,145; and shows the additions to plant from that time to 12/31/1987 to be \$543,705. An adjustment to test year rate base of \$645,038 is required. The extreme reservations this Commission had in SGIU's previous rate case concerning original cost are confirmed as valid in this record.

DISTRICT: When the Commission established rates in 1989, the utility could not locate its records. Consequently, the Commission did the best it could to determine the original cost, and used the estimate of the Internal Revenue Service, which also presumably did not have any records to substantiate the cost. Now that the 1978 appraisal by William Bishop has been located, the Commission does not have to guess what the utility's investment is in property used and useful in the public service. Based upon the original cost data, the Commission should roll back the rates, and establish the rates based upon the actual cost and the criteria in Section 367.081, Florida Statutes.

STAFF ANALYSIS: Due to the length of staff's analysis which is necessitated by the volume of evidence and testimony in the record, an outline is provided. Part One provides background information on this issue and briefly summarizes the positions of the parties. Part Two addresses the utility's legal arguments of *res judicata* and *collateral estoppel*. Part Three discusses the evidence concerning original cost. Part Four discusses OPC's and the District's proposals for determining the original cost. Part Five discusses the utility's position on original cost. Part Six

discusses staff's recommendation. Part Seven compares staff's recommended original cost to the other information in the record.

I. BACKGROUND INFORMATION

In the utility's last rate case, the Commission used an original cost study to determine the original cost of plant in service. In Order No. 21122, issued April 24, 1989, the Commission stated that:

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

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

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

In the absence of original source documentation, there appear to be two options available to determine the original cost of SGIU's system. The first would be for us to conclude that, due to the suspect circumstances

surrounding the absence of the records, SGIU has not met its burden to prove its investment. Accordingly, we could conclude that SGIU has no investment in utility plant until such time as it provides original source documentation. This solution does not, however, appear to be fair and just since the record does indicate that the utility has some level of investment in the system.

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

As in the previous case, this record indicates that the utility has some level of investment in the system. Since the utility's records documenting original cost are not available, staff believes that an Original Cost Study is the fairest and most reasonable approach to determine this investment. In the previous case, the Commission had a wide range of estimated original cost values to consider, including an original cost study by OPC and an original cost study by Mr. Coloney. (Order No. 21122, pp. 7-8) The Commission accepted Coloney's original cost study with a downward adjustment of 16% due to SGIU's lack of documentation and the study's apparent inflation of costs. (Order No. 21122, p. 8)

OPC and the District believe that new evidence has been presented in this case which indicates that even with the 16% reduction to Coloney's costs, the amount of plant was still overstated. This new evidence includes the 1979 Leisure Properties Financial Statement (EXH 20), a 1978 Engineering Appraisal by William Bishop (EXH 6), a 1982 Engineering Appraisal by William Bishop (EXH 47), and a 1976 appraisal by Ed Sayers (EXH 74).

OPC witness Dismukes testified that the utility's original cost of plant should be calculated by adding the investment provided in the 1979 Leisure Properties Financial Statement (\$830,145) to the plant additions (\$543,705) indicated by Ms. Wither's in her affidavit filed March 16, 1989. (TR 683) Using this original cost methodology results in a \$645,038 reduction to the utility's test year plant in service. (EXH 18; Schedule 21)

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

All of the information used in Ms. Dismukes' analysis was prepared for or by the utility.

The District believes that the utility's original cost should be reduced by \$1,449,883 from the amount established in the previous rate case. (District BR 2) The District calculated this adjustment by adding the original cost from the July 1978 Bishop report (\$750,117) to the amounts listed for plant additions from the utility's annual reports (\$539,735). The District believes that using this methodology results in an 1987 original cost of \$1,289,852. (District BR 2)

Staff believes that the District's proposed adjustment is incorrect. Schedule 4-C of Order 21122 indicates that the utility's year-end plant balance is \$2,175,331. Therefore, the necessary adjustment to reduce gross plant from \$2,175,331 to \$1,289,852 is \$885,479, not \$1,449,883.

The utility believes that there is no new information in this record which invalidates Mr. Coloney's original cost study. Utility witness Coloney testified that even after reviewing the Bishop Appraisal he believes his study is still accurate to within 10%. (TR 197) Mr. Coloney believes that nothing is more accurate than actually knowing what is in the ground. (TR 185, TR 211) Utility witness Seidman testified that the determination of original cost must be based on the utility's assets in the ground and that the numbers from the annual reports and the financial statements do not provide this information. (TR 1096, TR 1114) The utility also argues that the Commission is prohibited from revisiting this issue.

II. UTILITY ARGUMENT OF RES JUDICATA AND COLLATERAL ESTOPPEL

On August 29, 1994, St. George filed a post-hearing memorandum of law regarding the issue of the original cost of the utility system. In its memorandum of law, St. George argues that the Commission is foreclosed from revisiting the issue of original cost under the doctrines of res judicata and collateral estoppel. Under the doctrine of res judicata, a final judgment on the merits bars all subsequent actions between the same parties involving the same claim on all matters that were, or could have been, litigated. Collateral estoppel, on the other hand, bars subsequent actions between the same parties on matters actually litigated.

St. George argues that res judicata and collateral estoppel apply in the same manner to administrative proceedings as to judicial proceedings. In support of its argument, St. George cites a number of cases that stand for the proposition. Notable among its cites is Thomson v. Department of Environmental Regulation, 511

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

So.2d 989, 991 (Fla. 1987). In Thomson, the Supreme Court indeed stated that the doctrine of res judicata applies to administrative proceedings; however, it also noted that "the doctrine of res judicata is applied with 'great caution' in administrative cases." Id., at 991. The Court went on to hold that "[t]he proper rule in a case where a previous permit application has been denied is that res judicata will apply only if the second application is not supported by new facts, changed circumstances, or additional submissions by the applicant."

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

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

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

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

Staff does not agree with the utility's contentions. As noted above, the doctrines of res judicata and collateral estoppel both require an identity of the parties. The District was not a party in the last proceeding, thus there is no identity of parties. The only identity seems to be of the issue itself.

Staff is more persuaded by the Supreme Court's admonition in Thomson, 511 So.2d at 991, that the doctrine of res judicata be applied with great caution. There are good reasons for exercising great caution. In St. George's last rate case, the Commission stated that there were "suspect circumstances surrounding the absence of the [original cost] records". As a result, it was forced to rely on less reliable evidence of the original cost of the water system. However, the Commission specifically stated that "if at any time in the future, evidence is produced which reflects that our analysis of SGIU's investment is incorrect, we may, of course, readdress the issue of SGIU's level of investment." Order No. 21122, 89 F.P.S.C. 4:387 (1989). In addition, new evidence has been brought forward in this proceeding which indicates that the prior determination is incorrect. Finally, Staff notes that the burden of proof that any rate change is appropriate lies with St. George. Florida Power Corporation v. Cresse, 413 So.2d 1187, 1191 (Fla. 1982). Proof of a utility's investment in plant is an integral component of meeting this burden.

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

III. DESCRIPTION OF THE EVIDENCE

1979 Leisure Properties Financial Statement (Exhibit 20)

This unqualified financial statement was prepared by Thomson, Brock & Company for Leisure Properties, Ltd. for the period ending December 31, 1979. The statement indicates that the investment in the water system is \$830,145 less accumulated depreciation of \$22,660. (EXH 20) Ms. Withers testified that some of the labor costs associated with Leisure's construction crews laying the lines would not be included in this Financial Statement. (TR 1579)

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

This document does not provide any description of the plant associated with this cost. All that it provides is the investment of Leisure Properties, Ltd. in the water system. (EXH 20; Note 4)

Utility witnesses Withers and Brown claim that this is not new evidence since the statement was included in Exhibit 21 of the hearing for Docket No. 871177-WS. (TR 1589, TR 1652) Staff reviewed the Division of Records and Reporting's official record of the hearing for Docket No. 871177-WS and could not locate the 1979 Leisure Properties Financial Statement in exhibit 21 of this docket. Even though the hearing's transcript indicates that the financial statement is included in this exhibit, it was the utility's responsibility to file the document. (TR 532-536 from hearing in Docket No. 871177-WS) The record shows that the utility failed to fulfill this responsibility.

In Order No. 20913, issued March 17, 1989, however, the Commission did take Judicial Notice of this statement. The order stated that this notice does not include recognition of the truth of the statements in the subject documents.

1978 Engineering Appraisal by William M. Bishop (Exhibit 6)

This document is an appraisal of the July 1978 replacement cost of all the physical facilities and land associated with the St. George water system. (EXH 6) Mr. Bishop was the consulting engineer who designed this system. (TR 173, EXH 64, p. 72) Since Mr. Bishop designed this system, it is not surprising that \$328,636 (36%) of the system's \$908,000 replacement cost was based on contracts and invoices. (EXH 6)

To prepare the utility's depreciation schedule, utility witness Withers used the 1978 Bishop report to allocate the \$3 million purchase price of the utility to the assets that were listed in the Bishop report. (TR 1549-1550, TR 1563, EXH 72) Also, the asset descriptions in the utility's depreciation schedule are exactly the same as the descriptions in the 1978 Bishop report. (TR 1552-1557, EXH 72, EXH 6)

During a February 9, 1981 deposition, utility witness Gene Brown testified about this appraisal. (EXH 64) Mr. Brown testified that Bishop's appraisal was based on actual costs and comes as close to the overall expense for the system as anything else we have. (EXH 64; p. 72, p. 124, p. 126)

Utility witness Coloney testified that Mr. Bishop's report is accurate and complete and genuinely reflects what he found at that time. (TR 203) Utility witness Seidman also testified that he did not have any problems with the appraisal. (TR 1107) Mr. Seidman

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

adds, however, that this document should not be accepted since the preparer was not available for cross examination by the Commission. (TR 1111) Seidman then admits that the Commission can consider all of the evidence before it. (TR 1112) Particularly since none of the utility's witnesses disputed any of the appraisal's conclusions and there is no other evidence available which provides the same level of detail about the system's initial construction.

Staff believes that this engineering appraisal is the best available evidence of the system's original cost in the record. Staff calculated the original cost of plant as of 1978 using only the costs from this appraisal to be \$814,702.

1982 Bishop Appraisal (Exhibit 47)

This document is a depreciated replacement cost appraisal which was also prepared by Bishop. (EXH 47; p. 2) This appraisal is an update of the 1978 appraisal which incorporates all of the numerous extensions and improvements made to the water system in the interim. (EXH 47; p. 12) The 1982 appraisal, like the 1978 appraisal, is based on what is in the ground. (EXH 47; pp. 15-18)

Staff's review of this document indicates that the amount of plant provided in this appraisal is consistent with the plant described in the 1978 appraisal. The 1978 appraisal provided much greater detail, however, describing how the plant costs were developed.

A comparison of the quantities in the two Bishop appraisals indicates that between 1978 and 1982, transmission and distribution lines and associated appurtenances, fire hydrants, a high service pump, and 141 customer services were the only additions to the system (see Attachment 1). (EXH 6, EXH 47) The 1982 appraisal indicates the length of pipe in the ground and the unit cost of this pipe. (EXH 47)

Appraisal Report of the St. George Island Water System by Sayers (Exhibit 75)

This appraisal was prepared in 1977 at the request of Leisure Properties, Ltd by Ed Sayers. Mr. Sayers relied considerably on the expertise of the project engineers, William M. Bishop Consulting Engineer, Inc., to develop the costs. (EXH 75) This appraisal also provides an inventory of plant in the ground but other than saying the he relied on Bishop for information does not describe how the unit costs of the assets were derived. (EXH 75)

Staff believes that there is inadequate record support to use this appraisal. Mr. Brown was the only witness who testified about

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

this document. (TR 1614-1616) Also, Mr. Sayers states that he relied on Mr. Bishop to provide much of the information in the appraisal. In staff's opinion, the 1978 Bishop appraisal is a much better source to determine the original cost of plant.

Leisure Properties, Ltd. 1978 Tax Return and IRS Audit (Exhibit 21)

Schedule J of this tax return indicates that the depreciable basis of the water system was \$658,584. (EXH 21) The plant assets associated with this number are not described.

Testimony was also provided about the IRS audit of both Leisure's and the utility's tax returns for several years. (TR 1543) In 1979, Leisure Properties, Ltd. sold the water system to St. George Island Utility Company, Ltd. for \$3,000,000. (TR 696) For tax and book purposes the utility recorded the value of the water system at \$3,000,000. This transaction apparently caused the IRS to audit the tax returns for the years 1979 through 1982. (TR 696) The IRS claimed the value to be only \$1.55 million while the utility maintained that it was \$3.0 million. (TR 696-697) Prior to trial the utility and the IRS reached a settlement setting the tax basis of the assets at \$2.212 million as of December 31, 1979. (TR 679-680, TR 1623)

Staff agrees with OPC and the District that the utility's settlement with the IRS setting the depreciable tax basis is not probative of original cost for ratemaking. The IRS's reasons for settlement are not explained. There is also no information which indicates what plant assets this settlement represents. This failure to identify the plant in the ground was one of the utility's criticisms of the Withers Affidavit and the 1979 Leisure Properties, Ltd. financial statement.

Wayne Coloney's 1988 Engineering Analysis and Appraisal of the Water System (Exhibit 8)

Mr. Coloney's original cost of plant was derived from a current replacement cost for each plant component as of June 1, 1988. (EXH 8) Mr. Coloney used a sample of 1988 construction cost data to develop prices for the system components. (EXH 8; p.25) The cost of the component was then trended back to the year of construction utilizing the Handy-Whitman Index of Public Utility Construction Costs. (EXH 8; p. 22) Mr. Coloney determined that the original cost of the system as of June, 1988 was \$2,551,010. (EXH 8; p. 50) (Also see Attachment 5)

The Coloney report provides an inventory for all of the plant assets as of June 1, 1988. (EXH 8; p. 25) Except for the fire

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

hydrants, there is no evidence which contradicts Mr. Coloney's plant inventory.

In MFR Schedule E-6, the utility represents that the system has 88 fire hydrants. (EXH 1) Staff witness Abbot testified that between 1988 and 1992 the fire department paid for the installation of 8 fire hydrants. (EXH 26) Subtracting 8 from 88 indicates that only 80 fire hydrants were connected to the system in 1988. Mr. Coloney's study indicates that 89 fire hydrants were connected to the system in 1988. (EXH 8; p. 36) Staff's proposal for correcting this error is discussed in Part Six of the analysis.

The year of construction for much of the system in Coloney's study is inaccurate. (EXH 7, TR 193-196) For example, Coloney's study indicates that 57,545 feet of 2" PVC pipe was in the ground in 1978. (EXH 7) The 1978 Bishop appraisal indicates that the system did not have any 2" pipe. (EXH 6, EXH 7) The 1982 Bishop appraisal indicates that only 15,225 feet of 2" PVC pipe had been installed; compared to the 57,545 feet Mr. Coloney indicated was in place as of 1978. (EXH 6, EXH 47) Coloney's study indicates that two wells were in service in 1978; the two Bishop studies indicate that only one well was in service. (EXH 8, EXH 47) The March 10, 1987 DEP sanitary survey supports the Bishop reports by indicating that well #2 was drilled in 1985. (EXH 8)

Mr. Coloney testified that he did not have the 1978 Bishop report when he prepared his original cost study. (TR 190, TR 173) In Docket No. 871177-WS, however, Mr. Coloney states that he did have access to an engineering study which was done by William H. Bishop Associates when he prepared his study. (TR 277 from the hearing transcript in Docket No. 871177-WS) Based upon his representation that he did not have the Bishop appraisal when he prepared his study, Mr. Coloney was not asked to explain why he did not incorporate Bishop's appraisal into his analysis. Staff believes that the lower unit costs of lines in Bishop's appraisal may have influenced this decision.

Barbara Wither's Affidavit and the Annual Reports (Exhibits 42 and 65)

Ms. Withers served as the Comptroller for Leisure Properties, Ltd. from 1976 through 1986 and was directly involved in keeping the utility's books and records. (TR 1547-1548) In her affidavit filed in Docket No. 871177-WS, Ms. Withers indicated that between year-end 1979 and 1987 the utility added \$543,705 of new plant. (EXH 42, TR 683) Since the additions in Ms. Withers affidavit are based on the utility's books, the annual reports also reflect these additions. (TR 1567-1568, EXH 42) Ms. Withers testified that the booked plant additions are accurate as far as the hard costs and

they agree with the tax returns. (TR 1570, TR 1561) Neither the affidavit nor the annual reports indicate what plant assets are related to these numbers.

At the hearing, Ms. Withers introduced the concept of hard and soft costs to explain how the utility's books did not capture all of the expenses associated with the plant's construction. (TR 1561) Hard costs are the bare bones, brick and mortar or pipelines, and labor. (TR 1561, TR 1579) Soft costs include the engineering, supervision during construction, legal fees, and property taxes among other types of things. (TR 1561) Ms. Withers testified that the plant additions indicated in her reconciliation are only accurate for the hard costs. (TR 1570)

To summarize, staff believes that the following three exhibits provide the only competent substantial evidence in the record of what plant is in the ground and the cost of this plant: the 1978 Bishop appraisal, the 1982 Bishop appraisal, and the Coloney 1988 study. Staff believes that the other original cost evidence is best used for comparative purposes, not to determine original cost.

IV. OPC AND DISTRICT PROPOSALS FOR CALCULATING ORIGINAL COST

As discussed in Part One, OPC proposes to recalculate the original cost of the system by adding the investment identified in the 1979 Leisure Properties, Ltd. Financial Statement (EXH 20) to the plant additions between 1979 and 1987 which were provided in Ms. Withers' affidavit. (EXH 42) These additions are also reflected in the annual reports. (EXH 65)

OPC's proposed methodology is straightforward and easy to calculate. It is based on information which was prepared for or by the utility. The auditor of the financial statement issued an unqualified opinion. Mr. Brown certified by signing SGIU's Annual Report that the information contained within the report was true, correct, and complete. (TR 1420) Ms. Withers testified that the plant additions are accurate as far as hard costs. (TR 1570)

Mr. Coloney testified, however, that the only thing that really matters when determining original cost is what is physically in the ground. (TR 211) Mr. Seidman agrees and adds that there isn't enough information in the annual reports, in the financial statements, or in Ms. Withers' tax reconciliation to support one way or another what actually went into the ground and was invested by the utility or its predecessor in plant in service. (TR 1114)

Mr. Seidman testified that the annual reports may not reflect the proper amount for plant additions and should not be used without knowing what is behind the numbers. (TR 1118, TR 1115) To

support this statement, Mr. Seidman noted that the annual reports indicate that the utility had booked the \$3 million sale of the system as plant in service. (TR 1116) Mr. Brown testified that when he certified the annual reports he believed that they were true but has since become convinced that the accounting records were not accurate. (TR 1424, TR 1426) Mr. Brown also believes that Ms. Withers' reconciliation is not totally accurate and complete and that Ms. Withers failed to include all of the costs that would be properly capitalized to the plant. (TR 1435-1436)

Staff recommends that the Commission reject OPC's proposed method for calculating original cost. The fact that it attempts to reconstruct the system's original cost without the benefit of knowing what plant assets the cost relates to is the most persuasive argument against OPC's proposal. Staff agrees with Messrs. Seidman and Coloney that original cost should be based upon what is in the ground. Staff also believes that the utility's books and records (which are reflected in the annual reports and Wither's reconciliation) are still not an accurate source of information upon which to determine the original cost of plant additions between 1979 and 1987. The Commission did not rely on this information in the last case due to the lack of support. The Commission even found it necessary to order the utility to maintain its books and records in conformance with the Commission's rules. (Order No. 21122, p. 5)

The District proposes to calculate the system's 1978 original cost using the 1978 Bishop appraisal. The District then calculates the 1987 original cost by adding the additions reflected in the annual reports and Ms. Withers affidavit to the 1978 original cost.

As discussed in Part Six, staff believes that the Bishop appraisal should be used to calculate the system's 1978 original cost. Bishop's 1978 appraisal contains all of the information necessary to determine the system's original cost as of 1978. The Bishop appraisal is based on what is in the ground. None of the utility's witnesses had any problems with the figures in the appraisal. Mr. Seidman only expressed a concern about relying on a document whose author was not available for cross examination. (TR 1111)

Staff does not believe, however, that it is appropriate to determine the 1978-1987 plant additions using the Withers affidavit or the annual reports. As previously discussed, neither the affidavit nor the annual reports describe what went into the ground and are based on records of questionable accuracy. As will be further discussed in Part Six, additions after 1978 should be based upon the two Bishop appraisals and Coloney's original cost study.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

Both OPC and the District address the question of how much of the plant's construction was either written off as an expense or added to the cost of land that was being developed. (TR 1579-1581) Property which was then sold and became part of the cost of sales. (TR 1581) The District recommends that the Commission impute CIAC for some of the cost that is not reported by the utility, as it did in Order PSC-93-0430-FOF-WS, issued March 22, 1993, in Docket No. 920834-WS, In Re: Petition for limited proceeding to increase rates to recover the cost of purchased assets disallowed in Docket No. 910020-WS by Utilities, Inc. of Florida.

Ms. Withers testified that the IRS audit of Leisure and the utility between 1979 and 1982 investigated these issues. (TR 1581) She adds that the IRS would not have allowed the labor expenses associated with the water system's construction to be written off for both companies. (TR 1581) The IRS set the utility's depreciable tax basis at \$2.212 million as of December 31, 1979. (TR 679)

Staff agrees with Ms. Withers that the labor costs should not have appeared on both sets of books without the IRS adjusting out the duplicate costs. Staff would agree with OPC and the District that if labor and "soft" costs were costed off on the developers books then they should not be reflected as investment on the utility's books. The IRS originally arrived at a value for the system of \$1.55 million as of 1979 which is much higher than staff's original cost of \$949,805 for the same time period. The IRS finally stipulated with the utility to a 1979 cost figure of \$2,212,000. There is no evidence as to exactly what the IRS considered in arriving at that cost.

Staff also would point out that the audited financial statement of the utility, prepared by Thomson, Brock & Company, indicated a cost for the system of \$830,145. (EXH 20) Ms. Withers testified that the some of the labor for installing the lines would not be included in this amount. (TR 1579) Staff's recommended original cost as of December 31, 1989 is \$949,805.

It is staff's conclusion that there is little reliable evidence in the record on this subject which makes it difficult to make a recommendation. Because of this, it might be argued that the utility did not meet their burden of proof. Florida Power Corporation v. Cresse, 413 So.2d 1187, 1191 (Fla. 1982). The evidence which is in the record that is more persuasive to staff is the fact that the IRS's original value of \$1.55 million is much greater than staff's calculated \$949,805 original cost which includes the labor and "soft" costs of line installation. As such, staff would recommend that no adjustment is appropriate.

V. UTILITY PROPOSAL FOR ORIGINAL COST

The utility believes that this issue was fully litigated in the last case and should not be reopened. It believes that res judicata and collateral estoppel prohibit the Commission from readdressing this issue. As discussed in Part Two, staff believes that the Commission can review this issue, particularly since new evidence was presented in this case.

Messrs. Coloney and Seidman testified that Coloney's study is consistent with both Bishop studies. (TR 213, TR 1154) As explained in Part Six, staff's analysis of the evidence indicates that this statement is true if you consider the total amount of plant in the ground; it is not true, however, for either the costs assigned to the plant or the time when the plant additions were made.

The utility believes that no new evidence has been presented in this case. The Commission took Judicial notice of the 1979 Leisure Properties, Ltd. financial statement in Order No. 20913 with the caveat that the truth of the statements contained therein was not recognized. (TR 1081) Mr. Seidman admitted, however, that the 1978 Bishop appraisal is new evidence. (TR 791) The reason why Bishop's appraisal was not presented to the Commission in the last case even though Mr. Coloney testified that he had reviewed it when he prepared his 1988 study was not explained. (TR 277-278 from Docket No. 871177-WS) Staff's review of the record from Docket No. 871177-WS indicates that the 1982 Bishop appraisal is also new evidence.

Mr. Coloney believes that his study is still accurate to within 10%. (TR 197) Mr. Seidman's original cost analysis using the costs and quantities from all three studies (the two Bishop appraisals and Coloney's study) indicated that the original cost was around \$2 million. (TR 1155) This is approximately 20% less than the \$2.551 million original cost for plant which Mr. Coloney calculated. (EXH 8) A comparison of Mr. Coloney's line costs to the line costs from the two Bishop appraisals, indicates that his costs are considerably more than 10% higher (see Attachment 4). Finally, in Order No. 21112, the Commission reduced Mr. Coloney's original cost by 16% because the estimates appeared to be inflated. (Order No. 21122; p. 8) Therefore, staff does not believe that the costs in Mr. Coloney's study are accurate within 10%.

During cross examination, Mr. Coloney could not explain why his original cost of plant is so much greater than the original cost calculated by OPC in this case. (TR 215) The difference might result from developer contributions. (TR 216) Another possibility is that Leisure Properties construction crews laid the

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

lines and the labor costs associated with laying the lines were not booked. (TR 1579)

VI. STAFF'S RECOMMENDED ORIGINAL COST

Staff believes that an original cost study is the most accurate way to determine the original cost of plant in service if a utility does not have the necessary records to establish the original cost. (Order 21122) Three pieces of information are required to calculate the original cost: an inventory of the plant in the ground, the date of installation of each component, and the cost of the components. (EXH 8)

The Handy-Whitman index number is a percentage ratio between the cost of an item at any stated time and its cost at a base period or $\text{Index \#} = (\text{cost at stated time} / \text{cost at base period}) * 100\%$. (EXH 8; p. 90) Mr. Coloney used the Handy-Whitman index to calculate the original cost of the plant components in 1978 (or any other year for which index numbers are provided) based on the 1988 replacement cost of the component. (EXH 8) This index can also be used to calculate the cost of plant in 1988 (or any other year for which index numbers are provided) based on costs from 1978. (EXH 8)

Staff recommends that the Bishop studies should be used, where possible, to estimate when the plant was placed in the ground and the associated cost of this plant. The Coloney study is still needed, however, to provide an inventory of plant in the ground as of June 1, 1988. (TR 1113-1114)

Staff believes that the Bishop appraisals are a solid and correct basis upon which the Commission can base original cost: the appraisals are more contemporaneous with the system's initial construction than Coloney's study, Bishop was the engineer who designed the water system and prepared the appraisals, contracts and invoices comprise almost 42% (328,636/787,829) of staff's recommended July 1978 original cost, none of the utility's witnesses disputed any of the facts set forth in the appraisals.

Even though staff's recommendation to recalculate the original cost using prices from the Bishop appraisals is more complicated than OPC's and the District's proposals, it is based on what is in the ground as of 1988. Instead of using Coloney's costs, staff has used, where possible, the costs from the Bishop appraisals to determine original cost. Staff's recommendation also uses the Bishop studies to provide a better estimate of when the plant was put in the ground. Staff's recommendation is based upon the three criteria necessary to calculate original cost; neither OPC's nor the District's proposals fulfill all of these criteria.

During cross-examination, Mr. Seidman described his original cost analysis using prices and quantities from the Bishop studies. To estimate when the plant additions were made, Mr. Seidman took advantage of the fact that the three studies were done at three different points in time. (TR 1163) Seidman took the Bishop 1978 appraisal and used the prices in that study to establish the earliest plant. (TR 1163) This resulted in a physical cost of \$817,679, excluding land. (TR 1163) He then took the difference in quantities between the 1978 study and the 1982 study, mainly transmission and distribution (T&D) lines, and used 1982 prices to determine the cost of the 1978-1982 additions. (TR 1164) This resulted in a physical cost of \$401,521. (TR 1164) He then took the difference in quantities, mostly distribution lines and services, between the 1982 study and Coloney's study and used Coloney's prices to calculate the additions between 1982 and 1987. (TR 1155) Mr. Seidman did not provide the cost of the additions during this period other than stating that the system's original cost as of 1987 was around \$2 million. (TR 1155)

What is in the Ground?

In Attachment 1, staff has prepared a comparison of what each study establishes was in the ground. This comparison indicates that the following assets were added to the system after 1978: well #2, a 50 hp high service pump, transmission and distribution (T&D) lines, gate valves and other appurtenances associated with the T&D lines, fire hydrants, customer services, meters, and an auxiliary generator.

When was the Plant Put in the Ground?

The 1978 Bishop report indicates that well #1, the supply mains, the water treatment plant, the ground storage tank, and the pumping station were constructed in 1976. (EXH 6) As discussed in Part Three, well #2 was drilled in 1985. (EXH 8; p. 131) The 50 hp high service pump was placed into service during 1979. (EXH 8; p. 134) There is no mention of the auxiliary generator in either Bishop report.

To estimate when the T&D lines were laid, staff recommends that the difference in quantities of pipe between the three studies be equally distributed over the time period between the studies. For example, the 1982 Bishop study establishes that the system included 15,225 feet of 2" PVC pipe while the 1978 study shows zero feet of 2" PVC pipe. Dividing 15,225 by 4 results in yearly additions of 3,806 feet between 1978 and 1982. The 2" PVC additions between 1982 and 1988 are calculated the same way using the difference in quantities of pipe between the Bishop 1982 study and Coloney's 1988 study. Attachment 2 is staff's calculation of

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

the estimated quantities of 2", 4", 6", 8", 10", and 12" PVC pipe which was in the ground for each year between 1978 and 1988.

Staff recommends that the yearly additions of fire hydrants should be calculated using the same methodology described in the previous paragraph. As discussed in Part Three, the number of hydrants included by Mr. Coloney was reduced from 89 to 80. Staff's estimate of the number of hydrants for each year is also included in Attachment 2.

What is the Cost of This Plant?

Staff's original cost analysis discusses all of the plant included in Coloney's 1988 study: production wells and well pumps, supply mains, water storage reservoir, pumping station, water treatment equipment, office facilities, transmission and distribution lines and their appurtenances, services, meters and meter installation, hydrants, engineering and administrative costs. Staff has calculated that the original cost of the plant as of 1988 is \$1,782,439. Attachments 3, 4, and 5 are the schedules which show staff's calculation of the original cost.

Land

In Docket No. 871177-WS, the Commission ordered that the appropriate cost of land for well #1, well #2, and the water treatment plant was \$20,455. This value was based upon the testimony of utility witness Mears. (Order No. 21122, p. 12)

Coloney's study does not discuss land values. The 1978 Bishop appraisal indicates that well #1 is located on a 100' x 110' lot near East Point and is valued at \$3,500. (EXH 6) This appraisal estimates the value of the land for the treatment plant site at \$30,000.

Staff recommends that no adjustment for land is appropriate. Staff believes that there is no evidence in this proceeding which disputes Mr. Mears' testimony in Docket No. 871177-WS. Coloney's study did not discuss the land's value. The Bishop appraisal states that the land value estimate was prepared in lieu of a bona fide real estate appraisal because of the relatively small effect land value has on the total replacement cost.

Production Well and Well Pump

WELL #1

Rowe Drilling Company drilled well #1 and installed the well casing, pump, pump column, and motor. Leisure Construction crews

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

installed the meter, valves, and other fittings connecting the well to the raw water supply main. (EXH 6) Bishop estimated the replacement cost for all of this work using an estimate from Rowe Drilling Company.

The estimated replacement cost to drill well #1 was \$9,500. Using the Handy-Whitman index to trend the cost back to 1976 results in an original cost of \$8,250 ($9,500 \times 132/152$). (EXH 6, EXH 8)

The estimated replacement cost of the well #1 pump was \$7,000. Using the Handy-Whitman index to trend the cost back to 1976 results in an original cost of \$6,414 ($7,000 \times 175/191$).

WELL #2

Well #2 was drilled in 1985. (EXH 27) The original cost of this well should be based upon the original cost to drill well #1 in 1976 trended to 1985 using the Handy-Whitman index, because the wells are similar in size and construction. (EXH 8; p. 131) Using this procedure, the estimated original cost to drill well #2 is \$13,812 ($8,250 \times 221/132$). The estimated original cost of the well #2 pump is \$10,299 ($\$6,414 \times 281/175$).

Supply Mains

The supply mains carry raw water from the wells on the mainland to the water treatment plant. The supply mains include ductile iron pipe for the two bridge crossings and 6" and 8" PVC pipe for the rest of the supply main system. (EXH 6)

As discussed under T&D mains and appurtenances later in this issue, staff recommends that the 6" and 8" PVC line costs for the supply main should be based upon the average line prices from the two Bishop studies as of July, 1976. The 1978 Bishop appraisal describes the appurtenances associated with these supply mains and these costs should also be trended back to July, 1976 using the Handy-Whitman index. This results in an original cost of \$88,583. The details of this calculation are provided in Attachment 3.

The two bridge crossing were installed by Cifer's Construction under contract for \$127,859.44. (EXH 6) The ductile iron pipe was purchased from McWane Cast Iron Pipe Company and cost \$80,632, including freight. (EXH 6)

Based on the above, staff recommends that the original cost for the supply mains is \$297,075 ($\$88,583 + \$127,860 + \$80,632$) Staff notes that the supply mains associated with well #2 are not included in this total; they are included within the T&D mains.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

Coloney's study did not quantify the length of PVC pipe required to connect well #2 to the existing supply mains in 1985 (he also failed to indicate the length of PVC supply main associated with well #1). (EXH 8; p. 11) Staff believes, however, that Mr. Coloney included the PVC supply mains in the system's PVC pipe total when he calculated the original cost. (EXH 8; p. 36)

Water Storage Reservoir

Marolf, Inc. installed the ground storage tank, roof, aerator, and building structure. The appraisal stated that the contracted cost for this work was \$63,332. The slab for the tank bottom was provided by G.A.P. Enterprises under contract for \$27,718.67. Based on this information, staff recommends that the original cost of the water storage reservoir is \$91,050.67. (EXH 6)

Pumping Station

The pumping station pumps were purchased from Rowe Drilling Company and installed by Leisure Properties personnel. The 1978 replacement cost for the 20 hp high service pump was \$1,200. The original cost of the pump using the Handy-Whitman index to trend back to 1976 is \$1,099 ($\$1,200 \times 175/191$). (EXH 6)

Since the 50 hp pump was not installed until 1979 (EXH 8), the 1978 Bishop appraisal doesn't include this cost. The 1982 appraisal indicates that the 1982 replacement cost of this pump is \$7,050. (EXH 47) The original cost of this pump using the Handy-Whitman index to trend back to 1979 is \$5,612 ($\$7,050 \times 203/255$).

The \$23,786 replacement cost for installing the pump station was based upon an estimate from Rowe Drilling Company. (EXH 6) The original cost of this work using the Handy-Whitman index to trend back to 1976 is \$20,813 ($\$23,786 \times 154/176$).

Thomas L. Cook installed the electrical wiring for the pump station under contract for \$12,000.

Chlorinator, Controls, and Altitude Valve

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

Leisure's construction crews installed the controls between the storage reservoir and the well site. The 1978 replacement cost for the controls was estimated by Rowe to be \$1,500. Trending this cost back to 1976 results in an original cost of \$1,312 ($1,500 \times 154/176$).

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

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

Office Facilities

The business office interior finish was installed by Leisure Properties construction forces. The \$19,879 replacement cost was based on the total of all invoices for material and labor associated with finishing the office multiplied by the ENR construction index (1.16). (EXH 6) Therefore, the original cost for the office facilities is \$17,093.

Transmission and Distribution Mains and Appurtenances

Staff believes that since Leisure Properties, Ltd. construction forces installed the transmission and distribution system (TR 1579, EXH 6) Bishop had to rely on quotes from contractors to estimate the cost of the T&D system. The 1978 appraisal's prices to install 6" and 8" lines were based upon the average cost of contractor bids from two projects. (EXH 6; p. 4-5) The price of the second low bidder, however, was escalated by 10% to compensate for the additional overhead associated with working at St. George Island. (EXH 6) The 1982 appraisal's costs were based on the average unit prices from comparable projects bid on a competitive basis. (EXH 47; p. 13)

A cost comparison of line prices for the three studies is provided in Attachment 4. The costs for the different years were calculated using the Handy-Whitman index to calculate the cost of pipe for each study for every year between 1976 and 1988. For example, the Bishop 1978 appraisal indicates that the 6" PVC line cost is \$3.25 per foot. To determine the cost of this pipe in 1985, the 1978 unit cost (\$3.25) is multiplied by the 1985 Handy-Whitman index number for PVC Mains (144). This number is then divided by the 1978 Handy-Whitman index number (111) to calculate the 1985 unit cost of \$4.22 per foot.

When looking at this schedule it should be remembered that Mr. Coloney's study includes engineering and administrative costs; the Bishop numbers do not. Even if the administrative and engineering cost are added on to Bishop's costs, Coloney's prices are much higher than either Bishop study. The cost of 2" and 4" PVC for the two Bishop appraisals is the same, since the 1978 appraisal did not provide the cost for either 2" or 4" PVC pipe.

The Bishop appraisals do not explain why the 1982 appraisal's line costs are lower than the 1978 appraisal's line costs. Staff believes that the 1978 appraisal's methodology where the cost of

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

the second low bidder was increased by 10% accounts for some of the difference. It does not, however, account for all of the difference.

The unit cost of the T&D lines can be calculated by several methods: using only the costs from the 1978 Bishop appraisal, using only the costs from the 1982 Bishop appraisal, using the average cost from both Bishop appraisals, using the average cost from all three studies. Staff recommends that the average costs from the Bishop appraisals be used to determine the original cost of lines.

Staff believes that the two Bishop appraisals bolster each other. Coloney's line costs are significantly higher than both Bishop studies. As stated earlier, Leisure's employees installed the T&D lines. Since Leisure was developing the island at the same time they were installing water lines, the machinery and manpower to install the water lines was readily available. An outside contractor's cost would be higher since they would be required to mobilize their crew and relocate to the work site. Also, the additional costs associated with construction bidding such as bonds are eliminated. Furthermore, staff believes that Bishop's 1978 line cost was unnecessarily increased to reflect the additional cost Bishop believed the second low bidder should have included. Based on this discussion, staff believes that taking the average cost from the two Bishop appraisals is a fair and reasonable approach for calculating the unit cost of the lines.

The calculation of the line's original cost is provided in Attachment 5. This schedule simply multiplies the length of pipe added during the year (see Attachment 2) by the cost for the lines (average of line cost from the two Bishop appraisals) for that year (see Attachment 4). For example, staff estimated that 3,806 feet of 2" PVC pipe was installed during 1979. The average cost of 2" PVC pipe in 1979 was \$1.56 per foot. Multiplying 3,806 by \$1.56 results in an original cost of \$5,937 for that year. The difference between \$5,937 and the \$5,926 shown in Attachment 5 results from rounding errors.

A water T&D system includes many appurtenances in addition to the pipe. (EXH 6, EXH 8, EXH 47) The Coloney study provides an inventory and cost for gate valves and fittings with reaction block. (EXH 8) The Bishop 1978 appraisal includes the costs for gate valves, reducers, bends, tees, and plugs. (EXH 6) The Bishop 1982 appraisal lumps all of the appurtenances into one category called fittings. (EXH 47) This is the one component of plant for which there is no way to easily compare the three studies.

As is the case with the T&D lines, there are several approaches available to ascertain the original cost of the

appurtenances. One approach is to determine the appurtenances' costs using the Bishop 1978 appraisal and the Coloney study. The difficulty with applying this method arises because the Bishop appraisals do not include a category called fittings with reaction block as was included in Coloney's study. Another method is to use the ratio of the cost of fittings to the cost of lines from the 1982 Bishop appraisal. The cost for T&D mains would then be multiplied by this ratio to estimate the cost of appurtenances.

Staff recommends that the ratio of fitting to lines from the 1982 Bishop appraisal be used to determine the original cost of the T&D system appurtenances. Staff believes that this is the fairest and best way to account for the appurtenances. Over half of the T&D system was constructed by 1982. Therefore, this estimate is based upon Bishop's cost of appurtenances for most of the system.

If the Bishop 1978 appraisal and the Coloney study are used to calculate the original cost of appurtenances, then Coloney's cost for fittings with reaction block would have to be included in the original cost estimate. Coloney assigns a replacement cost value of \$183,837 for just the fittings with reaction block (not including gate valves); staff's recommended original cost for all the appurtenances is \$92,780.

Staff calculated that the ratio of the replacement cost of fittings to the replacement cost of the T&D system in the Bishop 1982 appraisal is 11.11%. Staff calculated the original cost of the appurtenances by multiplying the recommended original cost of lines laid during the year by 11.11%. The costs for the T&D system and its appurtenances within the state park were not included in this calculation.

Services

Staff recommends that the Coloney study, with the 16% reduction from Order No. 21122, should be used to determine the original cost for services. The Coloney study provides a detailed analysis of the costs to install customer services. (EXH 47) There is no evidence in the record which conflicts with these costs. In fact, Coloney's costs and quantities are close to the costs and quantities from the 1982 Bishop appraisal.

Coloney's study indicates that as of 1982 the cost for a customer service is \$259.51; the 1982 Bishop appraisal estimates the cost to be \$250. Coloney's study indicates that 143 - 5/8" customer services were installed as of 1982; Bishop's appraisal indicates that 141 - 5/8" customer services were installed.

Meters and Meter Installation

Staff recommends that the Coloney study, with the 16% reduction from Order No. 21122, should be used to determine the original cost of meters and meter installation. The Bishop appraisals do not provide any costs for this plant component.

Hydrants

As discussed in Part Three, staff believes that the number of hydrants shown in Mr. Coloney's study is incorrect. Staff recommends that 80 hydrants were connected to the system as of 1988.

Staff recommends that the same methodology used to determine the original cost of T&D lines should also be used for the fire hydrants. The unit cost of the hydrants should be the average of the costs from the two Bishop appraisals. The original cost of the hydrants during a year is calculated by multiplying the unit cost for that year by the number of hydrants installed during the year. This calculation is provided in Attachment 5.

Engineering and Administrative

There are also engineering and administrative costs associated with the construction of a water system. (EXH 6, EXH 47) Coloney's study does not discuss how these costs were determined. (EXH 8) The 1978 Bishop appraisal indicates that the actual engineering cost for the system was \$58,065 (8.2% of the original cost). (EXH 6; p. 14) The 1978 appraisal estimated the administrative cost to be 6% of the replacement cost (excluding land). (EXH 6; p. 14) The 1982 Bishop appraisal estimates that the engineering cost is 6% of the replacement cost. The 1982 appraisal estimated the administrative costs to be \$75,000 (5.7% of the replacement cost). (EXH 47)

Staff recommends that 6% is a reasonable allowance for engineering costs. The 6% is based upon the engineering cost from the 1982 Bishop appraisal and staff believes that it is a fair and reasonable allowance for engineering expenses. This expense was not added on to land or plant whose cost was based upon the Coloney study (the auxiliary generator, services, meters and meter installation), since staff believes that Mr. Coloney either included or should have included this soft cost in his original cost calculation.

Staff recommends that 6% is a reasonable allowance for administrative costs. The 6% is based upon the administrative costs from the 1978 Bishop appraisal and staff believes that it is

a fair and reasonable allowance for administrative expenses. As is the case with the engineering expenses, this expense was not added on to land or plant whose cost was based upon the Coloney study.

VII. COMPARISON OF STAFF'S RECOMMENDATION TO OTHER EVIDENCE

The original cost of this system as of 1988 using staff's recommended methodology is \$1,782,439. Attachment 6 provides a summary of staff's recommended original cost of plant additions for the period between 1976 and 1988. Except for cases where Coloney's original costs were used, the plant costs in Attachment 6 are 12% greater than the plant costs discussed in Part VI. This results since the engineering and administrative overhead expenses had not yet been allocated to the plant components in Part VI's discussion. The dates in this attachment (except 1988) represent the middle of the year (July). Therefore, the original cost as of December, 1979 would simply be the average of the 1979 and 1980 original costs.

Mr. Seidman calculated that the system's original cost in 1978 using only the 1978 Bishop appraisal was \$817,679 (excluding land); staff's recommended 1978 original cost is \$771,874 (excluding land). Staff's number is lower because the cost for lines is based upon the average of the 1978 and 1982 Bishop line prices and Mr. Seidman only used 1978's higher line prices. Mr. Seidman calculated that \$401,521 in additions occurred between 1978 and 1982; staff's analysis indicates that \$456,327 in additions occurred over this time. Staff's number is higher because Mr. Seidman only used the lower line costs from the 1982 Bishop appraisal; staff's line cost is once again based upon the average of the 1978 and 1982 line prices. Even though Mr. Seidman did not provide an exact number for additions to plant between 1982 and 1988, he did state that the original cost as of 1988 was around \$2 million, thereby implying that there was approximately \$780,000 in plant additions. Staff's recommended plant additions over this time are \$538,283. Staff's number is much lower than Mr. Seidman's calculation because Seidman used Coloney's costs to price the plant additions.

Staff's recommended original cost as of December, 1979 is \$949,805; the 1979 Leisure Financial Statement shows that the investment in the utility as of December, 1979 was \$830,145. Due to the lack of support behind the financial statement, staff can not explain the discrepancy between these numbers. Ms. Withers did testify, however, that the labor costs associated with laying the lines was not included in the financial statement's number. (TR 1579)

The Withers' affidavit indicates that the booked additions to plant between 12/31/79 and 12/31/87 were \$543,705. Staff's

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

recommended original cost of plant additions over this period is \$886,340. As was the case for the financial statement staff can not explain the discrepancy between these numbers due to the lack of support behind the affidavit. Utility witness Withers testified, however, that the numbers from her affidavit only included the hard costs. (TR 1570)

The District calculated that the original cost as of 1978 using the Bishop appraisal is \$750,117. (District BR 2) Staff's recommended 1978 original cost is \$787,829. Since the District's brief did not provide the details behind their calculation, this difference can not be explained .

The Coloney study states that the 1978 original cost is \$1,404,244; staff's recommended 1978 original cost is \$787,829. (EXH 8; p. 47) This large discrepancy is partially the result of Coloney's higher unit prices for lines. It is also caused because a large quantity of lines which Coloney included in his 1978 plant are not included in staff's estimate of the 1978 plant.

In Attachment 7, staff has provided a comparison of the different original costs in this case. The costs are placed into the appropriate NARUC accounts. Since the 1979 Leisure Financial statements and the Wither's affidavit do not assign a cost to the different plant components, staff's recommended original cost was used to calculate the allocation of OPC's and the District's original cost into the NARUC accounts.

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

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

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

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

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

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

ORIGINAL COST AS OF 1978 BISHOP APPRAISAL

	QTY	UNIT PRICE	1978 \$	7/78 Handy Whitman #	7/76 Handy Whitman #	Original Cost 1978	NARUC Account	
6								
7	ITEM							
8								
9	Production Well & Site							
10	1	263', 8" Well	\$9,500		152	\$8,250	307.2	
11	1	10 HP Turbine Pump	\$7,000		191	\$6,414	311.2	
12	1	Land	\$3,500		N/A	\$3,500	303.2	
13	0	Well House Slab	\$0		N/A			
14			\$20,000			\$18,163.61		
15								
16	Raw Water Transmission Main							
17	Prod. Well to no. end bridge							
18	2365	6" PVC Pipe (Avg. of Bishop's studies)	\$2.82	\$6,661	111	104	\$6,241	309.2
19	3911	8" PVC Pipe (Avg. of Bishop's studies)	\$4.72	\$18,442	111	104	\$17,279	309.2
20	58	8" Ductile Iron	\$14.50	\$841	176	158	\$755	309.2
21	1	6" Gate Valve	\$220.00	\$220	176	158	\$198	309.2
22	2	8" Gate Valve	\$291.50	\$583	176	158	\$523	309.2
23	1	6" 45 Deg. Bend	\$107.25	\$107	176	158	\$96	309.2
24	1	6" 90 Deg. Bend	\$123.75	\$124	176	158	\$111	309.2
25	2	8" 90 Deg. Bend	\$181.50	\$363	176	158	\$326	309.2
26			\$27,341			\$25,529.41	309.2	
27	No. End of Bridge to Reserv.							
28	12209	8" PVC Pipe (Avg. of Bishop's studies)	\$4.72	\$57,571	111	104	\$53,940	309.2
29	232	8" Ductile Iron	\$14.50	\$3,364	176	158	\$3,020	309.2
30	3	8" Gate Valve	\$291.50	\$875	176	158	\$785	309.2
31	4	8" Dress. Coupling	\$1,400.00	\$5,600	176	158	\$5,027	309.2
32	2	8" 45 Deg. Bend	\$156.75	\$314	176	158	\$281	309.2
33			\$67,723			\$63,053.96	309.2	
34	Two Bridge Crossings							
35		Cifer's Contract		\$148,701				
36	13078	8" Ductile Iron	\$5.75	\$87,456				
37	6793	Freight	\$0.80	\$6,320				
38			\$242,477			\$208,492 *	309.2	
39								
40	TOTAL RAW WATER MAIN			\$337,541				
41								
42	Reservoir, Pumps, Office, Etc.							
43		Marolf, Inc. (reservoir, structure, etc.)		\$73,655		\$63,332 *	330.4	
44		G.A.P. Enterp. (concrete slab)		\$32,237		\$27,719 *	330.4	
45		Pumping Station		\$23,786	176	154	\$20,813	304.3
46		20 hp High Service Pump		\$1,200	191	175	\$1,099	311.2
47		W&T Gas Chlorin.		\$2,600	176	154	\$2,275	320.3
48		50 hp High Service Pump	(NOT INCLUDED IN TOTAL. INSTALLED IN 1979)				\$5,612	311.2
49		T.L. Cook (electric)		\$13,956			\$12,000 *	311.2
50		Interior		\$19,879			\$17,093 *	304.3
51		Controls		\$1,500	176	154	\$1,313	339.3
52		Altitude Valve		\$3,364	176	154	\$2,944	339.3
53	6	Land	\$5,000	\$30,000			\$12,455	303.3
54		New Equipment						
55		Auxiliary Power				\$14,406	310.2	
56	TOTAL RESERVOIR, PUMPS, ETC.			\$202,177		\$181,060.53		
57								
58		PVC PIPE	2"	0	\$1.43	\$0	\$0	330.4
59			4"	0	\$1.88	\$0	\$0	330.4
60			6"	23,617	\$2.82	\$66,520	\$66,520	330.4
61			8"	24,394	\$4.72	\$115,028	\$115,028	330.4
62			10"	0	\$0.00	\$0	\$0	330.4
63			12"	155	\$13.65	\$2,116	\$2,116	330.4
64					\$183,665	\$183,665	330.4	
65		Appurtenances (11.1% of T&D)		\$20,410		\$20,410	330.4	
66	TOTAL TRANSMISSION & DISTRIBUTION SYSTEM			\$204,074		\$204,074	330.4	
67								
68	SERVICES & METERS (From the Colony Study)					\$6,919		
69								
70	HYDRANTS					\$5,732		
71								
72	Subtotal (Not including Admin. & Engineering)					\$707,413		
73								
74	Administration					\$40,208		
75	Engineering					\$40,208		
76								
77	Total Original Cost					\$787,829		
78								
79	* Cost is based on a contract or invoice.							

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

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

Estimated Original Cost of T&D System and Fire Hydrants

PVC Pipe (No appurtenances)	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	
2"														
Bishop 1978	\$0	\$0	\$0	\$5,928	\$6,416	\$6,906	\$6,661	\$18,232	\$16,955	\$16,723	\$16,491	\$16,723	\$16,723	
Bishop 1982	\$0	\$0	\$0	\$5,928	\$6,416	\$6,906	\$6,661	\$18,232	\$16,955	\$16,723	\$16,491	\$16,723	\$16,723	
Coloney	\$0	\$0	\$0	\$11,994	\$12,985	\$13,976	\$13,183	\$36,899	\$34,314	\$33,844	\$33,374	\$33,844	\$33,844	
Average of Bishop 1978 and 1982	\$0	\$0	\$0	\$5,928	\$6,416	\$6,906	\$6,661	\$18,232	\$16,955	\$16,723	\$16,491	\$16,723	\$16,723	
4"														
Bishop 1978	\$0	\$0	\$0	\$2,348	\$2,542	\$2,736	\$2,639	\$1,278	\$1,188	\$1,172	\$1,156	\$1,172	\$1,172	
Bishop 1982	\$0	\$0	\$0	\$2,348	\$2,542	\$2,736	\$2,639	\$1,278	\$1,188	\$1,172	\$1,156	\$1,172	\$1,172	
Coloney	\$0	\$0	\$0	\$6,028	\$6,524	\$7,022	\$6,624	\$3,279	\$3,049	\$3,007	\$2,968	\$3,007	\$3,007	
Average of Bishop 1978 and 1982	\$0	\$0	\$0	\$2,348	\$2,542	\$2,736	\$2,639	\$1,278	\$1,188	\$1,172	\$1,156	\$1,172	\$1,172	
6"														
Bishop 1978	\$0	\$0	\$76,755	\$31,420	\$34,017	\$36,614	\$34,536	\$26,569	\$26,567	\$26,203	\$25,839	\$26,203	\$26,203	
Bishop 1982	\$0	\$0	\$56,285	\$23,040	\$24,945	\$26,849	\$25,897	\$20,949	\$19,482	\$19,215	\$18,948	\$19,215	\$19,215	
Coloney	\$0	\$0	\$150,189	\$61,481	\$68,562	\$71,643	\$67,578	\$55,901	\$51,984	\$51,272	\$50,560	\$51,272	\$51,272	
Average of Bishop 1978 and 1982	\$0	\$0	\$66,520	\$27,230	\$29,481	\$31,731	\$30,216	\$24,759	\$23,024	\$22,709	\$22,394	\$22,709	\$22,709	
8"														
Bishop 1978	\$0	\$0	\$130,508	\$37,175	\$40,247	\$43,319	\$40,861	\$0	\$0	\$0	\$0	\$0	\$0	
Bishop 1982	\$0	\$0	\$99,549	\$29,356	\$30,700	\$33,043	\$31,871	\$0	\$0	\$0	\$0	\$0	\$0	
Coloney	\$0	\$0	\$192,738	\$61,481	\$68,562	\$71,643	\$67,578	\$55,901	\$51,984	\$51,272	\$50,560	\$51,272	\$51,272	
Average of Bishop 1978 and 1982	\$0	\$0	\$115,028	\$32,765	\$35,473	\$38,181	\$36,366	\$0	\$0	\$0	\$0	\$0	\$0	
10"														
Bishop 1978	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Bishop 1982	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Coloney	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Average of Bishop 1978 and 1982	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
12"														
Bishop 1978	\$0	\$0	\$2,116	\$0	\$0	\$0	\$0	\$3,025	\$2,813	\$2,774	\$2,736	\$2,774	\$2,774	
Bishop 1982	\$0	\$0	\$2,116	\$0	\$0	\$0	\$0	\$3,025	\$2,813	\$2,774	\$2,736	\$2,774	\$2,774	
Coloney	\$0	\$0	\$2,154	\$0	\$0	\$0	\$0	\$3,080	\$2,864	\$2,825	\$2,785	\$2,825	\$2,825	
Average of Bishop 1978 and 1982	\$0	\$0	\$2,116	\$0	\$0	\$0	\$0	\$3,025	\$2,813	\$2,774	\$2,736	\$2,774	\$2,774	
Estimated Original Cost for T&D mains (including the 11% for appurtenances. Bishop's costs don't include the engineering and administrative soft costs.)														
Bishop 1978	\$0	\$0	\$232,646	\$85,411	\$92,470	\$99,529	\$94,110	\$56,782	\$52,804	\$52,081	\$51,357	\$52,081	\$52,081	Total
Bishop 1982	\$0	\$0	\$175,502	\$66,302	\$71,781	\$77,261	\$74,521	\$48,317	\$44,932	\$44,317	\$43,701	\$44,317	\$44,317	\$921,351
Coloney	\$0	\$0	\$383,429	\$149,337	\$161,678	\$174,020	\$164,147	\$110,178	\$102,458	\$101,055	\$99,651	\$101,055	\$101,055	\$735,288
Average of Bishop's 1978 and 1982	\$0	\$0	\$204,074	\$75,857	\$82,126	\$88,395	\$84,315	\$52,550	\$48,868	\$48,199	\$47,529	\$48,199	\$48,199	\$1,648,062
Estimated Original Cost of Hydrants (Bishop costs do not include engineering and administrative soft costs)														
Bishop 1978	\$0	\$0	\$6,524	\$6,835	\$7,353	\$8,043	\$8,319	\$8,236	\$5,120	\$6,421	\$6,697	\$6,881	\$6,881	Total
Bishop 1982	\$0	\$0	\$4,941	\$5,178	\$5,568	\$6,091	\$6,300	\$4,723	\$3,878	\$4,862	\$5,071	\$5,211	\$5,211	\$75,309
Coloney	\$0	\$0	\$7,398	\$7,748	\$8,335	\$9,117	\$9,430	\$7,070	\$5,804	\$7,278	\$7,591	\$7,800	\$7,800	\$57,031
Average of Bishop 1978 and 1982	\$0	\$0	\$5,732	\$6,005	\$6,460	\$7,067	\$7,310	\$5,480	\$4,499	\$5,641	\$5,884	\$6,046	\$6,046	\$85,370
														\$86,170

STAFF'S RECOMMENDED PLANT ADDITIONS BY YEAR

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

Comparison of Original Costs

<u>Acct. Description</u>	<u>OPC</u>	<u>District</u>	<u>Coloney</u>	<u>Order 21122</u>	<u>Difference between</u>	
					<u>Staff Rec</u>	<u>Staff and Order 21122</u>
303 Land	\$20,455	\$20,455	\$0	\$20,455	\$20,455	\$0
304 Structures & Improvements	\$32,372	\$30,364	\$37,843	\$31,788	\$42,455	\$10,667
307 Wells & Springs	\$18,842	\$17,673	\$67,360	\$56,582	\$24,710	(\$31,872)
309 Supply Mains	\$253,705	\$237,970	\$242,140	\$203,398	\$332,724	\$129,326
310 Power Generation Eq.	\$10,985	\$10,303	\$17,150	\$14,406	\$14,406	\$0
311 Pumping Equipment	\$30,252	\$28,376	\$52,335	\$43,961	\$39,675	(\$4,286)
320 Water Treatment Eq.	\$1,943	\$1,822	\$14,484	\$12,167	\$2,548	(\$9,619)
330 Distribution Reservoirs	\$77,758	\$72,935	\$180,411	\$151,545	\$101,977	(\$49,568)
331 Trans. & Dist. Mains	\$707,383	\$663,511	\$1,616,661	\$1,357,995	\$927,706	(\$430,289)
333 Services	\$109,132	\$102,364	\$170,384	\$144,084	\$143,123	(\$961)
334 Meters & Meter Installation	\$42,708	\$40,059	\$66,678	\$56,359	\$56,010	(\$349)
335 Hydrants	\$56,510	\$53,005	\$85,564	\$71,874	\$74,110	\$2,236
339 Other Plant	\$3,635	\$3,409	\$0	\$0	\$4,767	\$4,767
341 Transportation Equipment	\$8,172	\$7,665	\$0	\$10,717	\$10,717	\$0
Total	\$1,373,850	\$1,289,912	\$2,551,010	\$2,175,331	\$1,795,383	(\$379,948)

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 3: Should the utility's pro forma adjustment of \$21,000 for engineering design fees, as stated in Audit Exception No. 14, be removed?

RECOMMENDATION: Yes. (AMAYA)

POSITION OF PARTIES

SGIU: No. This adjustment to rate base is for previously unrecorded fees incurred in construction of the elevated tank. Invoices are included in response to the Audit exception. The costs are not a duplication of expenses and have not been previously capitalized.

PUBLIC COUNSEL: Yes. The Utility has failed to effectively refute Staff witness Gaffney's recommendation that this proforma adjustment is inappropriate because it had previously been recorded as either an expense or capitalized.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: The auditor determined that these design fees had been previously recorded, either as an expense or capitalized, based on her analysis and review of Construction Work in Progress (CWIP) at December 31, 1993 (EXH 27, p. 30). An allowance of this proforma adjustment would be either a duplication of capital investment or capitalization of previously expensed items.

In its response to the Audit Report (EXH 29, Schedule 5), the Utility provided an invoice for Mr. Coloney's services. That invoice is dated May 12, 1994 and pertains to past services provided to the Utility during 1988, 1989, and 1990. The Utility merely states within its response that "[t]he Coloney Company fees are not a duplication of expenses, and have never been capitalized." (EXH 29, p. 21) The Utility also relies on its MFRs (EXH 1, p. 3) to justify this amount. There is little detail in the MFRs, and the note to the \$21,000 amount states "(1) Capitalize the previously unrecorded engineering design fees of Wayne Coloney for the elevated storage tank." (EXH 1, p. 3) Additionally, Mr. Seidman testified that the basis for the conclusion as stated in the response to the Audit is "From discussions with Ms. Drawdy, and my understanding is that they were booked, I think, through accounts payable and never entered onto either plant or expense." (TR 1141) As pointed out by Public Counsel, the Utility has the burden to provide documentation and evidence that the fees were unrecorded and they did not provide such evidence. Since the utility did not provide adequate evidence that these services have not been expensed or capitalized, staff believes this adjustment is appropriate.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 4: Should plant in service be reduced by \$1,295 for leasehold improvements?

RECOMMENDATION: No. However, plant leasehold improvements should be reduced by \$647 for non-utility use. (K. WILLIAMS)

POSITION OF PARTIES

SGIU: The reduction should be \$647, or half of the leasehold improvements. The cost of improvements should be adjusted to reflect only the portion allocated to utility use, which is 50% of the total.

PUBLIC COUNSEL: Yes.

DISTRICT: Yes.

STAFF ANALYSIS: The staff Audit Report reflected, in Audit Exception No. 7, that construction work was performed on the Tallahassee office, which is not owned by the utility. In addition, the report stated that the improvements, which were non-recurring, perhaps should be amortized over the six year life of the lease. As discussed in several issues, the office is shared by Mr. Brown's law firm and other affiliates. (TR 928, EXH 27)

The utility's response to the audit report, states that the leasehold improvements are a proper component of utility plant, according to the Uniform System of Accounts - Accounting Instruction No. 18. Further, the service life of the leasehold improvements does not depend on the life of the lease and therefore, the improvements should be treated as depreciable plant, as done by the utility. SGIU agreed that the cost of the improvements should be adjusted to reflect only the portion allocate to utility use. (EXH 29)

In its brief, the utility stated that the cost of the leasehold improvements to the building should be reduced by 50% to reflect non-utility use. This would result in a decrease of \$647 to leasehold improvements.

Based on staff's review of the accounting instructions and the utility's response to the staff audit, we believe that the utility's treatment to capitalize the improvements was proper. Neither OPC nor the District presented any testimony or arguments in their briefs on this issue. Therefore, capitalized leasehold improvements should be reduced by 50%, resulting in a decrease of \$647 to reflect non-utility use. Staff has recommended no adjustment to accumulated depreciation and depreciation expense because of the negligible amount.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 5: Is an adjustment necessary to reflect the use of office furniture and equipment by utility affiliates?

RECOMMENDATION: Yes. An adjustment should be made to reduce general plant by \$562. (K. WILLIAMS)

POSITION OF PARTIES

SGIU: No. The use of office furniture and equipment by utility affiliates is so minimal that it cannot be meaningfully calculated. All of the furniture and substantially all of the equipment used by SGIU belongs to an affiliate and is used far more than any affiliate uses equipment of SGIU.

PUBLIC COUNSEL: Yes. 10% of the investment in certain office equipment should be allocated to non-utility affiliates, resulting in a reduction of \$1,026 to general plant. Accumulated depreciation should be correspondingly reduced by \$80 and depreciation expense should be decrease by \$68.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: OPC witness Dismukes testified that 10% of the cost of office furniture and equipment, with the related accumulated depreciation and depreciation expense, should be allocated to Mr. Brown's other affiliates. (EXH 18, Schedule 25) Ms. Dismukes further testified that this equipment was used by Mr. Brown's other businesses during the test year. (TR 633) There were no maintenance of time records, copying logs or fax logs which would allow the Commission to objectively determine how much time and equipment was used on SGIU operations versus the non-utility operations. (TR 631) Ms. Dismukes stated that she is taking a conservative approach in allocating 10% of the costs to the affiliates.

Utility witness Chase testified that through its lease with the SGIU, Armada Bay Company provides office space, and equipment, with the exception of the phone, which is provided by Mr. Brown's law office. (TR 895) In addition, Ms. Chase explained that the utility employees used Mr. Brown's law office line when the utility's lines were not available.

In his rebuttal testimony, utility witness Brown stated that the arrangement for the office space and furniture is more than fair to the utility and should not be disturbed. The office furniture, referred to by Ms. Dismukes in her testimony, is located on St. George Island or in storage. Mr. Brown testified that the utility's Lease of Real and Personal Property and Operating

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

Agreement shows that none of this furniture is in the Tallahassee office. (TR 1320) (EXH 61)

In utility witness Seidman's rebuttal testimony, he did not agree with Ms. Dismukes' adjustment. Ms. Dismukes applied her 10% adjustment to Account No. 340.5, Office Furniture and Equipment. (EXH 1) That account has four items that made up the \$10,264 balance: a utility computer and financial software package, leasehold equipment, and a new copier. (TR 932) Mr. Seidman stated that the leasehold equipment in this account was already being allocated on a 50% basis. As such, only the use of the copier should be allocated to the utility's affiliates. Witness Seidman explained that an adjustment of \$562, which is 6.8% of the adjusted average balance of \$8,285 is allocated to the affiliates. (TR 932)

Although the utility has not maintained time records, copying logs or fax logs needed to determine what was exactly used by the affiliates, Mr. Seidman testified to the four items recorded in Account No. 340.5. Staff believes that the computer and software package are necessary for the utility's use and the record does not dispute this need. Therefore, for those two components, no adjustment is necessary. With respect to the leasehold equipment, the utility has already agreed it should be allocated on a 50/50 basis as previously discussed in Issue 4. Only the use of copier remains to be allocated. The different positions taken by the parties are very slight. OPC recommends 10% and SGIU recommends 6.8% allocations. Neither allocation percentages are based on supportable methods. As such we recommend that the utility's method be used as the difference is approximately \$300. Therefore, staff recommends an adjustment of \$562 for the use of the copier by the affiliates.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 6: Should adjustments be made to plant and contributions in aid of construction (CIAC)?

RECOMMENDATION: Yes an adjustment should be made to increase CIAC by \$44,440 to reflect contributions received in 1991 but not booked until 1993. Also advances should be increased by \$65,000 to record the receipt of funds from St. George Island Homeowners Association. (MONIZ)

POSITION OF PARTIES

SGIU: An adjustment of \$44,440 should be made to reflect contributions received in 1991 but not booked until 1993. An adjustment ascribing higher connection fees to certain lots should not be made because the lots were subject to and paid the previously approved lower rates.

PUBLIC COUNSEL: Yes. Two adjustments are necessary. First, if the Commission does not accept adjustments to the test year based upon 1993 expenses, revenues, and investment, then \$44,400 of CIAC received in 1991, but not booked until 1993 should be added to the CIAC included in the 1992 test year rate base. Second, \$65,000 in CIAC from St. George Island Homeowners Association should be added to CIAC included in rate base.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: Public Counsel contends that two adjustments are necessary to reduce CIAC since the utility failed to recognize them in its filing. Its first argument suggests that the \$44,400 in contributions received from Covington in 1991, but not booked until 1993, should be reflected in the utility's rate base. OPC's second argument urges the Commission to increase CIAC by \$65,000 to incorporate the amount contributed by the St. George Island Homeowners Association (Homeowners). (TR 686-689)

In December 1991, the utility received a contribution of \$44,440 from Covington, however it was not recorded on the Company's books until May 1993. Accordingly, it is not reflected in the books of the utility for 1992. (TR 689) Utility witness Seidman agrees that this is a proper adjustment and should be reflected for the full twelve months of the test year. (TR 998) Since all parties are in agreement, staff accedes rate base should be reduced by \$44,440 for the contribution received from Covington.

The second adjustment endorsed by OPC relates to a contribution made by the St. George Homeowners Association in 1992

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

to settle two lawsuits between the Homeowners and Gene Brown. The settlement stated: (TR 688-689)

The Association will pay Brown and Affiliates the sum of \$100,000 as follows...These funds will be used as follows: (a) \$35,000 will be paid to Stanley Bruce Powell for his legal fee in representing Brown and Affiliates in the above referenced litigation; and (b) \$65,000 will be advanced to the St. George Island Utility Company, Ltd. to be used strictly for capital improvements to enhance and increase the flow and pressure of the St. George Island water system, including the installation of a new altitude valve and high speed turbine pump pursuant to the recommendations of Baskerville-Donovan, the utility's engineers. (EXH 63)

OPC witness Dismukes testified that the money given to Mr. Brown was for the purpose of improving the water system and that such funds should be treated either as cost free capital and included in the capital structure at zero cost, or as a contribution. (TR 688) The testimony presented by staff witness Gaffney also agreed with that of Ms. Dismukes that the \$65,000 is CIAC and should have been recorded as such. (EXH 27)

The utility disagrees entirely with the treatment of the \$65,000 as a contribution. It surmises that the Agreement intends the \$65,000 to be "advanced" to the utility. (TR 995) Witness Seidman testified that there is no implication in the Agreement that the money was given to the utility. He contends that the intent was for Brown and the Affiliates to advance and not donate the funds to the utility, so that it could move forward with its capital improvements. (TR 995-996) As further support to the argument that the money received from the Homeowners was not a contribution but an "advance", utility witness Seidman included the following definitions: (TR 996-997)

Advance - to furnish or supply (money or goods) on credit; a sum of money or quality of goods furnished on credit. The Random House Dictionary of the English Language, College Edition, 1968.

Advance - to loan; to furnish capital in aid of a projected enterprise, in expectation of return from it; to furnish money for a specific purpose understood between the parties, the money or sum equivalent to be returned; furnishing money or goods for others in expectation of reimbursement. Black's Law Dictionary, Revised Fourth Edition, 1968.

Advances For Construction - This account shall include advances by or in behalf of customers for construction which are to be refunded either wholly or in part. 1984 Uniform System of Accounts for Class B Water Utilities.

Mr. Brown testified that when the money was received by the Affiliates, it was then loaned or "advanced to the St. George Island Utility Co." as specified in the agreement. Further, it would be unreasonable and punitive to arbitrarily treat this \$65,000 as a "contribution" without any proof or any indication that this was ever the intent of the parties to the transaction. (TR 1325)

Witness Seidman notes in his testimony that the flow of funds outlined in the Agreement would result in no more than \$5,000 being available during the 1992 test year, because only \$40,000 was to be received by the end of 1992, and the first \$35,000 was committed for payment to the attorney. Mr. Seidman maintains that according to the agreement, the utility did not have access to the full \$65,000 until September 1, 1993. He offered to treat \$2,500 of the \$65,000 as an advance for construction, which is one-half of the \$5,000 that was to have been received in 1992. (TR 997) However, during cross examination by OPC, Mr. Seidman acknowledged that he never consulted Mr. Brown to find out when he received the money, but derived this information from the settlement agreement. He also testified that the letter from John Cullen indicates that on or before January 25, 1993, Mr. Brown had assigned the right to receive payments to someone else. (EXH 32) (TR 1029) Mr. Seidman admitted that if in fact the utility did receive the monies in the test year then the entire \$65,000 should be treated as an advance. (TR 1030)

The Commission has two options which it could employ in determining the treatment of the monies received. One option is to consider the \$65,000 as CIAC. However, this position does not seem to be the most appropriate since the funds received were the result of the settlement of a law suit in which SGIU was not a party. Staff believes that since the utility was not a party to the suit the funds can not be considered contributions.

The second option is to consider the funds as advances for construction. Utility witness Seidman testified that the intent of the agreement was for Brown and Affiliates to advance and not donate funds to the utility. (TR 996) Public Counsel states in its brief that in the alternative, the Commission should treat the funds as either an advance for construction or cost free capital. The result is the same whether it is included as a reduction to rate base or in the capital structure as cost free capital. However, since it has been Commission practice to include advances

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

in rate base, staff believes that treatment should be continued for this case. We also agree with OPC that the full amount of the \$65,000 should be reflected as advances in the utility's rate base, since the utility offered no competent evidence supporting its contention that the entire \$65,000 was not received in the test year.

In addition to the two adjustments advocated by OPC, staff witness Gaffney's testimony suggested that CIAC should be increased by \$45,600 to impute CIAC on 30 lots not recorded at the required charge. (EXH 27) Her analysis of CIAC collected, revealed the utility had thirty (30) more connections listed at \$500 than were present in the prior audit. According to Ms. Gaffney, the entry to record the 30 connections was made in October 1991, however, in 1989 the utility was required to increase its service availability charge by \$2,020 for each connection. (EXH 27) Ms. Gaffney stated in her audit report that CIAC was based on the number of customers reported by the utility times the approved tariff charge. She contended that the utility is now reporting more customers from this time period, but is not recording the proper amount of CIAC. Ms. Gaffney's opinion suggests that CIAC be imputed in the amount of \$45,600, to record the difference in the old and new charge. (EXH 27)

In its response to the audit, the utility takes issue with Ms. Gaffney's suggestion to impute CIAC for the 30 lots at the current charge. It states that even though the fees were recorded on the books in 1991 the customers that parallel the charges connected prior to 1987. Additionally, the utility argues the CIAC records are accurate, therefore there is no basis for imputing a fee. (EXH 29) Utility witness Brown testified that the December 31, 1992 CIAC list is accurate and complete. (TR 1312-1313) The utility included an exhibit in which it identified 30 additional lots that were not found in the prior audit. (EXH 61) Staff believes that the record supports the utility's argument it properly recorded the correct amount of CIAC on the 30 lots in question. Therefore, staff does not recommend imputing any additional CIAC on the 30 lots.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 7: Does the utility's case in chief present an appropriate matching of rate base, on the one hand, with revenues and expenses, on the other?

RECOMMENDATION: No. Adjustments should be made to the following items: increase plant in service by \$115,428; increase land by \$11,086; increase accumulated depreciation by \$59,543; increase CIAC by \$267,148; increase accumulated amortization of CIAC by \$28,542; decrease advances for construction by \$2,775. (K. WILLIAMS)

POSITION OF PARTIES

SGIU: Yes. SGIU, with the Commission's approval, used 1992 as the test year. SGIU included pro forma adjustments for programs not in place in 1992, recognizing the level of costs necessary to serve 1992 customers. The introduction of revenues or costs that do not apply to the test year are inappropriate.

PUBLIC COUNSEL: No. The utility filing includes many adjustments to the test year (1992) reflecting expenses of 1993 and 1994. If the Commission accepts these adjustments, then it should consistently adjust the company's rate base to at least a 1993 level. A negative adjustment to rate base of \$190,062 is appropriate.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: OPC Witness Dismukes testified that to be consistent with her recommended adjustment to increase revenues and expenses to a 1993 level, she developed an average 1993 rate base using the company's final 1993 general ledger. (EXH 18, Sch 6) (See Issue 30 for a more detailed discussion of the appropriate matching of revenues and expenses.) Ms. Dismukes made her adjustments by taking the difference between the 1992 adjusted utility balances in the MFRs and the balances from the 1993 general ledger. (EXH 1; EXH 18, Schedule 6)

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

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

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

She also pointed out that even with 1993 additions to plant in service, the CIAC increase was still substantial. (EXH 18, SCH 6) Staff notes that Ms. Dismukes' increase in plant reflects a full year's weight of the 1992 additions. The utility's filed rate base for 1992 was a beginning and end of year average, allowing only a half year for additions. (EXH 1)

Ms. Dismukes stated that if the Commission did not adopt her 1993 rate base, then it would need to make the two following adjustments. (TR 685) First, the company booked a \$10,875 investment in sheet metal to the 1992 plant in service. This sheet metal was for a possible storage tank. The company indicated in an interrogatory that this cost should not be included in its rate base. Therefore, if the Commission does not adopt the 1993 rate base, Ms. Dismukes stated the 1992 rate base would need to be reduced by \$10,875. (TR 685) In addition, the utility would need to adjust rate base for the use of Class B depreciation rates as addressed in Issue 30.

Ms. Dismukes' second adjustment was two-pronged, depending on the rate base selected by the Commission. If the Commission uses a 1992 rate base, then the Company's CIAC should be increased by \$109,440; and if the Commission uses the growth-related rate base, CIAC should be increased by \$65,000. (See Issue 6 for a detailed discussion.) (TR 686)

Mr. Seidman testified that the luxury of updating the test year to 1993 was not available to the utility. (TR 934) Ms. Dismukes' adjustments introduce substantial revenues and inconsequential growth-related expenses, with no concern to reflect growth in plant or major expenses for growth. He is concerned that Ms. Dismukes' level of expense is below the actual level of expenses incurred in 1992. Further, the utility's ability to provide quality service may be jeopardized if her adjustments are accepted. (TR 935)

Staff has added \$10,875 to Ms. Dismukes' plant in service adjustment to reflect Stipulation No. 4 regarding the 1992 investment in sheet metal. Also, staff adjusted accumulated depreciation to reflect Stipulation No. 11 for the change to Class B depreciation rates.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

Staff believes that the rate base should be adjusted to reflect the 1993 level. This is consistent with staff's recommendation regarding the matching of 1993 revenues with 1993 and 1994 pro forma expenses. Issue 30 addresses this issue in further detail. Based on the above, staff recommends that the following adjustments are appropriate:

Plant in Service	\$ 115,428
Land	\$ 11,086
Accumulated Depreciation	\$ (59,543)
CIAC	\$ (267,148)
Accum. Amortization of CIAC	\$ 28,542
Advances for Construction	\$ 2,775
Total	<u>\$ (190,062)</u>

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 8: What is the appropriate level of test year rate base?

RECOMMENDATION: The appropriate level of water rate base should be \$245,505. (WEBB)

POSITION OF PARTIES

SGIU: The appropriate level of test year rate base is \$791,175. This figure adjusts the originally requested rate base to recognize the effect of prehearing stipulations and reduced pro forma costs based on evidence presented at the hearing.

PUBLIC COUNSEL: The final amount is subject to the resolution of other issues.

DISTRICT: The final amount is subject to the resolution of other issues.

STAFF ANALYSIS: Using a beginning and ending year average and staff's proposed adjustments, we recommend an average rate base of \$245,505. The schedule of water rate base is attached as Schedule 1-A. The adjustment schedule is attached as 1-B. Staff has also attached a schedule of year-end plant balances, which is Schedule 1-C.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 9: What capital structure should be used for ratemaking purposes?

RECOMMENDATION: The utility's actual capital structure, after adjustments to certain debt instruments, should be used for ratemaking purposes. (MAUREY)

POSITION OF PARTIES

SGIU: The capital structure should be 100 percent debt, treating the negative equity balance consistently with the Commission's treatment in Order No. 21122. Long and short-term debt should be reconciled to rate base on a pro rata basis with customer deposits reflected in the utility's average test year balance.

PUBLIC COUNSEL: Two adjustments to the capital structure are appropriate: 1) any and all debt associated with Ms. Melton should be removed from the capital structure; and 2) short-term debt should only include debt which has not been paid off by the Utility.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: Due to an accumulation of net operating losses, the resulting negative retained earnings balance more than offsets the equity investment in the utility. This substantial amount of negative equity is offset by long-term and short-term notes from both related and unrelated entities, and a small amount of customer deposits. As a result, the capital structure is considered by all parties and staff to be essentially 100% debt. (TR 66-67, 288; EXH 1, Schedule D-2; EXH 18, Schedule 24)

OPC witness Dismukes recommends two adjustments be made to the capital structure requested by the utility in its MFR filing. First, she recommends that the note between the utility and Alice Melton, Gene Brown's late mother, be removed from the capital structure. Witness Dismukes explains that the indebtedness originally arose out of monies owed by Leisure Properties, Ltd. (Leisure) to Pruitt, Humphress, Powers & Monroe Advertising Agency (Pruitt Humphress) for advertising services. According to witness Brown, Leisure is the general partner of the utility. Leisure has two corporate general partners, and Gene Brown is president of both of them. Due to Leisure's failure to pay for the advertising services, Pruitt Humphress sued Gene Brown; G. Brown & Company; St. George Island Utility Company, Ltd.; St. George's Plantation, Inc.; Leisure Properties, Ltd.; and Leisure Development (Gene Brown, et. al.). This lawsuit resulted in a judgement against Gene Brown, et. al. which was subsequently purchased by Ms. Melton. Witness Dismukes argues, based on the transactions and events that took

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

place regarding this debt, that "it is not at all clear why the debt owed to Ms. Melton appears on the books of SGIU". As a result, she recommends that the note be removed from the utility's capital structure. (TR 309-319, 690-692)

According to witness Brown, the utility was assigned this indebtedness of Leisure in exchange for which Leisure reduced the amount of debt the utility owed it. However, the interest rate on the debt owed by the utility to Leisure is 6.0% while the interest rate on the Melton note is 12.0%. As a result, witness Dismukes recommends that if the Commission does not adopt her primary recommendation to remove the note, it should reduce the interest rate on the debt to 6.0%. (TR 691-692)

On the one hand, witness Dismukes testifies that the utility did not provide a promissory note or other debt instrument to document that the debt exchange occurred. On the other hand, by including the note in its capital structure, the utility insists that the exchange did occur. If the note is removed from the capital structure, the utility's embedded cost of long-term debt drops to 7.35%. If the note remains in the capital structure, but the cost rate is reduced to 6.0% from 12.0%, as advocated in witness Dismukes' alternate recommendation, the embedded cost of long-term debt drops to 7.29%. Although the circumstances that gave rise to the Melton note appear to be unrelated to utility operations, the utility insists that the debt exchange occurred. Therefore, staff is reluctant to recommend that the note be removed from the capital structure. However, staff agrees with witness Dismukes that "it would be patently unfair for the Commission to require ratepayers to pay a higher overall cost of capital because the utility exchanged debt it owed for debt owed by one of its affiliates." (TR 692) As a result, staff's recommended capital structure includes the Melton note at a 6.0% interest rate instead of the 12.0% rate reflected in the utility's filing.

The second adjustment that witness Dismukes recommends be made to the utility's capital structure concerns short-term debt. She recommends that the Commission only include in the utility's capital structure the short-term debt that currently exists on the utility's books. (TR 692) Although witness Brown agrees that Exhibit 17 accurately reflects the changes to the utility's long-term debt position that have occurred since the filing of the utility's MFRs, he admits that the utility has retired additional short-term debt since the time of his deposition. Witness Brown testifies that the notes to Fleet Financial and Sailfish Enterprises reflected on Exhibit 17 have been paid. After removing these two notes, the embedded cost of short-term debt drops to 9.90%. (TR 550-552; EXH 1, Schedule D-4; EXH 17)

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

Based on the testimony and exhibits in the record, staff recommends the capital structure detailed on Schedule 2 of this recommendation. Staff's recommended capital structure is based on the utility's filing with adjustments made to the cost rate of the Melton note. Additionally reflected is the retirement of long-term and short-term debt since the time the utility filed its MFRs. (TR 689-693; EXH 1, Schedules D-1, D-4, and D-5; EXH 17) These adjustments result in an embedded cost of long-term debt of 7.29% and an embedded cost of short-term debt of 9.90%. These rates compare to 7.68% and 12.17%, respectively, as requested by the utility in its MFR filing, and to 7.48% and 11.81%, respectively, as recommended by witness Dismukes. (TR 692; EXH 1, Schedule D-1)

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 10: What is the weighted average cost of capital including the proper components, amounts, and cost rates associated with the appropriate capital structure?

RECOMMENDATION: The weighted average cost of capital is 7.35%. The cost of common equity should be set as 11.34%, with a range of plus or minus 100 basis points. (MAUREY)

POSITION OF PARTIES

SGIU: The weighted average cost of capital is 8.04% composed of:

	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Long-term debt	89.9%	7.68%	6.90%
Short-term debt	8.6	12.17	1.05
Customer deposits	1.5	6.00	0.09
	100.0%		8.04%

The cost of customer deposits is reduced to reflect current cost under Commission rules.

PUBLIC COUNSEL: The appropriate overall cost of capital is 7.82%.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: Schedule 2 details staff's recommendation. Based on its MFR filing, the utility's capital structure consists of long-term debt, short-term debt, and customer deposits. (EXH 1, Schedule D-1) Staff made adjustments to the long-term and short-term debt amounts to recognize those obligations that have been retired, as specified in Exhibit 17. These adjustments are further discussed in Issue 9. (TR 550-552; EXH 17) While holding the customer deposit balance constant, staff made a pro rata adjustment over the remaining sources of capital to reconcile the capital structure with the rate base recommended in Issue 8. (EXH 1, Schedule D-2; EXH 18, Schedule 24)

Staff made adjustments to the cost rates for each of the components in the capital structure. The adjustments to long-term and short-term debt resulted in embedded costs of debt of 7.29% and 9.90%, respectively. These adjustments are further discussed in Issue 9. The cost rate for customer deposits was specified in Stipulation 18 to be set in accordance with Rule 25-30.111, Florida Administrative Code. Accordingly, the rate is 6.0%. Although the utility does not have a positive equity balance, a cost of common equity capital should be established. (TR 67-68) The parties agreed in Stipulation 19 that the cost of common equity capital should be set, for the final order in this proceeding, using the

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

leverage formula in effect at the time of the Agenda Conference. The stipulation also specifies that a range of plus or minus 100 basis points be established. Based on the minimum equity ratio recognized in the leverage formula approved in Order No. PSC-94-1051-FOF-WS, issued August 29, 1994, the cost of common equity capital is 11.34% with a range of plus or minus 100 basis points. Schedule 2 details staff's recommendation.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

OPERATING INCOME

ISSUE 11: Should the numerous pro forma adjustments to the test year in this case be contrasted with those requested in the immediately prior, dismissed rate case?

RECOMMENDATION: No. The adjustments made in this case should not be contrasted with those requested in the prior case. (MONIZ)

POSITION OF PARTIES

SGIU: No. SGIU is seeking through pro forma adjustments to implement programs that are important to quality of service, and that are not now part of SGIU's rate structure. Without the programs SGIU will have difficulty maintaining satisfactory service. The programs should be evaluated on their merits.

PUBLIC COUNSEL: Yes. That a number of pro forma adjustments arose over the space of only a few months goes directly to the credibility of the adjustments themselves.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: This issue arose because of the differences in the rate increases requested by the utility in this docket and Docket No. 930770-WU. Docket No. 930770-WU was filed by the utility, but was subsequently dismissed by the Commission for procedural errors. (TR 913)

OPC witness Dismukes testified that in Docket No. 930770-WU the utility requested a rate increase of \$203,512 for a December 31, 1992 test year. (TR 622) However, in this the docket the same test year was used, but the utility requested a rate increase of \$428,201. (EXH 1) Ms. Dismukes comparison of the two cases disclosed that the Company's requested rate base had actually decreased by \$12,047, its revenues had stayed the same, and its operation and maintenance expenses had increased by \$207,125. (TR 622) As stated by Ms Dismukes, the major portion of the increase can be attributed to the numerous pro forma adjustments made to the utility's test year operating expenses. (TR 623)

The utility's argument, as testified by witness Seidman, contends that since Docket No. 930770-WU was never introduced as evidence it has never been determined by the Commission to be a valid basis for a comparison. Mr. Seidman argues that the decreases in rate base were primarily related to the decision not to capitalize test year labor, the correction to one of the plant accounts, and the removal of the deferred debits for rate base. As was explained by witness Seidman, the increase in the operation and

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

maintenance expenses was due to Mr. Brown's ability to more fully evaluate and consider the ongoing expenses. (TR 917-918) Mr. Seidman does admit that the differences in the two filings is largely due to the increase in the pro forma adjustments. (TR 918) On cross examination, Ms. Dismukes also admits that the expenses in the dismissed case were never evaluated or determined to be appropriate by the Commission. (TR 717)

The record does not contain sufficient evidence to support an adjustment based only on the contrast between the adjustments in this case and the prior case. Therefore, staff does not recommend making an adjustment based solely on the utility's increase in pro forma expenses. However, the majority of the pro forma adjustments are addressed in other issues in this recommendation. Based on the above, staff is not recommending that the pro forma adjustments in this case be contrasted with those requested in the prior case.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 12: Are the expenses claimed by St. George comparable to those experienced by other Class B water utilities under Commission jurisdiction and, if not, are any adjustments appropriate?

RECOMMENDATION: No. SGIU's expenses are not comparable to the expenses of most other Class B utilities; however, no additional adjustments are necessary. (MONIZ)

POSITION OF PARTIES

SGIU: SGIU expenses are not comparable to the expenses of most other Class B utilities. SGIU provides service to a unique area with unique problems that add to the cost of service. It is inappropriate to compare SGIU and other utility expenses without accounting for unique issues confronted by SGIU.

PUBLIC COUNSEL: No. The Utility's expenses are alarmingly higher than those of other Class B water utilities under Commission jurisdiction.

DISTRICT: Agree with OPC.

Staff ANALYSIS: In her testimony, OPC witness Dismukes compared SGIU's expenses to other Class B utilities in the state. The first comparison performed by Ms. Dismukes contrasted SGIU with Jasmine Lakes Utilities Corporation and Mad Hatter Utility, Inc. The reasons stated for using these two utilities for comparative purposes were that each one had recently had a rate case before this Commission and according to Ms. Dismukes, these utilities are similar in size to SGIU. Her analysis revealed that even though SGIU is the smallest of the three companies its level of expenses is considerably higher. Her calculations disclosed that the Commission allowed Jasmine Lakes and Mad Hater to recover total operation and maintenance expenses of \$209 per ERC and \$162 ERC, respectively, as compared to the utility's request of \$547 per ERC. (TR 624-626)

Ms. Dismukes then compared SGIU's O&M expenses with all the other Class B utilities that are regulated by this Commission. Her review demonstrated that SGIU ranked significantly higher than almost all other Class B utilities in total O&M expenses, on a per customer basis. SGIU has requested O&M expenses of \$541 per customer, this compares to only \$183 per customer for the average Class B utility. (TR 626) Witness Dismukes contends that while there are differences between utilities, which would explain some variation between SGIU and the industry average, the sheer magnitude of the difference should alarm this Commission. (TR 626)

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

Utility witness Seidman testified that using raw data provides no information in which to make a valid comparison of the costs to operate various systems. Further, it provides no information regarding salary levels, job descriptions, or the similarities or dissimilarities of any other factors regarding the other Class B utilities. (TR 923-924)

On cross examination, Ms. Dismukes admitted that other factors such as the size of the distribution and transmission system, the configuration of the territory, the number of gallons pumped and treated, the physical location, the distance of the source from the water to the customers, and the degree of compliance with DEP might possibly need to be considered when determining a utility's operating costs. (TR 702-708) However, witness Dismukes stated that none of her adjustments were based solely on her comparisons. (TR 782)

Staff believes the utility has made a sound argument with its rejection to the use of raw data to make O&M adjustments. All factors would need to be considered such as the size of the system and the configuration of the territory before a valid comparison could be made. Therefore, since this information is not part of the record, staff does not believe an adjustment to O&M expenses is warranted based exclusively on the comparison of SGIU to other Class B utilities.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 13: Should test year expenses be adjusted to reflect an additional allocation of expenses to utility affiliates?

RECOMMENDATION: Yes. A adjustment should be made to reduce expenses by \$10,288 (K. WILLIAMS)

POSITION OF PARTIES

SGIU: No. While SGIU affiliates may benefit marginally from SGIU expenses, the benefit to affiliates is minimal, below anything that can be meaningfully calculated. SGIU benefits far more significantly from affiliate expenses as demonstrated by the written lease.

PUBLIC COUNSEL: Yes. In all, \$10,687 in expenses should be allocated to nonutility affiliates.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: OPC Witness Dismukes testified that Mr. Brown, the manager and effective owner of SGIU, is associated with numerous (eight) other entities. Most, if not all of these companies, operate out of the same administrative office as SGIU. (TR 628-629) She added that the two companies which appeared to have the most significant operations other than SGIU are Armada Bay Company (ABC) and Gene D. Brown, P.A. The other companies which operated out of SGIU's Tallahassee administrative offices are: The Tallahassee Yacht Club Inc., which is apparently inactive; Plantation Realty, Inc., which is a real estate marketing company which is supposedly inactive; G. Brown & Company, which is supposedly inactive; St. George's Plantation; Leisure Development, Inc. and Leisure Properties, Inc. (TR 628-629)

In his rebuttal testimony, Utility witness Seidman stated that the only active entities are the utility and the law office. In addition, he stated that all the employees, except for Ms. Chase, worked 100% of the time for the utility. (TR 929) Utility witness Brown also stated that none of the affiliates are active except for the law firm, which is inactive for all intents and purposes. (TR 1320)

Ms. Dismukes explained that there is no formal mechanism to either allocate or assign costs between the utility and the other active or inactive companies. She stated that the utility assigned a few costs to non-utility entities for Ms. Chase's salary, rent expense and the cost of electricity. (TR 630) These cost assignments are not adequate and additional allocations are needed to account for the receptionist and other support staff that do

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

such tasks as answering phones, running errands, making copies and receiving faxes for Mr. Brown's other companies. (TR 630)

In allocating common costs, Ms. Dismukes explained that the Commission has several options that could be used. One option would be to allocate expenses to the affiliates on a 50/50 basis as the utility did for its electric bill. Another option would be to allocate 75% to the utility and 25% to the affiliates as the utility did for Ms. Chase's salary. Lastly, the Commission could take OPC's conservative approach and allocate 10% of the expenses. (EXH 18, Schedule 5) (TR 631-632)

Ms. Dismukes allocated the bookkeeper and office staff salary of \$32,136 and related payroll taxes of \$3,320 for a reduction of expenses of \$3,546. The health benefits for the bookkeeper and Ms. Chase were allocated as follows: \$3,600 by 10% and 25%, respectively. This resulted in a reduction of expenses of \$1,260. (TR 632-633) Mr. Seidman has agreed to the 25% adjustment to Ms. Chase's health benefits. (TR 929)

Also, Ms. Dismukes allocated 10% of the miscellaneous and storage space expenses for adjustments of \$2,165 and \$117, respectively. Lastly, she allocated 40% of the Tallahassee office rent for an adjustment of \$3,600. Staff noted that Ms. Dismukes testified to a 50% allocation of \$10,800 for rent expense but her Schedule 5 has an allocation of 40% of \$9,000. (TR 632, EXH 18)

Mr. Seidman disagreed with Ms. Dismukes' 10% allocation to salaries of the bookkeeper and staff assistant. The bookkeeper and the staff assistant indicated that answering the non-utility phone were done as a courtesy and not as part of their job. (TR 1042) In addition, utility witness Chase testified that even the courtesy calls are usually utility related. (TR 904) Mr. Seidman stated that the errands performed by the employees for the affiliates were part of a trip already planned by the utility employees. (TR 931)

In the Mad Hatter Utility, Inc. (MHU) Order No. PSC-93-0295-FOF-WS, issued on February 24, 1993, the Commission found that it was appropriate to allocate a portion of MHU's salaries to an affiliate. The order stated that the allocation was appropriate because the utility did not keep, therefore, could not produce, time records in support of its position. (EXH 33) Under cross-examination, Mr. Seidman did not take exception with the order. (TR 1045) However, he did not see that the employees in this case do anything of consequence to be allocated, especially to the degree of 10%. (TR 1144)

In cross-examination, Ms. Chase stated that SGIU is probably Mr. Brown's largest client in his law practice. (TR 903) She

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

agreed the SGIU phone bills should be allocated to Mr. Brown's law practice. (TR 903). Although there was a reciprocal arrangement between the entities, Ms. Chase admitted that no records are kept to document the expenditures. (TR 904) (EXH 61)

In Mr. Brown's rebuttal testimony, he stated that the affiliates do not use any of the utility's assets or personnel except as set forth in a reciprocal agreement. (TR 1320) The operating lease agreement says that the lessee (SGIU) shall provide lessor (ABC) and its affiliates use of lessee's fax machine and copy machine located on the premises. In addition, the agreement states that the lessee's employees shall provide coverage to answer lessor's/affiliate's telephone calls when lessor's employees are out of the office. Any other incidental services provided to the lessor and its affiliates by lessee's employees, such as making coffee or copies, taking faxes off the fax machine, and directing visitors to lessor's upstairs premises, shall be covered by the considerations provided under this lease, and lessee shall not be entitled to any further compensation. (EXH 61)

Ms. Dismukes testified that the utility office is being rented for \$750 a month or \$9,000 a year. (EXH 18, Schedule 5) The total payment on the lease is \$900 a month which implies that 17% is being charged to the affiliates. (TR 630) Mr. Seidman disagreed with the 50% allocation of \$900 a month or \$10,800 a year because that amount included 50% of estimated ad valorem taxes, 1/12 of the Owners Association dues plus applicable sales and use tax. He said that adjustment would be allocating the actual out of pocket costs under a third party lease/purchase agreement instead of allocating the actual monthly rent expense of \$750. (TR 929)

In Schedule 5 of Exhibit 61, Ms. Dismukes has allocated 40% of the \$750 monthly rental expense stated in the operating lease. Her adjustment is based on the fact that Mr. Brown's law office is located upstairs from the SGIU's office. (TR 632) (EXH 61) Even though Ms. Chase occupies a portion of the upstairs office space, Ms. Dismukes believes that there is space for Ms. Chase to work in the downstairs office. (TR 633) In addition, Ms. Dismukes believes the upstairs is a nicer office with a fireplace and dormer windows, and therefore, would have a higher rental fee. (TR 632-633)

On cross examination, Ms. Dismukes testified that the utility would have four desks available for utility employees in an area of 750 square feet. In addition to the desks, there is a copier, filing cabinets, fax machine and a staircase. (TR 729) In Ms. Chase's rebuttal testimony, she stated that there is only enough working space for three utility employees and a consultant who works part time. In addition, she stated that there is only one

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

phone line with call waiting downstairs to handle the utility's business calls. (TR 895) Ms. Chase testified to use of the law office line to handle the overflow of utility business calls. (TR 895-896)

Ms. Dismukes admitted that utility paid something for maintenance of the building but that expense was not in her allocation. (TR 729-730) The lease agreement states that the lessee shall maintain and keep the premises, including, without limitation, windows, doors, adjacent sidewalks and interior walls in good repair. The lessor shall maintain the roof, exterior walls, plumbing and heating and cooling systems. (EXH 61)

Further, Ms. Dismukes stated that she did not do any analysis of the market rate for office space similar to the space that is occupied by SGIU. She agreed that the rent per square foot under her scenario would cost \$7 and some cents. (TR 730) In addition, Ms. Dismukes stated that the additional cost of having a lease with an option to purchase would cost the utility an extra \$6 per month. (TR 731)

Mr. Seidman testified that a comparable rental rate would be \$10-\$12 per square foot. If Ms. Dismukes adjustment were made, the rental rate would be \$7.20 per square foot, which is far below the market rate. Mr. Seidman also suggested that an approved rent expense of \$7.20 per square foot would encourage Armada Bay to begin looking for another tenant. He testified that the rent expense of \$12 per square foot requested by the utility was reasonable. (TR 930)

Under cross-examination, Mr. Seidman testified that the market rate for rent is realistic even with Mr. Brown being on one side of the table for Armada Bay and on the other side of the table for SGIU. (TR 1039) By making such a comment, Mr. Seidman has asked the Commission to believe that Armada Bay and SGIU operate as independent functions in the market place for determining the appropriate level of rent expense. (TR 1039)

Staff believes that an adjustment is necessary to reflect the sharing of expenses between the utility and its affiliates. The statements that these transactions may have been done on a courtesy basis is not convincing. Even if the utility has an operating lease governing these acts, it is not appropriate for the utility employees to provide free services to its affiliates. Further, consistent with the MHU order, SGIU did not provide or maintain supporting detail showing a breakdown of work performed for either the utility or affiliates. Therefore, some allocation of common costs is required so that the ratepayers do not pay for these non-regulated services.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

Since there is no formal mechanism to either allocate or assign costs between the utility and no documentation to support such an allocation, staff believes that Ms. Dismukes 10% allocation is appropriate. It is the utility's burden to show that their expenses are justified. Staff does not believe that the utility met this burden.

In addition, staff does not agree with the utility's argument related to the comparability of the rental rates. It is Mr. Brown's fiduciary duty to incur rent expense which is reasonable so that the ratepayers are not charged excessive rates. Regardless of what the calculated rate, after allocation, works out to be, the savings to the utility should be equal to those shared by the affiliates. Staff also questions whether Mr. Brown would in fact evict the utility if the Commission did approve an allocation of rent expense. Further, we do not believe that a 17% allocation is reasonable since the law office occupies the upstairs portion of the building. As such, Ms. Dismukes' position should be accepted. Since her testimony and exhibits are inconsistent, we will use the lower adjustment. In doing this, we recognize an allowance of maintenance expense for which Ms. Dismukes did not consider.

Based on the above, staff recommends approval of Ms. Dismukes' 10% allocation of salaries and wages, payroll taxes, bookkeeper's health benefits, adjusted miscellaneous expense (See Issue 25), and storage space for a reduction of \$5,788. In addition, staff recommends a 25% allocation to Ms. Chase's health benefits for a reduction of \$900. We also believe that a 40% allocation of rent expense of \$9,000 for an adjustment of \$3,600. Staff's recommended total allocation of affiliated expenses is \$10,288.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 14: Should employee salaries and wages be reduced?

RECOMMENDATION: No, employee salaries and wages should not be reduced. (WEBB, STARLING)

POSITION OF PARTIES

SGIU: No. SGIU service has improved because good employees have stayed. If employees are not adequately compensated they will leave. SGIU has suffered in the past when employees left for better positions. SGIU needs its present full-time employees to meet responsibilities imposed by government regulation, and to provide adequate service.

PUBLIC COUNSEL: Yes. Salaries and wages should be reduced by \$15,948.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: According to the MFRs (EXH 1, p. 33), the utility requested the following salaries and wages expense:

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

*Reflects only 18 weeks during 1992

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

Through her own analysis, OPC witness Dismukes argues that since the test year, the utility increased the salary of Mr. Garrett by 39%, of Mr. Shiver by 5%, of Ms. Hills by 7%, and of Ms. Chase by 51% (she used what appears to be an annualized 1993 figure to compare to the current 1994). (EXH 18, Schedule 7) It is Ms. Dismukes' opinion that such increases are excessive and unnecessary. She testified that in two recent water and wastewater cases, the Commission held that pay increases would be less than 5%. (TR 637-38) As can be seen in Exhibit 18, Schedule 7, Ms. Dismukes adjusted salaries to an increase of 5%. With respect to the second field assistant, Ms. Dismukes adjusted his salary to a part-time figure. She says that the utility claimed that this

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

person would be full-time; however, he only worked part-time during the first part of 1994. Ms. Dismukes assumes that a full-time person might be needed during the tourist season, but that during the off-season he would not be needed at all, or needed only on a limited basis. (TR 638)

In utility witness Seidman's testimony, he agrees that pay increases should be limited or approximated to the cost of living, provided the base salary is at an appropriate level. He adds that Mr. Garrett's and Ms. Chase's test year salaries are not commensurate with their level of responsibilities, longevity of service, or knowledge of the utility. (TR 935-36)

According to Mr. Brown, the pay raise put into effect as of December 1, 1993 was done to keep up with the cost of living increase and to maintain employee morale. He adds that the raises had been promised for quite some time, and that they were necessary to keep experienced employees. (TR 291-92) Further, he states that the current compensation packages reflect a modest increase, if one considers that these employees have not had an increase since being hired, due to utility service-related problems. (TR 1287)

In utility witness Garrett's testimony, he explains the need for a second field assistant. He states that, in his approximately eight years of experience, there has always been a need for an operator and two field assistants. Currently, with the utility's cash flow problems, both he and his first assistant have agreed to work overtime and are on call most of the time. Garrett adds that there are an increasing number of duties to perform outside of the field work, which makes it impossible for him to work in the field. These increasing duties include DEP testing requirements, technical bookkeeping requirements, the cross connection control program, the ongoing system audit, the leak detection program, the meter testing program, updating maps, and all other special operational and managerial duties. Further, he adds that the nature of the field work requires two people who work as a team. He states that both of the current field assistants have knowledge and experience in plumbing. Also, one has substantial electrical knowledge and the other has carpentry knowledge. This allows them both to take care of repairs and maintenance, with less cost to the utility. (TR 869-71)

In response to the second field assistant being needed only during the summer months, or part-time, Garrett offers the following argument: "Our engineering aerator analysis calls for extensive flushing throughout the system on a daily basis. This takes several hours per day.... This daily flushing is even more important in the fall and winter months, when the lines are not

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

used as much, allowing a build-up of hydrogen sulfide. The winter months are when we emphasize the repairs and maintenance to the system, the meter testing program, updating system maps, and similar items in addition to the ongoing day to day work." Garrett goes on to state that he and his first assistant have sacrificed themselves since 1990 and that it is not fair or reasonable to expect that to continue. Currently, he is not able to utilize the benefits that he has earned, but hopes to do so with two full-time field assistants. (TR 871-72)

Staff concurs with utility witness Seidman in that salary increases should be approximated with the cost of living, provided that existing base salaries are at an appropriate level. It is staff's belief that the salary increases put into effect as of December 1, 1993 are reasonable given the responsibilities and working knowledge of the respective employees. Staff further agrees that it is both reasonable and necessary to implement appropriate salary increases, as needed, to maintain higher levels of service and loyalty. In fact, Ms. Dismukes admits, during cross-examination, that due to the high level of customer satisfaction with Mr. Garrett's performance, an increase in excess of 5% is reasonable. (TR 724) Staff believes that two field assistants are needed on a full-time basis to keep up with the increasing work load and to spread out the 24 hour per day on-call time. It is, therefore, staff's recommendation that salaries and wages expense should remain intact, with no reduction.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 15: Should pension and benefits be reduced?

RECOMMENDATION: Yes. The Commission should not allow the utility's requested amount for pension expense, \$6,156, in O & M expenses. The Commission should disallow \$10,800 for health benefits expense. (LESTER, WEBB)

POSITION OF PARTIES

SGIU: No. A pension program is important to maintaining employee stability. SGIU has established a program that places pension funds in an account that is independently managed. The program is not only desirable, it is fair to SGIU employees.

PUBLIC COUNSEL: Yes. The Company's requested test year expenses should be reduced by \$16,956.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: Utility witness Brown states that SGIU has enacted a pension and profit sharing plan effective January 1, 1994. He states that this plan has been promised to employees for several years and that it is necessary to maintain employee morale and keep dedicated employees. The plan requires a contribution equal to 5% of each employee's salary. (TR 294) The amount for the pro forma pension expense is \$6,156. (EXH 1, p. 33)

OPC witness Dismukes recommends against allowing the pension expense. She states that the utility has no legal or contractual obligation to contribute to the pension plan. She also points out that the utility has operated for years without a pension plan and that utility employees have little knowledge of the plan. She expresses a concern that the Commission will allow the pension expense but the company will not contribute to the pension plan. (TR 647-649)

Utility witness Seidman believes that the pension plan will allow SGIU to retain good employees. He states that SGIU has instituted a qualified pension plan and has made the initial contribution to it. He further states that employees not knowing about the pension plan is no reason to disallow the expense and that the expense amount is reasonable. (TR 950-953) Witness Brown states that he has personally promised the utility employees that the utility would establish a pension plan. He relates retaining employees to the pension plan and states that, especially in the utility business, it is extremely important to maintain continuity of employment. Finally, he states that IDS Financial Service will administer the pension plan funds in a safe manner. (TR 1296-1297)

In its brief, the utility argues that the pension expense should be allowed because it will help SGIU recruit and keep quality employees. Public Counsel argues in its brief that the Commission has no assurance that the money, if granted, will be used for its intended purpose.

Staff notes that the expense appears reasonable though witness Brown's exhibit does not make it clear exactly what the pension benefits are. (EXH 61) Staff's chief concern is one expressed by witness Dismukes: that the expense allowance would not be used to fund a pension plan. Staff notes that witnesses Seidman and Brown acknowledge that expenses allowed in the last rate case, such as insurance and ad valorem taxes, were not incurred, that is, SGIU spent money allowed for these expenses in other ways. (TR 78-80, 328-333) Evidence that might have allayed this concern about the use of a pension expense allowance was not admitted into the record. (TR 1257-1258, 1338) Therefore, staff recommends that the Commission not allow the pro forma pension expense of \$6,156.

Regarding health benefits, the utility requested, in its MFRs, \$25,200 which represents \$300 per month for seven employees. (EXH 1, p. 33) Ms. Dismukes explains that the utility does not require any written proof that the employee actually used the \$300 to pay for health insurance. She adjusts the utility's request to \$300 per month for the four full-time salaried employees. In her opinion, the utility should only provide health benefits to its full-time salaried employees. In her analysis, Mr. Brown is excluded from receiving health benefits, as he is not an employee of SGIU. She contends that this expense should be paid by Armada Bay Company. (TR 646)

In his testimony, utility witness Seidman stipulates to Ms. Dismukes adjustments. He explains that the difference between her analysis and his is due to error on his part. He agrees, wholeheartedly, that health benefits for Mr. Brown are the responsibility of Armada Bay Company. (TR 949)

Staff agrees with both parties regarding the provision of health benefits for only full-time employees. Additionally, we believe that Mr. Brown's health benefits should be paid by Armada Bay Company. Therefore, staff recommends that the Commission disallow health benefits expense in the amount of \$10,800. This will provide an annual expense of \$14,400.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 16: Should an adjustment be made to reduce engineering contractual services by \$1,959 as suggested in Audit Disclosure No. 6?

RECOMMENDATION: Yes. (AMAYA)

POSITION OF PARTIES

SGIU: No. SGIU uses the services of Wayne Coloney and other engineers for advice and guidance that benefits the interests of SGIU and its customers. While day-to-day engineering tasks are provided by less expensive firms, the oversight and counsel of Mr. Coloney has proved invaluable to SGIU.

PUBLIC COUNSEL: Yes. The Company's proforma adjustment for engineering services should be reduced by \$1,959.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: The Utility correctly states that "Audit Disclosure No. 6 does not suggest reducing engineering expenses" (Proposed Findings of Fact, p. 22); however, staff's review of the schedule provided with Audit Disclosure No. 6 (EXH 27, p. 56) reveals that of the Utility's test year contractual engineering expenses, \$110.75 of the total was for interest on a past due bill, and therefore not a prudent business expense that should be born by the Utility's customers. Deducting that imprudent amount yields actual engineering test year expenses of \$4,041, which is \$1,959 less than the requested \$6,000 amount.

Staff points out that none of the \$4,041 expenses are supported by an invoice, and that \$1,500 of that amount recorded as Coloney services is also unsupported by a cancelled check. Mr. Coloney testified that Mr. Brown owes him in the vicinity of \$75,000 (TR 187-188), which may explain why that \$1,500 is unsupported by a cancelled check.

The Utility requested a proforma adjustment of \$1,849 to its test year engineering contractual services expenses of \$4,151 to recognize a \$500 per month retainer agreement it has with Mr. Wayne Coloney (EXH 1, p. 35). Although the agreement was effective January 1, 1992 (EXH 27, p. 55), by reviewing the test year expenses incurred, only \$1,500 pertained to services by Mr. Coloney (EXH 27, p. 56) which is far less than the \$6,000 per year the Utility is requesting. The purported benefit to the Utility for having a retainer agreement with Mr. Coloney is to have a call on Mr. Coloney's time which might not otherwise be available. (TR 220) However, in his direct testimony, Mr. Coloney states he has been utilized by the Utility on an as-needed basis since 1990 and

has been on a retainer since January 1, 1992. (TR 141-142) The Utility did not pay Mr. Coloney as obligated by the retainer agreement during 1992. Further, during cross-examination (TR 218), Mr. Coloney stated that he charges \$200 per hour, and he bills Mr. Brown after two and a half hours of work per month. Mr. Coloney further testified that he would probably, if requested to do so, subtract the amount of the retainer from the amount Mr. Brown owes him if over the next year or so he wound up putting less than two and a half hours per month into the utility (TR 218), although the retainer agreement does not have anything to do with past amounts owed. (TR 217) Mr. Coloney stated that if the Commission were to disallow the retainer, there would be no difference in the way he would bill the Utility. (TR 219) Based on those facts, staff does not believe the Utility or its customers are provided sufficient benefit from having a retainer agreement with Mr. Coloney.

Public Counsel also believes the utility did not demonstrate the need for \$6,000 of contractual engineering services, and believes that Mr. Coloney's fees are excessive. (OPC Brief, p. 31)

In his rebuttal testimony, Utility witness Brown states that the company "has to constantly, on a day to day basis, make engineering decisions." (TR 1308) He further testified that "[t]his means that we need to have either in-house engineering advice and consultation, or we need an outside consulting engineer regarding various engineering and capacity issues. (TR 1309) Mr. Brown enumerated such engineering services that would be needed, such as meetings with various groups and agencies. (TR 296) The Utility is not without alternatives for obtaining engineering services. The Utility has currently hired Mr. Les Thomas, who charges the utility \$75 per hour. (TR 571) Mr. Garrett, the Utility's operations manager, stated during cross-examination that he now talks to Mr. Thomas most of the time if he has a question for an engineer about the water system. (TR 886) On a going forward basis, the \$75 per hour charge of Mr. Thomas would allow the Utility the benefit of almost 54 hours per year of engineering services. Although the Utility stated that they use Mr. Coloney on a very limited basis (TR 610), and that they intend to have Mr. Coloney review Mr. Thomas' work (TR 571), staff believes those are not necessarily costs that should be born by the Utility's customers. The Utility itself considers Mr. Coloney's charge to be outside its financial ability, as Mr. Brown stated "... he's off making \$200 an hour and doing his thing, and he no longer has the time and we don't have the money to pay him that." (TR 570)

Based on the above, staff recommends an adjustment of \$1,959 to reduce engineering contractual services (\$6,000-\$1,959=\$4,041). Only the test year's prudent engineering expenses of \$4,041 under contractual services are reasonable and should be allowed.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 17: Should any adjustment be made to contractual services-accounting?

RECOMMENDATION: Yes. Accounting contractual services should be reduced by \$6,000. (K. WILLIAMS)

POSITION OF PARTIES

SGIU: No. Bookkeeping and accounting responsibilities have increased in recent years. By using the services of two accountants, one with day-to-day responsibilities and one with oversight responsibilities, SGIU has improved its books and records from 1989 to 1992, and since 1992.

PUBLIC COUNSEL: Yes. The utility has included in its application a \$6,000/year retainer for tax accountant Barbara Withers. The company has not adequately demonstrated the need for these services. Furthermore, any services provided are not properly borne by ratepayers.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: Utility witness Seidman testified that in the MFRs an adjustment was made to reduce test year accounting contractual services by \$8,796. This adjustment resulted in the requested pro forma provision of \$22,640 for the accounting services of Ms. Drawdy and Ms. Withers. (EXH 1)

Mr. Seidman testified that Ms. Drawdy oversaw the upkeep of the general ledgers and assured compliance with the Uniform System of Accounts (USOA). (TR 58) Mr. Brown testified that Ms. Drawdy handled the day-to-day accounting matters and the filed the annual reports and the general ledgers with the PSC. Ms. Drawdy worked 16 hours a week at \$20 a hour for a yearly salary of \$16,640. (EXH 1, TR 297)

Mr. Seidman testified that Ms. Withers provided expertise regarding taxes and accounting related to limited partnerships. (TR 58) According to Mr. Brown, Ms. Withers handled the sophisticated accounting matters. (TR 297) He stated that the utility has a retainer agreement with Ms. Withers effective January 1, 1993, for 5 hours a month at \$100 per hour or \$6,000 per year. Any excess time spent by Ms. Withers was billed at the rate of \$100 per hour. (TR 297)

Under cross examination, Mr. Brown did not answer directly whether Ms. Withers' retainer fee was a known and measurable change. (TR 373) Mr. Brown explained that Ms. Withers worked for the utility in 1992 and she is part of the real world accounting

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

expense whether she billed the utility or not. (TR 372) He did not, however, have any bills from Ms. Withers for the 1992 test year. (TR 462) Mr. Brown admitted that the \$3,450 in bills submitted for first three months of 1994 had only \$200 of utility related accounting expenses. (EXH 11) (TR 464-465)

Mr. Brown stated that a previous retainer agreement existed with Ms. Withers, dated July 23, 1991, for \$1,000 a month. The agreement, however, reflected an effective date of September 1, 1990. (TR 369, EXH 10) The signing of that agreement was after its effective date and six months prior to the test year. (TR 462-463)

Under cross examination, Mr. Brown testified that the current retainer agreement does not have a date on the face of it, which is not consistent his routine practice of doing business. (EXH 9) The reason the verbal agreement between himself and Ms. Withers was put into writing in the first place was because of the PSC audit staff. Mr. Brown believes a handshake between friends is just as binding as a reliable written agreement. (TR 374) He stated that a retainer agreement that was signed at the time the agreement became effective would have been better evidence, but his retainer agreement should still be believable. (TR 463)

OPC witness Dismukes testified that the Commission should disallow the \$6,000 for Ms. Withers' accounting contractual services. (EXH 18, SCH 10) She stated that SGIU did not pay or use Ms. Withers' services in 1992 or 1993. The utility made its first payment to Ms. Withers on January 30, 1994, for \$3,000. This payment was for 1/2 of the 1993 retainer. Ms. Dismukes further pointed out that even though the retainer agreement was effective January 1, 1993, the agreement has no date, and in fact, was not prepared until February 1994. (TR 650-651)

Ms. Dismukes testified that based on Ms. Withers' deposition, the 1993 retainer was used to pay outstanding bills that had never been paid and that no services were rendered to the utility in 1993. Therefore, Ms. Dismukes questioned whether these expenses were needed on a going-forward basis and whether the Commission should allow the retainer for prior period expenses. (TR 650-651)

In his rebuttal testimony, Mr. Seidman disagreed with the statement that the retainer was designed to recover prior period expenses. (TR 959) He stated that SGIU owed Ms. Withers \$22,000 and in order to recover that amount, Ms. Withers would have to accept the \$6,000 annual retainer payment and perform no additional services for the utility for 3 1/2 years. He pointed out that Ms. Withers has already billed the utility for \$3,400 in 1994, of which \$200 was for utility accounting expenses. According to Mr.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

Seidman, there is no indication that the retainer is being used to pay off old bills. (TR 959)

Mr. Seidman stated that it is not relevant whether Ms. Withers actually performed services in 1992 or 1993. What is relevant is that Ms. Withers' services have been and continue to be available and used by the utility on a regular basis. Mr. Seidman stated that Ms. Withers has worked on: the initial franchise in 1978-1979, with the utility as-needed, the IRS tax audit of the utility's books, the 1989 rate case, 1990 monthly reports required by the Commission, on the possibility of reorganization and capitalization of the utility, testified for the utility regarding NARUC accounting procedures in December 1991 and performed services in 1993 and 1994. (TR 955-956) Mr. Seidman explained that not billing for her work in 1992 and 1993 was poor record keeping by Ms. Withers. He testified that Ms. Withers now keeps track of her time and has billed SGIU in 1994. (TR 959)

Mr. Brown testified that during 1992, the utility incurred over \$31,000 for accounting fees and will spend much more than that in 1994. Despite these expenses, the utility is still faced with allegations that the books and records are not in compliance with the Commission's requirements. SGIU has hired a new accountant for \$40,000 per year plus benefits. This accountant is very experienced and competent, which will allow the utility to phase out the in-house consulting accountant. (TR 1317-1318) This will also allow SGIU to reduce need for Ms. Withers' services.

Mr. Brown argued that he was present at Ms. Withers' deposition and she did not state she had failed to bill the utility for any old bills. His recollection was that Ms. Withers stated that she and SGIU were operating under a prior retainer agreement executed several years earlier. The previous retainer had no requirement that Ms. Withers' bill SGIU at the end of each month. He also explained that the expense was being accrued as an ongoing expense based on the retainer agreement. (TR 1318-19)

Finally, Mr. Seidman testified that all the utility wants is for the Commission to allow enough expenses so that it can meet the PSC's requirements. (TR 959-960) It is secondary whether the work is done in part by Ms. Withers and Ms. Drawdy or by another competent accountant. (TR 959-960).

Staff is unconvinced that the utility has supported the \$6,000 for Ms. Withers' services. The argument that Ms. Withers has rendered services to the utility since its inception is not sufficient. The test for reasonableness of an expense is whether the services have been and will be incurred on an annual basis and that the services rendered are for utility purposes.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

Staff believes that it is relevant whether Ms. Withers actually performed services in 1992 and 1993. It is difficult to determine what the actual costs are for ongoing accounting services without the appropriate documentation for the worked performed in 1992 and 1993. The fact that Ms. Withers' poor record keeping hindered her ability to submit bills to the utility in 1992 is not sufficient. Especially, since the bills sent by Ms. Withers for the first three months in 1994 documented only \$200 in utility accounting expenses.

Staff disagrees with Mr. Seidman's belief that the retainer fee should be recognized as an ongoing accounting expense represented by the retainer agreement. The retainer agreement could pay for nonrecurring services such as being a utility witness in a show cause proceeding, an IRS tax audit or the recapitalization of the utility. In addition, staff questions the creditability of the retainer agreement when it was not dated and signed until well after the verbal agreement was in place.

Also, the creditability of hiring the new accountant should be questioned, as no supporting documentation was provided. The record in this case is replete with testimony from Mr. Brown that is not supported by corroborating documentation. Further, the reasonableness of hiring an accountant for \$40,000 plus benefits was not addressed by any of the witnesses in this case. Even if that salary level was deemed to be appropriate, staff does not believe that the utility met its burden to justify this expense.

Finally, the utility argues that it is requesting accounting expenses to keep its books and records in accordance with Commission rules. In response to a Show Cause Proceeding on the utility's books and records, Order No. 92-0122-FOF-WU was issued on March 31, 1992. The Commission found in that order that the utility's books and records were in substantial compliance with Rules 25-30.110(1)(a) and 25-30.115(1), Florida Administrative Code. The order also said that failure of the utility to properly record its accounting activities and preserve its records for audit inspection may result in disallowance of expenses in subsequent rate proceedings.

In conclusion, staff does not believe that the utility has supported its request for Ms. Withers' \$6,000 retainer fee. Staff, therefore, recommends that accounting contractual services be reduced accordingly.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 18: Should an adjustment be made to reduce legal contractual services?

RECOMMENDATION: Yes, a reduction of \$21,000 to legal contractual services is appropriate. (WEBB)

POSITION OF PARTIES

SGIU: The need for legal services will likely decrease from the \$24,000 requested, but will always be at least \$12,000 annually in order to ensure that legal documents are competently negotiated and drafted and to ensure that responsibilities imposed by regulatory agencies are met.

PUBLIC COUNSEL: Yes. The Company's requested proforma adjustment should be reduced by \$21,000.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: According to the MFRs, the utility originally requested \$24,000 for legal contractual services. (EXH 1, p. 43) In his direct testimony, utility witness Brown explains the retainer agreement between the utility and his professional association, Gene D. Brown, P.A. The terms include \$2,000 per month with a waiver of any fees in excess of \$24,000 per year. (TR 297-98) Later, Mr. Brown revised that number to \$1,000 per month or \$12,000 per year. (TR 478-79, 522) He argues that even without the utility's past legal problems, professional legal advice and services will be needed to deal with everyday issues presented by various regulatory agencies and other interest groups. He further argues that he has, in the past, either hired outside lawyers or attempted negotiations with other utility company lawyers, with fees ranging from \$3,000 to \$100,000, depending on the circumstances. (TR 1280-83, 522)

During the hearing, the adequacy of supporting documentation was challenged by OPC witness Dismukes. The utility provided documents to show work performed during a 4-6 week period in 1993; however, no records were provided for 1992. Ms. Dismukes argued that the services did not appear to require legal expertise, and that it was difficult to determine those hours that Mr. Brown devoted to utility matters. Additionally, she said substantial time claimed in 1994 was related to settlement of DEP problems. She also argued that additional time was spent on a show cause order requiring the utility to pay its regulatory assessment fees in a timely manner. In her opinion, the costs associated with these problems should not be passed on to customers. (TR 642-43)

Ms. Dismukes also testified that third-party legal fees during the test year were likely nonrecurring, as they concerned revocation proceedings before this Commission. Other charges were related to hiring outside counsel to represent Mr. Brown's mother. This representation concerned a judgment and a second mortgage which was in jeopardy due to Commission actions designed to remove Mr. Brown from management responsibilities. These charges are deemed by Ms. Dismukes to be inappropriate. Ms. Dismukes further testified that in a recent Class B water and wastewater rate proceeding, the Commission itself found \$2,854 per year was a reasonable figure for recurring legal expenses. She also reported that her analysis of other Class B water utilities suggested that legal expenses of \$3 per customer per year were reasonable. (TR 644-45)

It is staff's belief that SGIU is an unusually litigious utility. Staff endorses Ms. Dismukes' findings regarding the lack of supporting documentation for the utility's requested legal expenses. It is certain that legal expenses incurred as a result of noncompliance with regulatory agencies should not be passed on to ratepayers. Similarly, legal expenses incurred as a result of revocation proceedings before this Commission should not be passed on to ratepayers. Staff does not support Mr. Brown's less than arm's length transactions in which his left hand shakes with his right hand (TR 484) thereby producing a so called valid legal services contract. We believe in acquiring bids and providing them as documentation that the lowest price has been secured. Since no supporting documentation has been provided, we accept Ms. Dismukes analysis of average legal fees. Accordingly, we recommend that \$3,000 per year be allowed for legal contractual services, thereby implementing a \$21,000 reduction.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 19: Should an adjustment be made to reduce management fees?

RECOMMENDATION: Yes. An adjustment should be made to reduce management fees by \$16,000. (MONIZ, AMAYA)

POSITION OF PARTIES

SGIU: Management fees should not be adjusted in any manner that will render it impossible for SGIU to hire and keep a competent manager. At minimum, an annual salary of \$42,000 plus all employee benefits is required to recruit and keep competent management.

PUBLIC COUNSEL: Yes. If the Commission does not adopt the Citizens' recommendations concerning other aspects of Mr. Brown's compensation (legal fees, health insurance, travel allowance, and cellular phone) then it would be appropriate to reduce the Company's revised requested management fee of \$42,000 such that the total compensation paid to Mr. Brown for management and legal services, including benefits does not exceed \$42,850.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: In its MFRs the utility requested a management fee of \$48,000. (EXH 1) However, Mr. Brown testified that he has revised the request to \$42,000. (TR 1277) OPC witness Dismukes testified that the management fee, charged to the utility by Armada Bay, is primarily paid to Mr. Brown for his management services. She also states that there are several reasons why the Commission should adjust the fee. First, Mr. Brown did not start keeping time records until 1994. Second, he did not bill the utility for Armada Bay's management services. Third, a portion of Mr. Brown's time was spent dealing with the problems that were caused by poor management practices. She maintained that the customers should not be charged for the time needed to solve problems that resulted from the utility's failures. Further, the costs should be absorbed by the stockholders, not the ratepayers. (TR 640)

Staff believes Mr. Brown's past actions have contributed substantially to the present financial problems of the utility. For example, staff discovered numerous instances where Mr. Brown had used utility property as collateral to secure a loan for what appeared to be non-utility debt. During the hearing, Mr. Brown was asked several questions about a few of these loans. The first set centered around a loan between Regional Investment and SGIU for \$1,600,000. (EXH 66) Mr. Brown agreed that a portion of the money was used for non-utility purposes. (TR 1497) He was also quizzed about a mortgage note between Peoples First Bank and Covington Properties \$1,250,000. (EXH 67) Mr. Brown characterized the purpose of the loan as follows:

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

The purpose of the loan was to pay a large debt that Leisure and I had at Peoples First, and they agreed that if we would come in and pay off the debt, they would refinance provided we put up additional collateral, including the mortgage on the utility company. Which turned out to be a fourth or fifth mortgage. I believe. (TR 1501)

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

Because at the time Armada Bay was managing Covington, and we had a 10 percent interest in Covington, and Covington requested that we sign this loan, and in return they would pay Leisure's debt off and Covington would receive additional funds, as well. But as far as why the utility company should do it, the utility company did it because it owed considerable money to Leisure on a first mortgage, as well as several hundred thousand dollars of advances since the mortgage, none of which had been paid, and Leisure asked for its assistance in return for Leisure not taking any action against the utility company on those valid utility company debts. (TR 1502)

Mr. Brown tried to justify the mortgaging of the utility by the following statement: "if Leisure loses the ability to operate financially and goes into bankruptcy or somebody takes over, then they could go against the utility company, and probably would." (TR 1501-1502) However, he was never able to demonstrate a direct correlation between the utility and the debt owed by Covington to Peoples First Bank. Consequently, staff believes that Mr. Brown was putting the utility in superfluous financial jeopardy when he used the utility as collateral on non-utility debt.

Utility witness Brown testified that he had not paid the utility's ad valorem taxes since 1989. (TR 539) He also maintained that since the last rate case the utility had not been continuously covered for general liability or workers compensation insurance. (TR 328-334) Nevertheless, the utility did receive an allowance for each of these items in its last rate case, but Mr. Brown decided not to use the allowance for its intended purpose. (TR 332-333) The utility also received an allowance for a management fee of \$29,765 in the last rate case, per Order No. 21222. However, the utility has been paying Mr. Brown, through Armada Bay Company, a management fee of \$48,000. (EXH) Staff believes that this is just another example of Mr. Brown's inadequate management practices, since he chose to pay himself prior to paying the utility's taxes and insurance. Order No. 21122, also required the following:

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

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

Utility witness Brown agreed that the order directed the utility to hire an experienced manager, but he argued that he did comply with the Commission Order because he hired several managers after he was required to do so. However, for various reasons none of them worked out. Subsequently, he discussed a proposal with Ben Johnson and Associates "to take over management of the utility company." Nevertheless, Mr. Brown rejected the proposal and initiated a contract between Armada Bay Company and the utility where he essentially took over all of the management responsibilities. (TR 1272-1274)

On cross examination by OPC, Mr. Brown admitted that Armada Bay's sole existence is to manage the utility. (TR 316) He also acknowledged that he is the ultimate decision maker in all of his entities irrespective of which one is being dealt with at the time. Further, he elucidated that it has been that way since 1981 when the other general partner left Leisure Properties, Limited (the utility's general partner). (TR 317-321, TR 478)

Staff believes that the utility has continued to violate the terms of Order No. 21122 by not maintaining the services of a qualified manager. As Mr. Brown stated, he has hired several managers in the last few years, none of which are still working for the utility.

The utility also encountered problems with Well No. 3. As stated by Mr. Coloney, originally the utility had hoped to have Well No. 3 in place by June 1989. (TR 183) Utility witness Brown states that the third well was originally designed as a 250 gpm well, but he and Mr. Garrett determined it would be wiser to construct a 500 gpm well. (TR 1314) He goes on to say that "Because of this design change and the resulting permitting delays, construction of the third well was not completed until approximately one month after the March 1, 1993 date originally agreed upon by the Commission and the utility." (TR 1315) The March 1, 1993 date is the date by which the utility had informed the Commission that the third well would be operational and in service. (Order No. PSC-92-1284-FOF-WU, November 10, 1992, p. 2)

Utility witness Brown also testified that he does not believe that his management fee should be reduced because the third well

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

was not on line and in service as of March 1, 1993 and that if it was a problem, it should have been handled as part of the prior docket which has now been closed. (TR 1316-1317) However, Order No. PSC-93-1352-FOF, dated September 15, 1993, stated "Based upon the utility's recent effort to complete the well, and the fact that the well is now complete, we find that no show cause for the utility's failure to meet the March 1st, 1993 deadline in previous Order No. PSC-92-1284-FOF-WU, is appropriate." (TR 1489) However, well No. three was not cleared by DEP for service until February 25, 1994. (TR 819) Staff Witness McKeown stated "It was delayed due to the utility submitting incomplete test results which are required during the normal clearance process. Also, the initial test results for color exceeded the maximum contaminant level and therefore required confirmation samples to be run." (TR 819) Since, from design to operation, well No. 3 took almost five years to complete, staff believes management was responsible for the delays. Further, as well No. 3 is the only back-up source for raw water from the mainland, the ratepayers were in jeopardy of a water outage until February 1994.

In his rebuttal testimony, Mr. Brown addresses the utility's compliance with PSC and DEP rules and regulations. He states that there has been one negotiated fine with DEP over 15 years. (TR 1280) As addressed by Staff Witness McKeown, this utility was subject to a Consent Order and subsequently a Partial Final Judgment (PFJ). Mr. McKeown stated that "the utility has not complied with due dates or technical content contained in the PFJ in all cases." (TR 818) In fact, the Utility submitted a proposed final judgment to DEP on January 13, 1994 (EXH 23) to which DEP responded in the negative, stating:

The proposed stipulation contemplating entry of a final judgment is not acceptable. As you briefly state in the proposed stipulation language, the defendants in this litigation (yourself in particular) have not performed the obligations devolving upon them under the previous partial judgment. (EXH 23)

This utility is not in complete compliance with DEP and was not as of January 13, 1994. Staff would further point out that the Consent Order outlining the items to be completed by the Utility is dated November 17, 1989 (EXH 1) and DEP's relief in the form of the PFJ which also outlines items needed to be completed by the Utility is dated April 30, 1992. (EXH 1) As of January 13, 1994, there were still items out of compliance.

Utility witness Coloney states that in his opinion Mr. Brown is "a very effective, efficient, competent and capable manager of St. George Island Utility Company." (TR 165) Mr. Coloney goes on to say that since Mr. Brown has taken over as General Manager in

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

1991, he has brought the utility up to an efficient and effective level while providing safe and reliable water service. However, the Commission can look to Mr. Brown for explanation as to conditions which prevailed at the Utility since 1981. (TR 165-166)

Mr. Brown testified that he has tried to remove himself from the equation and consider what it will take to attract and maintain a qualified professional manager if and when he decides to give up the job. (TR 1278) He stated that an annual salary of \$42,000 plus all employee benefits is required to recruit and keep a competent manager. However, staff takes issue with the fact that Mr. Brown is still acting as manager and still is in complete control of the utility company. Staff believes that the majority of the problems deliberated above and the problems with the books and records (discussed in Issue No. 39) could have been avoided if a qualified manager had been in control of the utility. Based on the past actions of the utility, staff believes that a penalty should be imposed on the utility's management fee. Therefore, staff recommends a reduction of \$10,000 be made to the utility's revised request of \$42,000, which is a \$16,000 reduction to the amount requested in the MFRs.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 20: Should an adjustment be made to contractual services-other?

RECOMMENDATION: Staff recommends that \$42,054 be allowed for these expenses on a yearly basis. This results in a \$43,037 reduction to the Utility's request. Staff also recommends that the utility provide proof that these expenses are under contract or have been completed by January 10, 1995. (STARLING)

POSITION OF PARTIES

SGIU: The services are needed in order to maintain quality service. The expense should be reduced by \$27,845 to reflect Stipulation 21, triennial testing fees that were reflected as annual, duplication of sample pickup costs, and the reduction in tank maintenance and pipe cleaning expense.

PUBLIC COUNSEL: Yes. The majority of these expenses have never been incurred. Moreover, a portion of the proposed expenses are occasioned by neglect of utility assets which now need more than maintenance--they need rehabilitation. \$70,011 of this pro forma adjustment should be rejected.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: The utility's filing includes a request for recovery of the following expenses: maintenance of the ground and elevated storage tanks (\$22,409 annually), cleaning the distribution system (\$37,493 annually), changing testing labs (\$23,909), and providing uniforms for field personnel (\$1,280 annually). (EXH 1; p. 36) With the exception of testing expenses, none of these expenses was incurred by the utility during the test year or 1993. (TR 651)

Tank Maintenance

Staff witness McKeown testified that the ground storage tank was leaking and corrections were needed or the tank's deterioration would continue. (TR 818) The utility received a bid from Eagle Tank Technology Corporation for maintenance of both the ground storage tank and the elevated tank. (EXH 61) This bid provided for six years of maintenance of both tanks at an annual cost of \$20,493.

Eagle Tank's bid included the following language: "As we discussed before, we have to return these tanks to a certain order to place them on our maintenance program." (EXH 61) OPC witness Dismukes interpreted this statement to mean that remedial work was needed before Eagle Tank could properly maintain the tanks. Ms.

Dismukes concluded that the need for extra maintenance was apparently caused by poor management and the failure of the utility to properly maintain this equipment in the past. Therefore, the proforma request should be reduced by \$8,660 annually to hold the utility accountable for this past neglect. (TR 653)

Utility witness Brown testified that the utility has always maintained the ground storage tank, but the roof is almost 20 years old and needs to be repaired. (TR 1292) Mr. Brown adds that the ground storage tank's precast siding is beginning to leak and needs to be sealed. (TR 1293) Utility witness Garrett adds that the utility periodically drained and cleaned the ground storage tank since 1984, when he started working for the utility. (TR 877) In a June 24, 1994, letter, Eagle Tank notified the utility that the condition of the ground storage tank was not uncommon for that particular structure. (EXH 61)

Staff recommends a \$1,916 reduction to the utility's tank maintenance request. This adjustment is required to true up the \$22,409 originally requested by the utility to the \$20,493 bid from Eagle Tank Corporation. Staff believes that this is a prudent expense which should be allowed. Even if the tanks were not properly maintained, staff agrees with Mr. Seidman that one way or another, the maintenance has to be performed at some cost. (TR 952) If the utility had failed to address this maintenance problem, staff would have recommended, based upon the DEP testimony, that the Commission order the utility to go forward with the tank maintenance.

Distribution System Cleaning

According to the utility a "continuous distribution cleaning program is necessary to maximize pressure, detect leaks and control turbidity." (EXH 1) The utility's estimate for this pipe cleaning is based upon a bid from Professional Piping Services, Inc. (TR 654) According to the bid, over a 10 year period the cost of the pipe cleaning would amount to \$350,880, or \$35,040 annually. (TR 654) To this amount the utility added \$2,453 to clean the transmission line across the bridge.

Mr. Brown testified that the utility was revising its request and only asking for funds to clean the supply line across the bridge. (TR 1260, TR 1294) Professional Piping provided a \$21,183 bid to clean just the supply main. (EXH 61) Ms. Dismukes recommends not allowing this expense since the utility only obtained one bid and has no signed contract. (TR 654) In the alternate, Ms. Dismukes proposes to reduce this expense by half, since the utility has applied for a grant to fund 50% of this

expense. (TR 654) OPC also proposes that this expense be amortized over ten years. (OPC Brief; p. 38)

Staff recommends that the Commission approve this expense. Staff believes that it is a prudent and necessary expense which will improve the quality of service. Staff recommends that this expense be amortized over five years, in accordance with Rule 25-30.433(8). Staff further recommends a 50% reduction to the request, since staff believes that this is an energy saving measure and the utility will probably receive the grant. These adjustments result in a \$2,118 (\$21,183÷5÷2) allowance for supply main cleaning.

Testing

The utility claims that this adjustment is required since DEP requirements for increased and more reliable water quality testing necessitated contracting for testing services with a different laboratory and arranging for pickup and transportation of samples. (EXH 1; p. 36) As support for this expense, the utility provided a bid from Savannah Laboratories for the testing. (EXH 45, TR 655)

Ms. Dismukes' primary recommendation is to disallow this expense since the utility only obtained one quote for this service and has no signed contract. (TR 655) In the alternative, Ms. Dismukes recommends that this expense be reduced by \$1,870 since the utility included in its cost estimate as an annual expense testing for six items that are only required triennially. (TR 655)

Mr. Brown testified that only one quote was provided since there are only two testing labs in this area and the one which they are currently using has lost water samples and is not as reliable as Savannah Labs. (TR 1321) Mr. Brown agrees with Ms. Dismukes' \$1,870 adjustment for triennial testing. (TR 1321) Mr. Brown also agrees that the duplicative transportation charges (\$3,876) included in the utility's request should also be removed. (TR 1528-1529, EXH 45)

Staff recommends that the utility be allowed to recover the cost of this testing with the adjustments to remove duplicative charges for testing and pickup of the samples. The record indicates that there are only two testing labs in the area and the utility is experiencing problems with the one which they are currently using.

Uniforms

The utility indicates that uniforms are required because of complaints that without them a customer cannot tell if personnel

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

are authorized to come onto their property. (EXH 1, p. 36) There was no other evidence presented on this expense and staff recommends its approval.

Staff has prepared a table which summarizes the proposed adjustments in this issue.

<u>Expense</u>	<u>Original Request</u>	<u>Utility Recomm'd</u>	<u>OPC Recomm'd</u>	<u>Staff Recomm'd</u>
Tank Maint	\$22,409	\$20,493	\$13,749	\$20,493
Pipe Cleaning	\$37,493	\$21,183	\$1,059 (a)	\$2,118
Testing	\$23,909	\$18,163	\$18,163 (a)	\$18,163
Uniforms	<u>\$1,280</u>	<u>\$1,280</u>	<u>\$1,280</u>	<u>\$1,280</u>
Total	\$85,091	\$61,119	\$35,310	\$42,054

Note (a) Primary recommendation is to disallow this expense

Ms. Dismukes proposes that any increased rates associated with these expenses should be put in an escrow account since the utility may never incur the expenses. (TR 654) Staff does not recommend that these funds be escrowed. Staff believes that a better approach would be to order the utility to proceed with this work. If the utility fails to proceed with the work, then a show cause proceeding could be initiated.

Staff recommends that the Commission order the utility to provide proof that the expenses are under contract or have been incurred before January 10, 1995.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 21: Should transportation expenses be reduced?

RECOMMENDATION: Yes. Transportation expenses should be reduced by \$7,800. (MONIZ, AMAYA)

POSITION OF PARTIES

SGIU: No. SGIU employees are compensated a set amount for travel. Actual travel that they undertake on behalf of the utility exceeds the allowance. It would be more costly for SGIU to own and maintain its own vehicles.

PUBLIC COUNSEL: Yes. Transportation expenses should be reduced by \$11,700.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: In its MFR's, the utility requested an annual transportation expense of \$15,600. (EXH 1, p. 37) This request included an allowance for Mr. Garrett of \$5,200, Mr. Shiver of \$2,600, Ms. Chase of \$2,600, Ms. Hill of \$1,300, and Mr. Brown of \$3,900. Mr. Garrett and Mr. Shiver are full time field employees assigned to St. George Island. Ms. Chase, Ms. Hill and Mr. Brown all work in the Tallahassee office. However, Mr. Brown is not an employee of the utility, but of the Armada Bay Company. (EXH 1)

Public Counsel witness Dismukes testified that the mileage estimates for the office workers appear to be unnecessarily high. She recommended the disallowance of the proposed mileage expense for Mr. Brown, Ms. Chase and Ms. Hill since no detailed records were kept. Besides, Mr. Brown's expenses should not be borne by the utility since he is not an employee of SGIU, but of Armada Bay Co. (TR 657-658) Ms. Dismukes elucidated that the maintenance of travel records is the established norm in government and in the private sector. Additionally, since neither the employees nor the Commissioners themselves are permitted reimbursement of travel expenses without justification and any lesser standard for the company should be rejected. (TR 658)

Mr. Brown admitted in his testimony that he nor any of his employees were required to document their travel. He affirmed that he paid each employee an allowance that he believed was reasonable. (TR 1322-1323) Utility witness Chase testified that she made regular trips to DEP, Baskerville-Donovon, the Post Office, and the Bank. She also stated that she had made at least four trips to the Island in the last few months. However, she admitted she was not required to keep a log and did not do so. (TR 896-897)

Utility witness Garrett testified that "Gene (Mr. Brown) promised that if I would go and buy a new 4-wheel drive truck in my name, that he would pay me an adequate transportation allowance of \$200 per week to cover the wear and tear on the truck, insurance, maintenance and other expenses of using my new truck on water company business". (TR 866) Mr. Garrett's travel allowance at that time amounted to \$10,400 per year. Additionally, Mr. Garrett stated that conditions on St. George Island warrant a larger transportation allowance than the standard IRS or state allowance because of salt air, sand and other adverse conditions. (TR 874) Mr. Garrett suggests an allowance of \$0.40 per mile. (TR 875)

Mr. Garrett kept track of his mileage for one month prior to the hearing. (EXH 28) Staff's analysis of the exhibit shows that Mr. Garrett drove 2,381 miles in 30 days which approximates 79.4 miles per day during that time period. At \$.40 per mile, as recommended, his travel allowance for that month would be \$952. The utility has requested \$100/week for Mr. Garrett or approximately \$400 per month, which is less than what the one month of records would indicate he would be allowed if indeed the Utility reimbursed him at \$.40/mile. It is hard for staff to make an annual comparison, however, as this was the only transportation record provided by the utility in support of any transportation allowance request.

Utility witness Seidman testified that if the utility were to own and maintain its own vehicles, that "the cost to the company would be about \$18,100, or about \$2,500 more than the amount requested". (TR 967) Schedule 1 of Exhibit 29 is Mr. Seidman's calculation of the cost to the company to own and maintain its own vehicles. Staff's review of Mr. Seidman's calculation shows it to appear reasonable, except for the insurance which Mr. Seidman has estimated at \$1,600 per year per vehicle. Mr. Brown testified that the employees need to pay more for their insurance because their automobile is used for work-related purposes. He stated that they did not keep records in any detail during the test year but are going to from now on. (TR 614) However, using a much lower insurance amount of \$400 per year per vehicle to see what might be a minimum, a yearly cost of \$14,509 is calculated, which is closer to the utility's request for all employees of \$15,600.

With respect to the utility employees situated on St. George Island, staff believes a transportation allowance to those employees is necessary for the utility to operate in a safe and efficient manner. As stated by Utility witness Brown, Mr. Garrett's truck is used as a Company vehicle so that even if Mr. Garrett were not driving the truck, another employee might. (TR 595) It is noted however, that if Mr. Garrett were to terminate his employment, the Utility would have zero interest in his truck

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

and would either have to buy a truck or hire a new operator with a truck. (TR 559-560)

Public Counsel is recommending that half of the requested travel allowance (\$3,900) for the island employees be included in test year expenses. Public Counsel's reasoning, in its brief, is that "the Commission should not reward the Company for poor management practices by allowing a travel allowance for undocumented and unsubstantiated mileage".

Staff does not believe it is fair to penalize the island employees for a management decision to not keep records. Public Counsel's argument is persuasive, however, regarding the lack of support. Therefore, staff recommends that should the Commission allow the entire travel allowance for the island employees that those employees shall keep track of mileage from the date of the order. The requested amount of \$150/week for both island employees equates to \$7,800 per year and staff finds this amount to be reasonable due to the conditions at the island (TR 594-595) and per Mr. Garrett's travel log of one month.

However, we do not believe a travel allowance should be allowed for the administrative staff, since the utility provided neither evidence nor support for the amount requested. Additionally, since Mr. Brown is not an employee of the utility, staff believes his travel costs should not be borne by the utility, but by the Armada Bay Co. Based on the above, staff recommends reducing transportation expenses by \$7,800.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 22: Should an adjustment be made to reduce insurance expense?

RECOMMENDATION: Yes. Due to the lack of supporting documentation and to noncontinuous coverage in the past, the Commission should disallow the entire \$36,502 for general liability, workmen's compensation, and property insurance. (WEBB)

POSITION OF PARTIES

SGIU: St. George Island Utility needs to maintain worker's compensation, casualty and liability insurance. Inadequate expense was allocated in the prior rate proceeding to obtain insurance. Total insurance costs can be reduced by \$23,799 based upon actual costs that SGIU has incurred to obtain needed insurance.

PUBLIC COUNSEL: Yes. The Utility's failure to provide adequate support for its requested expenses is reason enough for the Commission to reject the entire expense. The Citizens recommend that the Commission disallow \$36,502 for general liability, workman's compensation, and property insurance.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: OPC witness Dismukes maintains that the utility submitted only one bid to support its request of \$36,502 for general liability, workmen's compensation, and property insurance. She recommends disallowance of the entire provision for this insurance based on the fact that the utility has not maintained this type of insurance in the past. Additionally, she states that the utility has failed to obtain this insurance since its historical test year. (TR 655-56)

In utility witness Brown's direct testimony, he regards this insurance as reasonable and necessary to protect the interest of the utility and its customers. He supports his argument with a brief synopsis of the hurricanes in 1985, wherein he explains that, with insurance, the damaged pipe across the bridge was repaired within a few days. (TR 302-03)

During Mr. Brown's cross examination by OPC, he admits that the utility has not been continuously covered for general liability or workmen's compensation insurance since the last rate case. After continued evasion of OPC's questions, Mr. Brown finally admits that he decided not to pay for insurance (up until recently) out of money that was permitted to be collected in the last rate case. (TR 329-33) While Staff believes that the aforementioned insurance is a necessary expense of this type of business entity, we cannot recommend such an adjustment for which no supporting

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

documentation is provided. Furthermore, we cannot recommend approval of such an adjustment for which coverage has been irresponsibly neglected in the past. Therefore, Staff recommends a reduction of \$36,502 in insurance expense.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 23: Is St. George's level of unaccounted for water excessive, and if so, should an adjustment be made to the chemical and purchased power expenses?

RECOMMENDATION: No. (AMAYA)

POSITION OF PARTIES

SGIU: No. SGIU's unaccounted for water is within normal ranges, especially when the unusual length of the SGIU delivery system is considered.

PUBLIC COUNSEL: Yes, relative to the Company's representation that the going forward level of unaccounted for water was only 2%. Accordingly, an adjustment to chemical expenses of \$538 and to purchased power of \$2,888 should be made.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: In SGIU's last rate proceeding, as shown in Order No. 21122 issued April 24, 1989, the Commission allowed unaccounted for water of 15% even though the utility had experienced 35% during its test year. The Order defined what the Commission considered as unaccounted for water: "Unaccounted for water is that water which, after treatment by the utility, is placed in the distribution system for use by customers but for various reasons does not show up as a product sold or used for some other valid, documented purpose." (Order 21122, p. 4) The utility offered a number of reasons for such excessive unaccounted for water in the last case, such as theft of water, use by the fire department, customers flushing their own lines, and leaks. (Order 21122, p. 4) The utility agreed that in the future it would keep better records, would time water used at flush stands and fire hydrants, and would try to prevent theft of water by contractors. (Order 21122, p. 4) The Commission believed in the last rate case that numerous losses of water were beyond the control of the utility, and water usage for line flushing or water used by the fire department, although not properly accounted for, were legitimate uses. (Order 21122, p. 4) The utility has experienced 15.27% during this test year (1992) (EXH 1, Schedule F-1), which shows the utility has improved in its level of unaccounted for water since the last rate case. Staff asked the utility to explain why its unaccounted for water was greater than 10%, however, and the utility explained that during the test year it was still in the process of implementing its leak detection program, that a substantial amount of the 15.27% figure was due to losses through large turbine meters such as at the state park, some water was metered at the plant twice due to a failed check valve, and it also included water used by the fire department either for practice or for actual fires. (EXH 38) The utility's

explanations are largely supported by its witness Mr. Baltzley. As testified to by Baltzley, the FRWA performed a water audit for SGIU in August, 1993 and made recommendations to SGIU to improve lost water. Those recommendations were: (1) repair or replace the check valve on the high service pumps; (2) develop a more defined plan and discuss it with the local fire departments to encourage accountability of their usage -- the utility could develop a system use form; (3) look for and prosecute water thieves; (4) meter all connections on the water system even if the system does not charge for usage (e.g. at the office, shop); and (5) read and record all metered connections each month. (EXH 48)

In its response to staff's interrogatory regarding unaccounted for water, the utility also cited a 2% lost water figure derived by FRWA during its water audit. Public Counsel reasons that since the utility represented in its response to the interrogatory (EXH 38) that it achieved approximately 2% lost water, there should be a corresponding adjustment to the utility's power and chemical expenses. (TR 779-780) Staff believes that FRWA's "lost water" is not the same as the MFRs "unaccounted for water" for the same reasons that the FRWA's methodology is different from the MFR methodology as discussed below.

Staff reviewed the Florida Rural Water Association's (FRWA) report sponsored by Mr. Baltzley (EXH 48) which is the basis for the 2% lost water figure. The FRWA's numbers and the Utility's MFR numbers were then compared in the table following this issue. Staff's review reveals that FRWA's methodology varies with the MFR methodology; utility witnesses Seidman and Brown also reached this conclusion. (TR 973, 1306-07) FRWA adjusts for meter inaccuracies, both on source meters and distribution meters, as well as adjusting the total gallons pumped to achieve an "adjusted" total water supplied. However, staff does not agree with Utility witness Seidman (TR 972) nor OPC witness Dismukes (TR 779) as to the FRWA report showing one month's data; rather, staff believes it represents 13 months. As shown on the following table, using FRWA's numbers and applying the MFR methodology on Schedule F-1, a level of 18.6% unaccounted for water is derived. That figure is based on the reports' 13 months of data (July 1992 through July 1993), whereas the 15.27% stated in the Utility's MFRs is for 12 months and a different time period (all of 1992). Staff then made a comparison in the table using FRWA's methodology to show how the less than 2% figure is derived for the 13 month period; staff also applied the FRWA methodology to the test year's 12 months data. It is noted, however, that the 12 months' representation using FRWA's methodology is less accurate as some of the necessary data (to make adjustments) are unknown.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

Public Counsel also recommends a chemical and purchased power expenses adjustment for lost water due to tank overflows. The utility has not addressed this lost water in the record other than to include it in Exhibit 1; however, staff believes that the amount, 435,000 gallons (TR 667), is correctly identified under "Other Uses" (EXH 1, Schedule F-1) and therefore, is not subject to an adjustment. Even if the lost water were considered as part of the Utility's unaccounted for water, the 435,000 gallons would only push the utility's total unaccounted for water up to 15.8% as compared to 15.27%.

Utility witness Seidman estimated a 9.5% figure for 1993 (TR 974, 1145) but staff does not know how Mr. Seidman arrived at this figure; Mr. Seidman did not provide calculations to support his figure. Utility witness Brown states that the revised figure is 12.3% for unaccounted for water. (TR 1306) Both show an improvement but are outside the test year.

Staff believes that the Utility's unaccounted for water for its test year is 15.27%. As stated earlier, the Commission allowed 15% unaccounted for water in the last case. As Seidman pointed out, Order 21122 (p. 4) states: "However, our past decisions in previous cases indicate that a fair average for unaccounted for water might range from 10-20 percent." (TR 972) The Utility has shown positive effort in reducing its unaccounted for water level down from 35% in its last rate proceeding, although, as noted by the FRWA, there is still room for improvement. Staff recommends that no adjustment should be made.

MFR Methodology	12 Mos 1992 (a)	13 Mos 1993 (b)
Total Water Pumped	81,310,000	104,330,000
Gallons Sold	67,042,900	84,488,500
Other Uses	<u>1,854,365</u>	<u>410,200</u>
Net Unaccounted For Water	12,412,735	19,431,300
UFW Percentage (Net/Total Pumped)	15.27%	18.62%

FRWA Methodology	12 Mos 1992 (a)	13 Mos 1993 (b)
Total Water Pumped	81,310,000	104,330,000
Adjustments to Supply	<u>Unknown</u>	<u>16,900,000</u>
Net Water Supplied	<u>81,310,000</u>	<u>87,430,000</u>
Gallons Sold	67,042,900	84,488,500
Adjustments to Distribution	<u>Unknown</u>	<u>844,885</u>
Net Water Used	<u>67,042,900</u>	<u>85,333,385</u>
Corrected Unaccounted For Water	14,267,100	2,096,615 (c)
Authorized Unmetered Uses	<u>1,854,365</u>	<u>410,200</u>
Total Unaccounted For Water	<u>12,412,735</u>	<u>1,686,415</u>
UFW % (Total UFW/Net Supplied)	15.27%	1.93%

Notes:

- (a) From SGIU's MFRs (EXH 1)
- (b) From Exhibit 48
- (c) This number does not match FRWA number of 1,727,630

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 24: Should any adjustment be made to bad debt expense?

RECOMMENDATION: Yes. Bad debt expense should be reduced by \$4,707. (K. WILLIAMS)

POSITION OF PARTIES

SGIU: No. SGIU experiences unusually high bad debt expense on account of a transient population with many customers who rent residences on a month-to-month basis.

PUBLIC COUNSEL: Yes. The Company provided no competent evidence to support its request. The Commission should reject the Company's request and adopt the recommendation of the Citizens' witness Dismukes. Ms. Dismukes' testimony on this subject was unrebutted. Accordingly, the requested pro forma adjustment should be reduced by \$4,707.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: In the MFRs, the bad debt expense was zero with a pro forma adjustment of \$6,276. (EXH 1) OPC witness Dismukes testified that the utility's document to substantiate its bad debt expense adjustment was confusing. (TR 659) (EXH 18, Sch 14) In the utility's depositions, Ms. Dismukes stated that Mr. Brown and his staff could not explain the document used to support the pro forma adjustment. (TR 659) The 1992 bad debt adjustment appears to be an amount that is cumulative and not the bad debt expense incurred in the test year. She stated that the accumulation of bad debt expense indicates that the utility significantly overstated its annual recurring bad debt expense. (TR 659)

Ms. Dismukes further testified the Commission could reasonably allow the utility no bad debt expense. (TR 782) She stated that she would rather err on the conservative side and give the utility comparable bad debt expense to other Class B utilities. This comparison would allow \$1,569 of the requested \$6,276 pro forma adjustment and would result in a 75% reduction of \$4,707. (TR 659, TR 782)

Mr. Brown testified that the losses from uncollectible revenues is one of the utility's main problems. This problem occurs because many houses remain vacant for substantial periods of time before they are sold or rented. (TR 303) After the customer's account is closed, the utility is left with a bad debt because the deposit was already refunded, in accordance with the Commission rules. (TR 303)

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

Mr. Brown admitted that, in his deposition, he did not understand his exhibit on bad debt expense. (TR 335) It was management's decision that \$6,276 was the amount of bad debts for 1992. (TR 336) Further, he explained that no rule exists to guide the utility's management on determining what amount of bad debt expense is reasonable. (TR 343) If the utility did not present any evidence, and if the other utilities were comparable, then the Commission could use the average that Ms. Dismukes recommended. (TR 338) Further, Mr. Brown admitted that since he had not explained the bad debt adjustment adequately, he would accept that a downward adjustment would be made. (TR 339)

Utility Witness Seidman testified that the \$6,276 in bad debt expense is necessary to provide for losses from uncollectible utility revenues. (TR 60-61)

Staff believes that even if there was a rule to determine bad debt expense, the utility would need to provide adequate supporting documentation. In addition, staff thinks that bad debt expense should be determined by the actual figures or an aging of accounts receivable and not determined by a Commission rule.

Staff believes that the utility did not adequately explain or provide support for its requested bad debt expense. The record supports only two options: to allow zero or to accept Ms. Dismukes' Class B utility average amount. We do believe that the record supports that some level of bad debt expense is reasonable, which both the utility and OPC agree. The only basis to use is the amount recommended by Ms. Dismukes of \$1,569. Therefore, staff recommends that bad debt expense should be reduced by \$4,707.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 25: Should miscellaneous expenses be reduced?

RECOMMENDATION: Yes. Miscellaneous expenses should be reduced by \$6,831 to support the testimony provided in this case. (WEBB)

POSITION OF PARTIES

SGIU: Miscellaneous expenses should be reduced by \$3,544 to adjust for items identified in the audit and not disputed by SGIU. Otherwise, miscellaneous expense items reclassify test year expenses and reflect an increase in expenses.

PUBLIC COUNSEL: Yes. Miscellaneous expenses should be reduced by \$6,831 as depicted in Exhibit 18, Schedule 15.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: In her testimony, OPC witness Dismukes explains her reduction of the requested miscellaneous expenses by referring to her Exhibit 18, Schedule 15. She reduced cellular phone expenses by \$1,200 for Mr. Brown by arguing that he is not employed by SGIU and that the expense should be paid by Armada Bay Company. Additionally, she states that there is no basis for assuming that his use of the cellular phone is split 50% to SGIU and 50% to other activities. Next, she eliminated the expense of corporate filing fees associated with Leisure Properties, Ltd. She argues that there is no efficiency of the organization as it is structured. Further, Leisure Properties, as general partner, does not attribute any benefit; therefore the \$576 cost of filing fees should not be passed on to ratepayers. Third, she removes nonutility, nonrecurring, and unsupported sundry expenses of \$3,544. Lastly, she removes \$1,511 for nonrecurring, nonutility telephone charges. Ms. Dismukes argues that, as part of discovery, the utility provided bills for \$918 which represented the law office's telephone line. Additionally, the utility incurred \$741 in nonrecurring installation charges, which she argues should be amortized over five years. (TR 660-62)

According to Mr. Brown, one-half of his cellular phone charges is a reasonable and necessary expense as it relates to the utility being properly operated with no outages. He cites several emergency situations in which he was able to be reached only because he had his cellular phone and, consequently, this meant the difference between an outage and uninterrupted service. (TR 304) In argument for corporate filing fees connected with Leisure Properties, Ltd., Mr. Brown states that Leisure Properties is in existence because it has to continue serving as general partner of the utility. He further argues that this corporate structure saves the ratepayers on taxes. (TR 1303-04) Mr. Brown does not address

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

the various nonrecurring, nonutility charges discussed by Ms. Dismukes.

The utility's corporate structure is further challenged during OPC's cross-examination of Mr. Brown. It is questioned why the ratepayers should pay the expense of keeping Mr. Brown's various partnerships straight, when a Subchapter S corporation could avoid the same taxes. (TR 474) OPC's final question suggests that the utility is organized as it is to isolate Mr. Brown and his various affiliates from creditor judgments. Mr. Brown denies this accusation. (TR 478)

It is staff's belief that Mr. Brown's cellular phone charges should be paid 100% by Armada Bay Company, based strictly on the fact that he is employed by Armada Bay and, incidentally, on the fact that Armada Bay draws a management fee from SGIU. Staff also agrees with OPC regarding the removal of the cost of corporate filing fees. We do not believe that the utility has adequately supported the efficiency of its parent's corporate structure. The argument related to tax liability is not convincing, as other types of entities, such as Subchapter S corporations, could avoid the same tax.

All parties have agreed to the removal of the \$3,544 in sundry expenses. Staff further supports removal of those nonrecurring, nonutility telephone charges associated with Mr. Brown's law office, as there is no basis provided to allocate charges. In summary, Staff recommends a \$6,831 reduction to miscellaneous expenses.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 26: What is the appropriate amount of rate case expense?

RECOMMENDATION: The appropriate amount of rate case expense should be \$101,885. This results in a decrease to the utility's filing of \$789 in annual amortization. (MONIZ)

POSITION OF PARTIES

SGIU: Rate case expense is \$154,734.88. Annual amortization expense is \$38,683.72. This includes \$134,024.88 incurred through the initial hearings, \$20,710.00 to complete the extended hearings, and estimates for preparation of post-hearing filings.

PUBLIC COUNSEL: The appropriate amount of rate case expense is \$77,188.90.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: The projected provision for rate case expense per the MFRs was \$105,039 which consisted of \$68,402 in accounting fees, \$13,000 in engineering fees, \$20,000 in legal fees and \$2,000 for filing fees and \$1,637 in miscellaneous charges. (EXH 1) During the course of his rebuttal testimony, Mr. Seidman introduced Exhibit No. 30. Exhibit No. 30 included actual rate case expense of \$90,502 and an estimate to complete of \$40,840. Subsequently, the utility filed a late filed exhibit which included \$9,020 of actual charges. (EXH 43-A) Following the hearing, the utility filed another exhibit which reflected the utility's requested and updated rate case costs. The utility reports that the appropriate allowance for rate case expense is now \$154,739. (EXH 43) The revised projection includes the following components:

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

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

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

Staff does not believe that the exhibit should be disallowed in its entirety. Firstly, OPC did not appear to be vastly prejudiced by the utility's tardiness, since the exhibit was addressed in OPC's brief. Secondly, it was filed with the Division of Records and Reporting on the due date and with the other parties the very next day. Nevertheless, we do believe we should have the opportunity to analyze the supporting documents more closely to determine if the expenses requested are justified. Staff has outlined its recommended adjustments below:

ACCOUNTING FEES

In its MFR's, the utility requested recovery of \$68,402 in accounting rate case expense. The request included \$50,000 for Management and Regulatory Consultants, Inc. (Frank Seidman), \$14,402 for Rhema Business Service, and \$4,000 for Barbara Withers and Jeanie Drawdy. (EXH 1)

Management & Regulatory Consultants, Inc. (M&R)

In Exhibit 43, the utility included \$53,975 for Frank Seidman, including \$19,794 for work performed in connection with Docket No. 930770-WU, which was dismissed. (EXH 43) OPC witness Dismukes testified that the Commission should not allow the utility to recover rate case expense associated with the case that was dismissed. She also stated that the utility and its consultants should have known the approximate cost of litigating a rate case for this utility. Therefore, the utility should have obtained an estimate and a firm bid from Mr. Seidman. Consequently, Ms. Dismukes argues that the utility should be held to its original estimate of \$25,000. (TR 668-671)

Mr. Seidman argued that there was no valid basis to limit the fees to anything other than the actual costs. He contended that the \$50,000 shown in the MFRs for this docket was an estimate of his fees, and should not be compared with the prior docket. He continued that the Commission does not authorize recovery simply on the basis of the estimate of costs, but on the actual costs reasonably incurred to the hearing plus an estimate of reasonable hearing and post hearing costs. He also attested that he was able to use a substantial amount of the work from the last case in preparation of his MFRs. (TR 975-976) He contended that he personally would not work under a firm bid in a case that was being litigated, because the applicant has no control over the circumstances that could cause an increase in the costs. He also stated that he knows of no other consultants that would work under a firm bid under similar circumstances. (TR 978-979)

Staff is not in agreement with OPC's argument which disputes the allowance of any costs over the \$25,000 estimate from the previous docket. However, we do believe the expenses should be analyzed to determine if the requested fees are reasonable and justifiable. Based on our analysis, we believe that the costs (\$19,794) from the prior docket should be removed.

Rhema Business Service

Late-filed Exhibit 43 reflects \$18,792 in fees for Mr. Mears of Rhema Business Service (Rhema). However, \$14,402 of the total was for work affiliated with a different test year and a different docket. OPC witness Dismukes testified that the Commission should disallow 75% or \$10,802 of the fees charged to Rhema for preparing the MFRs for a test year ending September 30, 1992. She stated that even though Mr. Seidman acknowledged using the information provided by Rhema, there was clearly considerable information that would not have been useable due to the difference in the test years. In Ms. Dismukes' opinion, much of the work that was prepared by Rhema was duplicated by M&R Consultants. Accordingly, the costs should not be borne by the ratepayer. (TR 671-672)

Utility witness Seidman agreed that some of his work was duplicative, but his estimate was only 25% as compared to Ms. Dismukes 75%. He stated that his estimate was based on the examination of the bills. However, he did admit that he was not able to use the schedules prepared by Mr. Mears, because they were not interactive. Staff concurs with OPC that \$10,802 in charges for Rhema should be disallowed. Mr. Seidman's argument is not convincing since he derived his percentage from the Rhema bills and not from the percentage of the material he actually used.

Barbara Withers and Jeanie Drawdy

In its original request, the utility estimated the fees for both Ms. Withers and Ms. Drawdy to be \$4,000. (EXH 1) However, Exhibit 43 reflects charges, for Ms. Withers alone, of \$6,350. Staff has analyzed the bills and discovered that charges have been included for \$600 labeled: "Meet with IRS regarding Audit." Staff does not believe these charges relate to the this rate case. Hence, \$600 of Ms. Withers total charges should be disallowed.

Ms. Drawdy's charge's totaled \$3,172, however, only \$442 of the total bill was itemized. Mr. Seidman conceded, on cross examination, that Ms. Drawdy's bills consisted only of a ledger which include the time, hours worked, and the date. He agreed that the bills neither indicated what she was working on nor if it was rate case related. He also assented that it is normal practice for an accountant to submit bills for services. (TR 1133-1134) Staff

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

believes that all the charges that were not itemized should be repudiated. Based on the above, staff recommends reducing the utility's revised request by \$3,330.

ENGINEERING FEES

In its MFRs, the utility estimated that its engineering fees would be \$13,000. (EXH 1) Late-filed Exhibit 43 reflects engineering fees incurred of \$7,432 for Coloney and Company and Baskerville-Donovan. This total is \$5,568 less than the original estimate in the MFRs. Staff has reviewed the engineering invoices of both Baskerville-Donovan and The Coloney and Company and found them to substantiate engineering rate case expense. Based on the above staff is not recommending any adjustments be made to actual engineering fees.

LEGAL FEES

In its MFRs, the utility estimated legal fees to be charged at \$125 an hour for a total of \$20,000. (EXH 1 p.48) In its late-filed exhibit the utility reflected \$45,811 in legal fees, which were charged at \$175 an hour for the firm of Apgar, Pelham, Pfeiffer and Theriaque. (EXH 43)

In its brief, OPC introduced two arguments. The first stated that the charge of \$175 an hour for the services of Mr. Pfeiffer is excessive, since Mr. Pfeiffer lacks suitable experience in litigating water and wastewater cases. Further, OPC contends that the customers of the utility should not be required to pay the \$175 per hour excessive rate, since Mr. Brown could not find an experienced lawyer to represent him. OPC contends that the going rate for water and wastewater lawyers in Tallahassee is significantly less than \$175 an hour. Hence, the Citizens believe that it would be more reasonable to determine the legal fees in this proceeding using an hourly rate of \$135 per hour, which recognizes the going rate in Tallahassee as well as the capabilities and experience of Mr. Pfeiffer.

Utility witness Seidman testified that his reasoning, behind the estimate of \$125 in the MFRs, was based on his working with other firms like Mr. Gatlin's and Mr. Rose's. He also added that he thought Mr. Girtman's firm raised its fees to \$150. Mr. Seidman stated that he didn't know if Mr. Pfeiffer had appeared before the Commission, but that he had an outstanding reputation as an administrative attorney. (TR 1128-1129) Utility witness Brown testified that he had discussed the rate case with Mr. Girtman and his fees were \$135 an hour. (TR 1349-150) He also acknowledged that Mr. Girtman was familiar with utility matters and also familiar with SGIU because he had represented it on other matters

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

before the Commission. Mr. Brown stated the reason for not hiring Mr. Girtman was because he would not commit to a set price or a cap. However, he did concur that Mr. Seidman did not agree to a cap either. (TR 1352) He also stated that Mr. Pfeiffer made an estimate of \$30,000, but he didn't know if that included the issue of original cost. (TR 1353)

Staff believes that OPC's argument to reduce the hourly rate for Mr. Pfeiffer has some merit. However, there is not sufficient evidence in the record to support reducing Mr. Pfeiffer to \$135 an hour. Also, the record does not comprise the fees charged by all the other attorneys practicing before this Commission. Further, it does not contain information on Mr. Pfeiffer's actual experience in utility matters. Based on this, staff does not believe an adjustment should be made to reduce Mr. Pfeiffer's hourly fee.

The second area addressed by OPC relates to the attendance of Mr. Pfeiffer at several depositions where Mr. Brown conducted the questioning. In its brief, OPC argues that the customers of the utility should not be required to pay for legal services of Mr. Pfeiffer when his attendance at these depositions was either unnecessary or served only to acclimate him to the issues in the case. Mr. Brown agreed that the cost of attending the deposition of Dr. Ben Johnson should not be charged to the ratepayers. (TR 1356-57) Based on this agreement, staff recommends reducing rate case expense by \$700 (4 hrs. x \$175) for Dr. Johnson's deposition.

Late-filed Exhibit 43 included actual legal fees of \$29,911 and estimated fees of \$15,900. Utility witness Seidman agreed to file, as a late-filed exhibit, the actual costs up through the final day of the hearing. (TR 1125) However, upon staff's review of the exhibit it was discovered that the utility included an estimate for legal fees for the final three (3) days of the hearing rather than actual fees. Staff believes that the utility had sufficient time between the last day of the hearing to the exhibit due date to file the actual fees through the last day of the hearing. Regardless, we do not believe that we can disallow the entire unsupported estimate. Further, the utility failed to include a detailed description by hour of its estimate to complete the rate case. Therefore, staff has estimated the hearing time and the time for preparing the brief to be approximately forty hours. Based on the above, staff recommends that \$8,900 should be removed from the utility's estimated legal fees.

RATE CASE CONSULTANT

Utility witness Brown testified that he was not including the charges for TMB Associates (Tom Beard) because he felt they were not directly related to the rate case. (TR 1142-42) However, in

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

its late-filed exhibit the utility reflected \$6,850 in fees for TMB Associates. (EXH 43) Staff believes that these charges should be disallowed, since Mr. Brown testified that he was not including them. The utility also included \$305 for Mr. Beard's meals and lodging at the hearing. Staff believes these related costs should also be removed. Based on the above, staff recommends removing \$6,850 for charges to TMB Associates and \$305 for charges to Miscellaneous.

MISCELLANEOUS CHARGES

The MFRs included a combined provision for \$2,000 in filing fees, and \$1,637 for postage, printing and noticing. (EXH 1) Late-filed Exhibit 43 displayed miscellaneous charges of \$12,353. Included in this total were copying charges of \$454. Staff believes that these copying charges were for the numerous exhibits the Company attempted to get into the record through Mr. Brown which were later ruled inadmissible. Based on the above, staff recommends reducing miscellaneous expenses by \$454 for disallowance of copying charges.

The utility's late-filed exhibit also reflected \$1,715 for a bond premium. (EXH 43) Staff does not believe the ratepayers should be charged for something that was exclusively the fault of the utility. Further, were it not for the utility's failure to follow Commission orders, failure to pay bills, failure to make timely filings, and failure to comply with Commission practices and policies, there would have been no need for the utility to obtain and post a bond. Based on the above, staff recommends removing the bond charge of \$1,715.

SUMMARY

Staff recommends an adjustment to the total rate case expense reflected in Late-filed Exhibit 43 of \$154,735 to \$101,885. This results in a reduction of \$52,850. As the total recommended is \$3,184 less than the amount reported in the MFRs, staff recommends the expense for the period be decreased by \$787 to reflect the four year amortization recovery period for rate case expense. The utility should also comply with Rule 25-30.436(7), Florida Administrative Code, which requires it to submit a detailed statement of the actual rate case expense incurred.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

Below is a summary of the total adjustment to rate case expense as recommended by staff.

Total Requested in MFRs		\$ 105,039
Additional Request (EXH 43)		<u>49,696</u>
Total Requested By Utility		<u>\$ 154,735</u>
Staff Adjustments		
1) To remove costs for Dkt. 930770	(19,794)	
2) To remove Rhema charges for prior TY	(10,802)	
3) To remove charges for B. Withers	(600)	
4) To remove charges for J.Drawdy	(2,730)	
5) To remove unsupported legal expenses	(9,600)	
6) To remove bond fee	(1,715)	
7) To remove copying charges	(454)	
8) To remove charges for TMB Assoc	(6,850)	
9) To remove misc charges for TMB Assoc	<u>(305)</u>	
Total Staff Adjustments		<u>(52,850)</u>
Recommended Total Rate Case Expense		\$ <u>101,885</u>
Annual Rate Case Amount Per MFRs		\$ 26,260
Annual Rate Case Amount Per Staff		\$ 25,471
Adjustment To Test Year Amortization		<u>\$ (789)</u>

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 27: Should an adjustment be made to amortization expenses for the system analysis, aerator analysis, hydrological study, and fire protection studies?

RECOMMENDATION: Yes. The total amortization expense should be \$21,567 (\$8,741 for system analysis, \$6,310 for system mapping, \$1,716 for aerator analysis, \$2,400 for a hydrological study, and \$2,400 for a fire protection study). If the Commission allows the expense for a fire protection study, it should be undertaken simultaneously with the updated system analysis so that the issue of improved fire flow can be incorporated in future plant additions (see Issue 41). Staff further recommends that if the Commission allows recovery of this expense, that the fire protection study should be completed by the Utility by January 1, 1995. The Utility shall file a copy of the fire protection study with the Commission, and send notice to its customers that the study is available at the Utility's offices for review. (AMAYA)

POSITION OF PARTIES

SGIU: These programs are needed to maintain good quality service. The expenses can be reduced by \$22,029 to reflect confirmed reductions in the cost of obtaining the services and to amortize the study costs over five years rather than two years.

PUBLIC COUNSEL: Yes. Four adjustments are necessary, reducing test year proforma expenses by \$25,345.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: The Utility's request for amortization of expenses covers five specific items which it states recur on less than an annual basis: a system analysis, system mapping, an aerator analysis, a hydrological study and a fire protection study. As stated in MFR Schedule B-3, "In accordance with PSC Rule 25-30.433(8), these expenses are shown to be 'amortized over a 5-year period unless a shorter or longer period of time can be justified.'" (EXH 1, p. 40) The Utility originally requested a total of \$41,452 in annual expenses based on the individual costs of each item and the respective requested amortization periods. (EXH 1, p. 40)

Staff points out that the Utility has offered two different revised adjustment amounts. In its Proposed Findings of Fact, the Utility states that the expenses should be reduced by \$28,370; whereas, in its Position Statement it shows a reduction of \$22,209. Since the Utility made proposals based only on totals for adjustments, staff calculated what it believes are the individual components of those totals. As shown in the table at the end of

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

this issue, the difference in the Utility's two amounts can be attributed to the system analysis item, which is discussed after system mapping.

System Mapping

No party took issue with the requested annual amount of \$6,310 which is an amortized expense for an initial system map and its update; however, the Utility has implied an annual expense of \$4,166. Staff believes the Utility calculated this by taking the original system mapping cost of \$18,150 and added the update cost of \$2,680 and then amortized the total over five years which equates to \$4,166. Staff has left the original \$6,310 since there is no evidence in the record to dispute this amount. The remaining four items are addressed below.

System Analysis

The Utility indicated that the system analysis cost \$31,705, and originally requested to amortize this expense over two years, or \$15,852. (EXH 1) At the hearing, however, Utility witness Brown stated that "... we have entered into an agreement with Les Thomas to update the system analysis. He is going to completely update and revise [the study], and he has agreed to do that for \$12,000." (TR 1253) Mr. Brown stated the reason for another engineering analysis was because DEP considered its [Baskerville-Donovan] 1992 report to be flawed because it concluded that supply of water to the island would not be a problem for the next ten years. (1298-99) Brown goes on to say how the Utility had planned a series of improvements based on the Baskerville-Donovan Report, but those improvements, except for the third well, did not address the water supply. (TR 1299) He states that DEP advised the Utility that it will be out of capacity almost immediately unless the Utility constructs a new parallel supply line from the well field to the island. Based on that and staff raising the issue of capacity, Mr. Brown decided it would be wise and prudent to obtain an updated engineering analysis to guide the Utility's actions. (TR 1299) He points out that DEP and Baskerville-Donovan are "... diametrically opposed to each other," and he has to decide which way to go. Brown states he obtained bids from three engineering firms and obtained a firm price of \$12,000, which he states is the lowest and best bid. (TR 1300) Baskerville-Donovan would charge \$24,400 to revise and update its engineering analysis. (TR 1207)

Brown indicates that another engineering analysis probably will not have to be done for the next two or three years (TR 1300) but they have revised their amortization period to five years.

(Proposed Findings of Fact, p. 29) The difference in the Utility's two different expense adjustments is due to their derivation of the system analyses costs: their Proposed Findings of Fact amount apparently does not include the \$31,705 cost for the original system analysis, it only includes the \$12,000 update amount amortized over five years. However, under their Position Statement, staff deduced that the Utility included both amounts (\$31,705+\$12,000) and then amortized that total amount over five years. Staff agrees with this latter calculation and believes the Utility was in error when stating the adjustment amount in its Proposed Findings of Fact.

Public Counsel witness Dismukes testified that her reading of correspondence between the DEP and the Utility, which the Utility supplied in response to Staff's Audit Request No. 20, regarding the required update of the 1992 system analysis, indicated that an entirely revised analysis was not being requested, rather, DEP was requesting some revision to the system analysis. (TR 663) Dismukes went on to say that the Company failed to support the proposed adjustment or the amortization period, and therefore, recommends a five-year amortization for only the initial system analysis. The Citizens therefore recommend a reduction of \$9,511 to this proforma adjustment, allowing \$6,341. (OPC Brief, p. 54, EXH 18, Schedule 16) Further, Dismukes recommends that if the Commission allows this expense, that it should be collected and deposited into an escrow account for distribution when services are rendered. (TR 664)

Staff is concerned with the issue of capacity, as stated by Mr. Brown, and that issue is more fully addressed in Issue 41. However, the Utility's recent request for an updated analysis costing \$12,000 to be amortized over a five-year period (e.g. \$2,400) appears reasonable. Staff also believes that the initial system analysis amount of \$31,705, should also be amortized over five years. In its brief, Public Counsel recommends allowing only the initial study; but staff believes that since the Utility must address additional capacity, the undertaking of an updated system analysis is prudent. Staff believes that since the system analysis update is currently being completed (TR 1300) that escrowing of these funds for the system analyses is not necessary. Therefore, staff recommends that the Commission allow the \$12,000 amount for a revised system analysis along with the initial system analysis cost of \$31,705, and recommends a five-year amortization period. This equals \$8,741 ($\$31,705 + \$12,000 = \$43,705 / 5 = \$8,741$).

Aerator Analysis

The Utility included a request for revising the aerator analysis required by DEP in 1992. The Utility requested \$5,280 for the initial aerator analysis and a revision cost of \$3,300, both to be amortized over two-years (\$2,640 and \$1,650 per year) for a total annual expense of \$4,290. (EXH 1) The Utility believes that its original aerator analysis was complete and thorough. (TR 1300) Brown states that "For some reason, DEP wants additional and highly esoteric chemical analysis done." (TR 1300-01) Staff witness McKeown testified that Baskerville-Donovan's final report did not consider all the H₂S data supplied by the Utility; that it was based on one set of data. Based on that, the lack of suitable supporting materials for the H₂S data, and that the report improperly used Total Sulfides in the percent removal formula, DEP rejected the report. (TR 817, 820-21)

Public Counsel's review of DEP correspondence requiring the updated analysis leads to their conclusion that the revised study was necessary, since the original study was deficient. (OPC Brief, p. 54, TR 776) Public Counsel witness Dismukes recommended allowing only the initial aerator analysis with an amortization period of five years (\$5,280 over five years, or \$1,056). (EXH 18, Schedule 16) Further, Dismukes pointed out in her direct testimony that the Utility did not obtain any bids for the performance of the work. (TR 663)

Based on Staff witness McKeown's testimony, staff believes that a revision to the aerator analysis is necessary. Public Counsel argues that since the first analysis was deficient, any cost to update it should not be born by the Utility's customers. (OPC Brief, p. 54) However, staff believes the Utility was prudent in hiring Baskerville-Donovan, a respected engineering firm, to conduct the study and the deficiency of the study should not be reflected on the Utility. Staff recommends allowing both \$5,280, the initial study cost, and \$3,300, the revised study cost; however, staff further recommends that these costs should be amortized over a five-year period rather than two years, with which the Utility now agrees. Therefore, staff recommends that the Commission allow \$1,716 annually for the aerator analyses ($\$5,280 + \$3,300 = \$8,580 / 5 = \$1,716$). As with the system analysis, staff does not believe these funds should be escrowed; the initial analysis is complete and the revised analysis was undergoing during this rate case proceeding. (TR 1206,1301)

Hydrology Study

The Utility initially requested recovery of \$45,000 for a hydrology study and that the expense be amortized over five years (\$9,000 annual expense). The Northwest Florida Water Management District required the hydrology study as a condition to the Utility's continued withdrawal of water from the Eastpoint area. (TR 1297) However, in his rebuttal testimony, Utility witness Brown stated that he was able to obtain the complete study for \$12,000, all of which has been paid. (TR 1298) Further, the Utility believes the study should now be amortized over a five year period.

Public Counsel believes that the Commission would be justified to disallow the entire expense, since documentation was inadequate. However, the Citizens are willing to accept the \$12,000 expense, amortized over five years. (OPC Brief, p. 55)

Therefore, staff recommends that the \$12,000 expense, amortized over five years, be allowed (\$2,400). As this study has been conducted and paid for, the issue of whether to escrow these funds is moot.

Fire Protection Study

The Utility initially requested \$30,000 for a fire protection study, with an amortization period of five years. In his rebuttal testimony, Brown states "... the utility's engineers must first analyze the current system, determine what level of fire protection is reasonable and necessary on the island, determine the most efficient and cost effective method of providing such protection, and determine whether there is a consensus among the rate payers and the agencies, including the PSC, to provide the Utility with a means of recovering its investment in the necessary fire protection improvements. In other words, we cannot adequately deal with this question in the dark, and it makes no sense to me to simply start spending money for improvements that may or may not really be reasonable or prudent in terms of fire protection capacity." (TR 1302-03) In its Proposed Findings of Fact, the Utility states that many customers are anxious that the Utility provide a level of service that would meet fire protection standards and goes on to say "At the hearing in this proceeding, however, there were at least three different views expressed about what SGIU will need to do to meet those standards." Utility witness Bidy testified that Baskerville-Donovan would charge \$30,000 to complete a fire protection analysis. (TR 1207) He also stated that he would like to see a fire flow system developed on St. George Island and testified that "I think it is coming, sooner or later." He stated that it's a matter of time and a matter of who is willing to pay

for it. (TR 1231) Utility witness Coloney expressed his belief that it would only be prudent for the Utility to commission a report "... if there was a source of funds to pay for such a report, and only if there was a reasonable probability that funds would be available to act upon the report once it was completed." (TR 249) The Utility sums it up by stating that a study is desirable so that they can learn what is the most effective means of meeting that objective. (Proposed Findings of Fact, p. 29-30) Mr. Brown testified that "If the Commission agrees that this is a reasonable and prudent expense, we will immediately proceed with the study." (TR 1303)

Public Counsel recommends disallowance of the entire amount since the Company only supplied one bid in the amount of \$12,000 although it supposedly obtained three altogether, so there is no way for the Commission to be assured that the Company did in fact obtain the lowest bid. (OPC Brief, p. 55) However, as stated by the Utility, there was testimony provided at the hearing regarding fire protection.

Four customers testified regarding the need for or lack of fire protection. Mr. Abbott, a customer and a witness on behalf of staff, described the current fire flows available based on a test he had conducted the day prior to testifying. He stated that flows had improved, but over the course of his testimony, he indicated that more was needed. (TR 390-394) Mr. Abbott testified that he's not against a rate increase, but would like to see something put into fire protection. (TR 393) In his prefiled direct testimony, Mr. Abbott stated that rather than spend money on a study, it would be more beneficial to put that money towards additional elevated storage on the island. (TR 838) However, during cross-examination by Public Counsel, Mr. Abbott stated that he thought there would have to be a study, but couldn't answer as to how to pay for it. (TR 400) Ms. Sanders suggested to Mr. Abbott that it would be a good idea for the Utility to give the money to the fire department to let them determine how it is spent. (TR 401) Chairman Deason asked Mr. Abbott about the possibility of using non-potable water to which Mr. Abbott replied that it was feasible, but only within a certain distance. (TR 402-03)

The second customer to testify regarding fire protection was Mr. Nic Laslavic. He testified that there were fire hydrants in the Plantation as early as 1979 so he thought there was fire protection. He subsequently learned there was not enough water to fight the fires. (TR 407) He was in charge of a committee on behalf of the association meetings to look into fire protection on St. George Island. (TR 408) Mr. Laslavic states that he thinks St. George Island was and is a disaster waiting to happen. (TR 408) He also quotes the American Insurance Association as to fire

protection standards. (TR 409, 411-12) When asked whether he thought the residents of St. George Island would be willing to pay for additional infrastructure if needed, (TR 412-13) Mr. Laslavic indicated that the Utility's investors, if they make an investment and give customers what the study indicates is needed, then "... we should obviously pay something for that investment that he made if he gives us what we want. But not for the study." (TR 414) Mr. Laslavic agreed that everyone on the island, whether a customer or not, would benefit from a Utility investment for fire protection. (TR 414-15) Upon cross-examination by Ms. Sanders, Mr. Laslavic testified that there is an MSBU to which residents pay \$28 a year. These monies go back to the individual fire districts. (TR 416-19)

The third customer to testify was Dick Countryman. He expanded on a response given by Mr. Abbott earlier regarding the use of nonpotable water for fire protection, indicating that the quality of the water would damage the equipment. (TR 420) He stated that "We are in a critical situation with fires in that we are surrounded by water, yet we run out of water." (TR 421)

The fourth customer who testified regarding fire protection was Christopher Crozier. He related a fairly recent experience in fighting a fire on St. George Island where there were no hydrants available and the truck emptied very quickly; he went on to state that it took a long time for the truck to refill. (TR 425) He also indicated that hydrants are not being maintained until someone complains about it, and stated that it was his understanding that it was the Utility's responsibility to maintain the hydrants. (TR 427)

Staff believes that the Utility makes a persuasive argument that the first step towards providing fire protection at St. George Island should be a fire protection study, because with a study they could determine what would be the most effective means to proceed. Public Counsel's argument to disallow the expense entirely is based on lack of documentation, although the Utility does provide the \$12,000 bid. Staff believes the Utility is addressing the need for fire protection in a reasonable and prudent manner.

Staff witness Pierce testified:

"In recent years the [Franklin County Board of County Commissioners] has heard several presentations from various individuals regarding the adequacy of fire protection on the island. While the PSC's review of the rate increase proposal may not include a full discussion of the needs of fire protection, it

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

is imperative that there be some consideration of this topic. There appears to be few avenues open to the county as it tries to protect the interests of its citizens and of the property owners when it comes to providing adequate fire protection. The Board is aware that the Utility claims it was not built to provide fire protection. However, at this time the Utility is the only entity poised to address this issue." (TR 834)

Only through a fire protection study can all possible alternatives be discerned, with a corresponding analysis as to cost. The customers of the Utility, and as indicated, as well as those on the island who are not customers, would benefit from such a study. After a study has been conducted, the results could be taken to the customers in order to determine what the next step would be. As discussed in Issue 41, staff believes that if the Commission allows the expense for a fire protection study, that it should be undertaken simultaneously with the updated system analysis so that the issue of improved fire flow can be incorporated in future plant additions; the Utility expressed a similar concern. (TR 563) Staff further recommends that if the Commission allows recovery of this expense, that the fire protection study should be completed by the Utility by January 1, 1995. The Utility shall file a copy of the fire protection study with the Commission, and send notice to its customers that the study is available at the Utility's offices for review.

Based on the Utility's arguments, staff recommends that the Commission allow the \$12,000 expense for a fire protection study, amortized over a five-year period (\$2,400). If approved, this is an expense the Utility would incur almost immediately (TR 1303) and therefore, staff does not recommend that these funds be escrowed.

Based on the above information, staff believes that the yearly amortized expense of \$21,567 be allowed. Please see the table for a detailed overview of the different recommended annual amounts.

Amortization of Expenses (Issue 27)

Expense Item	Utility Request	Utility Adjustments Per PFF (1)	Utility Adjustments Per Pos'n (2)	OPC Adjustments	Staff Adjustments	Utility Revised Request Per PFF	Utility Revised Request Per Pos'n	OPC Recom'd	Staff Recom'd
a. System Analysis	\$15,852	(\$13,452)	(\$7,111)	(\$9,511)	(\$7,111)	\$2,400	\$8,741	\$6,341	\$8,741
b. System Mapping	\$6,310	(\$2,144)	(\$2,144)	\$0	\$0	\$4,166	\$4,166	\$6,310	\$6,310
c. Aerator Analysis	\$4,290	(\$2,574)	(\$2,574)	(\$3,234)	(\$2,574)	\$1,716	\$1,716	\$1,056	\$1,716
d. Hydrological Study	\$9,000	(\$6,600)	(\$6,600)	(\$6,600)	(\$6,600)	\$2,400	\$2,400	\$2,400	\$2,400
e. Fire Protection Study	\$6,000	(\$3,600)	(\$3,600)	(\$6,000)	(\$3,600)	\$2,400	\$2,400	\$0	\$2,400
Annual Total	\$41,452	(\$28,370)	(\$22,029)	(\$25,345)	(\$19,885)	\$13,082	\$19,423	\$16,107	\$21,567

NOTES:

- (1) Per Proposed Findings of Fact (PFF)
 (2) Per Position Statement (Pos'n)

Detail to Staff's Recommended Amounts

- a. System Analysis
 $\$31,705 + 12,000 = \$43,705 / 5 = \$8,741$
- b. System Mapping
 No change from MFRs
- c. Aerator Analysis
 $\$5,280 + \$3,300 = \$8,580 / 5 = \$1,716$
- d. Hydrological Study
 $\$12,000 / 5 = \$2,400$
- e. Fire Protection Study
 $\$12,000 / 5 = \$2,400$

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 28: Should an adjustment be made to taxes other than income?

RECOMMENDATION: Yes. Taxes other than income should be reduced by \$3,433. (MONIZ)

POSITION OF PARTIES

SGIU: Taxes other than income should be reduced by \$3,101 in accordance with Audit Exception No. 28. SGIU has not taken issue with the exception.

PUBLIC COUNSEL: Not addressed in brief.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: In its MFR's, the utility requested an allowance of \$12,719 for payroll taxes and \$7,204 for real estate taxes. (EXH 1, p. 55) Staff witness Gaffney's audit report disclosed an error in the utility's requested amounts. She suggested an adjustment should be made to reduce payroll taxes and property taxes by \$2,880 and \$221, respectively. In its position statement, the utility agreed with the adjustment to reduce taxes other than income by \$3,101. OPC did not refute this testimony at the hearing or provide a position in its brief. Therefore staff recommends reducing payroll taxes by \$2,880 and property taxes by \$221.

Additionally, staff has proposed a \$3,214 adjustment to reduce salaries, which is delineated in detail in Issue No. 13. Consequently, we recommend a corresponding adjustment of \$332 to reduce payroll taxes.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 29: Should test year expenses be adjusted to eliminate the cost of maintaining the old generator?

RECOMMENDATION: No. (AMAYA)

POSITION OF PARTIES

SGIU: No. SGIU now has two generators. It had one during the test year. These generators need to be maintained.

PUBLIC COUNSEL: Yes. The Company's filing includes a new generator in rate base. The repair cost for the old generator is non-recurring. The Company provided no evidence that the new generators would require the same level of repair as the old one. Accordingly, \$2,665 should be removed from test year expenses.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: Public Counsel witness Dismukes recommends reducing the Utility's test year expenses by \$2,665 incurred to repair the old generator. (TR 675) Her basis for this recommendation is that since the Utility included the cost of a new generator in its rate base, the generator repair should not be recurring. (TR 675)

As Utility witness Seidman stated about the expenses incurred during the test year, "It was a normal repair, the type of which can be expected to recur, regardless of whether the generator is new." (TR 984) He also stated that the old generator was replaced because it was struck by lightning and that the repair during the test year had nothing to do with its replacement. (TR 984) Utility witness Brown testified that it was his understanding that these costs were normal maintenance items, including damage from lightning strikes, and went on to say that they will continue to have maintenance expenses of this nature, whether they have a new generator or an old generator. (TR 1307) The utility now has two new generators, although only one is included in the test year. (TR 1307-08) One generator is located at the water treatment plant on the island and the other generator is located at the new well on the mainland.

Based on the Utility's testimony, and that maintenance on a going-forward basis for both generators can be reasonably expected, staff believes that the Utility's inclusion of \$2,665 for generator maintenance is reasonable and should be allowed.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 30: Does the utility's case in chief present an appropriate matching of revenue and expenses?

RECOMMENDATION: No. An adjustment should be made to increase revenues by \$35,094, O&M expenses by \$3,303 and depreciation expense by \$3,301. (K. WILLIAMS)

POSITION OF PARTIES

SGIU: Yes. Revenues and expenses are both taken from the 1992 test year. Pro forma expenses represent additional costs necessary to provide adequate service for the test year customers. There is no justification to include revenues or expenses from another period not associated with test year customers.

PUBLIC COUNSEL: No. St. George's case is based upon a 1992 test year; yet the Commission is urged by the utility to consider a number of 1993 (and in some cases, 1994) expenses as pro forma adjustments to the test year. The Commission should consistently adjust the Company revenues, expenses, and investment to a 1993 level.

DISTRICT: Agree with OPC

STAFF ANALYSIS: Utility witness Seidman testified that the utility chose to use a historic test year with pro forma adjustments. The reason was to make the Commission aware of its costs that it believes are necessary to serve the existing customers. (TR 72-73) Mr. Seidman explained that the pro forma expenses were not included in test year expenses because the utility has been operating at a loss and could not afford such expenditures without the revenues to pay for them. (TR 73-74) Many of the expenses requested are just now being incurred and have just been made part of the rate application. He stated that what was done is no secret. (TR 75)

On cross examination, Mr. Seidman testified that even though the utility was given revenues in the last rate case to cover certain expenses, the utility did not use the money for the allowed expenses. For example, the utility in the last rate case was allowed to recover \$13,955 in insurance expense but only spent \$625 on insurance. (TR 80) Mr. Seidman explained that what was important was not whether the money was spent on a particular item but that the utility had an operating loss since 1987. He did admit that the loss would have included some consideration of the level of investment and return. (TR 80) He also testified that the Commission should look at how the money for the approved expenditures was spent, as along as it is in the context of total revenue versus total operating expenses and net income. (TR 81)

OPC Witness Dismukes testified that SGIU requested the use of a 1992 historical test year when a 1993 test year could have been used. (TR 634) The test year used included pro forma adjustments for expenses that had not been incurred in 1992 or to date. She explained that these expenses were anticipated to be incurred in 1993 and or for the most part of 1994. Ms. Dismukes believed that the 1992 test year should be updated to reflect the 1993 revenues, expenses and rate base and, therefore, have an updated 1993 test year. (TR 634)

Ms. Dismukes' reason for making the above adjustments instead of completely revising the test year was two-fold. First, this method was easier to understand because it avoids the confusion of determining which expenses in 1993 were pro forma adjustments to 1992. (TR 634-635) Second, the approach of using the 1992 test year avoided the problem of having an unaudited test year and the decision of what to do with the recommended adjustments to the 1992 test year. Using her approach, the 1992 adjustments could be brought up to the 1993 level. (TR 635)

Unless the Commission adopts Ms. Dismukes' recommended growth adjustments, the utility's revenue increase would be established using 1992 levels of revenues and investment with the 1993/1994 level of expenses. Ms. Dismukes believed that if the Commission set rates using the method proposed by the company, a mismatch would result which would significantly overstate the company's revenue requirement. (TR 635)

Ms. Dismukes explained that the utility's revenues increased in 1993 by \$35,094. (TR 636) She explained that she made four adjustments to expenses to recognize the increase in customers and usage between 1992 and 1993. All the other expenses had been adjusted by the company by its pro forma adjustments to reflect a 1993 or 1994 level of expenditures. (TR 636)

Ms. Dismukes stated that according to the utility's response to OPC's interrogatory 22, the utility's customers increased by 5% from 1992 to 1993. Using a 5% customer growth rate and 3% inflation rate, Ms. Dismukes increased chemicals, materials and supplies and miscellaneous expenses. This resulted in a increase of \$271, \$1,246 and \$940, respectively. She increased purchased power only by 5% because the rates charged by the electric company are largely fixed. This resulted in a increase to expenses of \$908. In total Ms. Dismukes increased expenses by \$3,365. (TR 636)

Ms. Dismukes adjusted depreciation expense to reflect the utility's average 1993 level of investment and the correct depreciation rates as set forth in Chapter 25-30.140, Florida Administrative Code. The depreciation rates used by the company

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

appear to be those of a Class C utility. Ms. Dismukes used the depreciation rates for a Class B utility. Since the Class B rates are lower, Ms. Dismukes recommended an reduction to depreciation expense of \$9,801. (TR 637)

Under cross examination, Ms. Dismukes clarified that she was not using a projected test year in the sense of using 1993 expenses. (TR 719-722) Her reason was that the 1993 expenses were unaudited. Further, she was less concerned about the 1993 revenues being unaudited because it is more common to find a disallowance in an expense category than in revenues. (TR 722) Under re-direct examination, Ms. Dismukes clarified that the utility questioned her about using 1993 revenues and 1993 expenses but did not refer to the fact that the utility's pro forma adjustments were for 1993 and 1994. (TR 783)

Utility witness Brown disagreed with Ms. Dismukes that revenues should be adjusted to reflect the 1993 test year. He stated that the pro forma adjustments had nothing to do with growth or increased demands on the system. Mr. Brown further stated that the pro forma adjustments are simply known and measurable changes which reflect the expenses that should have been incurred in the 1992 test year. These pro forma adjustments would allow the utility to meet its commitment to provide safe and reliable service to all its customers. (TR 1285) Mr. Brown further stated that sound management dictates that the other expenses must be incurred if the utility is to continue providing safe adequate water service. (TR 1285-1286)

Utility witness Seidman stated that no growth adjustments were needed because the utility filed an historic (1992) test year with pro forma adjustments. The utility filed the 1992 test year for the following reasons: The Commission's directives to make additions to plant to serve existing customers; to upgrade its operations in order to improve the quality of service to existing customers; to improve its records; and to bring about an overall improvement in its operations for existing customers. He testified that is what the utility is slowly doing and it does not have sufficient revenues to maintain the quality of service for the existing customers. Further, Ms. Dismukes has assumed that the utility wants to bring its expenses up to the 1993 or 1994 level and that is not the case. With the exception of a cost of living adjustment to salaries, the utility is requesting its pro forma adjustments to bring the 1992 expenses up to the level necessary to serve the 1992 customers properly. (TR 933-934)

Mr. Seidman stated that the ability to revise the test year after the rate application is noticed is a luxury not available to the applicant even if it would result in a decrease in the revenue

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

requirement. Such an action may cause the rate case to be dismissed because it prejudices the parties by introducing material not subject to the audit or to timely discovery. He further explained that Ms. Dismukes' growth adjustments add substantial revenues and inconsequential adjustments to expenses on top of an average test year with no consideration to the additional plant necessary to serve the additional customers. With Ms. Dismukes' adjustments, the utility has a level of expenses below the actual level of expenses incurred in 1992. (TR 932-935)

Finally, Mr. Seidman stated that the approach of adjusting expenses for this utility showed a lack of sensitivity to the real world situation. SGIU was severely reprimanded with regard to the status of construction, the status of maintenance, the status of record keeping and reporting. The Commission and DEP mandated a flushing program, a leak detection program, specific maintenance programs, a cross connect control program and additional testing. There was recognition at that time that management and staffing was inadequate in quantity and quality. Mr. Seidman argued that SGIU has substantially complied with these mandates, but as the Commission and OPC know, it has taken a long time to do it. This was because the staffing and funds necessary to accomplish this were not available in a timely manner. Therefore, the utility is requesting the 1993 adjustments to allow the utility to climb out of the hole, hire and retain a competent staff, and initiate maintenance programs as needed, rather than in response to citations. (TR 999-1001)

Mr. Seidman agreed that OPC's 1993 growth adjusted test year expenses of \$300,328 would not keep up with the CPI of 141% between 1987 and 1993. (TR 1000). With Ms. Dismukes' repeated expression concerning SGIU's failure to perform, Mr. Seidman believed her level of expenses would result in a self-fulfilling prophecy. (TR 1000-1001)

The utility in this case has relied on a historical year with many pro forma adjustments. If the adjustments to the test year were few and resulted from changes in treatment or regulations, staff would be more willing to accept the test year as a whole. A lot of the problems for the utility result from poor management for this utility in the past as well as inadequate revenues. A 1993 test year would have been a much more reasonable test year given the date the rate case was filed. As such, we agree with Ms. Dismukes that a mismatch would occur if all other components such as investment, revenues and expenses are updated. This would follow through with an adjustment to the used and useful as well as customer and usage growth in setting rates.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

Staff acknowledges the utility's desire to provide adequate service for its customers during 1992 and beyond. In this regard, staff is recommending a growth adjustment of \$115,428 for new plant in 1993. (See Issue 7) Using an composite rate of 2.86%, this addition to plant would increase depreciation expense by \$3,301. Ms. Dismukes' recommended adjustment to change the depreciation rates to Class B rates was stipulated by the parties.

Ms. Dismukes recommended growth adjustments for material and supplies and miscellaneous expenses would be changed to reflect the adjustments made in other issues. Material and supplies should be reduced by \$4,851 for Audit Exception No. 22. The revised growth adjustment should be \$858 instead of \$1,246. The miscellaneous expense balance should be adjusted from \$24,422 to \$15,826 (See Issue 25). The recommended growth adjustment should be \$1,266.

Based on the above, staff recommends that the 1992 test year should be updated to include growth adjustments of \$35,094 to revenues, \$3,303 to O&M expenses and \$3,301 to depreciation expense.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 31: What is the appropriate level of test year operating income?

RECOMMENDATION: The appropriate level of test year operating loss is \$72,617. (WEBB)

POSITION OF PARTIES

SGIU: The appropriate level of test year operating income is \$63,610, after adjusting the requested amount to recognize the effect of prehearing stipulations and reduced pro forma costs based on evidence presented at the hearing.

PUBLIC COUNSEL: Fall-out issue.

DISTRICT: Fall-out issue.

STAFF ANALYSIS: Based on the previous adjustments, the appropriate test year operating loss is \$72,617. The operating statement is attached as Schedule 3-A and the adjustments are shown on 3-B. A breakdown of operation and maintenance expenses, by primary account, is shown on 3-C.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

REVENUE REQUIREMENT

ISSUE 32: What is the total revenue requirement?

RECOMMENDATION: The following revenue requirement should be approved: (WEBB)

	<u>TOTAL</u>	<u>INCREASE</u>	<u>PERCENT</u>
<u>WATER</u>	\$444,871	\$94,922	27.12%

POSITION OF PARTIES

SGIU: The total revenue requirement is \$629,279, after adjusting the requested amount to recognize the effect of prehearing stipulations and reduced pro forma costs based upon evidence presented at the hearing.

PUBLIC COUNSEL: Fall-out issue.

DISTRICT: No position.

STAFF ANALYSIS: The revenues required as a result of staff's analysis are \$444,871. This will allow the utility the opportunity to recover its expenses and the opportunity to earn a 7.35% return on its investment in rate base.

RATES AND CHARGES

ISSUE 33: What are the appropriate rates?

RECOMMENDATION: The recommended rates should be designed to produce revenues of \$444,871. The approved rates will be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to 25-30.475(1), Florida Administrative Code. The rates may not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of notice. (RASBERRY)

POSITION OF PARTIES

SGIU: The appropriate rates to cover the adjusted revenue requirement set out in Paragraph 59 are as follows:

Residential & General Service:

<u>Meter Size</u>	<u>Monthly BFC</u>
5/8" x 3/4"	\$ 30.91
1"	\$ 77.27
1/2"	\$ 154.54
2"	\$ 247.27
3" Cmpd	\$ 494.54
3" Turbine	\$ 540.91
4" Turbine	\$ 927.27
6" Turbine	\$ 1,931.81

Gallonage Charge \$2.84 per MG

Rates should become effective when tariffs are approved by the Commission.

PUBLIC COUNSEL: No position in brief.

DISTRICT: No position in brief.

STAFF ANALYSIS: The permanent rates requested by the utility are designed to produce revenues of \$742,718 for water service. The requested revenues represent an increase of \$424,875 or 33.67%.

The company proposed a rate design more heavily weighted towards the base facility charge in order to increase cash flow to cover fixed expenses during off season. (TR 69-70, 74, 104-105) Staff agrees with the company's methodology. Therefore, the

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

approved rates should be computed to take into consideration the methodology used by the company.

Staff recommends that the final rates approved for the utility should be designed to produce revenues of \$444,871 which is an increase of \$94,922 or 27.69%, excluding miscellaneous service revenues as recommended in Issue 32, using the base facility charge rate design.

The approved rates will be effective for meter readings on or after the stamped approval effective date of the tariff. The utility should be required to file and have staff's approval of revised tariff sheets and a proposed customer notice letter, pursuant to Rule 25-22.0406(9), Florida Administrative Code, prior to implementing the new rates.

A comparison of the utility's original rates, interim rates, requested rates, and staff's recommended rates is shown on Schedule No. 4.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 34: Does the utility's contributions in aid of construction (CIAC) levels exceed the guideline level of Rule 25-30.580, Florida Administrative Code, and, if so, should the utility's service availability policy be changed?

PRIMARY RECOMMENDATION: Yes, based on staff's calculations of the appropriate rate base in Issue 8, staff has determined that the level of CIAC for the period ending December 31, 1993, is 76% of net plant in service. Staff is concerned since this level of contributions exceeds the guideline maximum level of 75% pursuant to Rule 25-30.580(1)(a), Florida Administrative Code. Staff believes that the best solution to this situation at this time would be to reduce SGIU's plant capacity charge by \$400. Staff is recommending that the utility's plant capacity charge be reduced gradually to avoid an over-contribution situation in the future. Staff's recommended charges are reflected in staff's analysis. In the alternative, staff is offering two other options it believes are available to the Commission. (RASBERRY, RENDELL)

ALTERNATIVE 2: Although staff is concerned since the utility's level of contributions exceeds the guideline maximum level of 75% pursuant to Rule 25-30.580(1)(a), Florida Administrative Code, there was not sufficient information presented in the record to determine the appropriate change in Service Availability Charges at this time. Therefore SGIU should be ordered to file an application to modify its service availability charges within ninety days of receipt of the information addressed in Issues 40 and 41. (RASBERRY)

ALTERNATIVE 3: Since the utility's level of contribution in aid of construction exceeds the 75% maximum specified in Rule 25-30.580 (1)(a), Florida Administrative Code, SGIU should be ordered to discontinue collection of all authorized service availability charges, as of the issuance date of the final order in this rate proceeding. The utility's tariff should be revised to reflect the elimination of all service availability charges. (RASBERRY)

POSITION OF PARTIES

SGIU: It appears that the utility inadvertently inserted its position to Issue 36 in SGIU's position statement. The position of the utility in Prehearing Order No. PSC-94-0856-PHO-WU was as follows: "The utility contends that the service availability policy should not be revised; however, whether any revision is needed would be determined based upon resolution of other issues."

PUBLIC COUNSEL: No position in brief.

DISTRICT: Agree with OPC.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

STAFF ANALYSIS PRIMARY RECOMMENDATION: Rule 25-30.580 (1)(a), Florida Administrative Code, states that the maximum amount of contribution-in-aid-of-construction, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their design capacity. The purpose of this percentage is to only allow up to 75% of the utility's facilities to be contributed. This cut off point ensures that the utility has at least 25% invested so that it will maintain an interest in the facilities.

Based on staff's calculations of the appropriate rate base in Issue 8, staff has determined that the level of CIAC for the period ending December 31, 1993, is 76% of net plant in service. Staff is concerned since this level of contributions exceeds the guideline maximum level of 75% pursuant to Rule 25-30.580 (1)(a), Florida Administrative Code.

Staff believes that the appropriate action to be taken by the Commission at this time would to gradually reduce SGIU's service availability charges. As discussed in Issue 40, there exists the potential for significant growth on St. George Island. This growth, and the collection of service availability charges resulting, could possibly place the utility into an over-contribution situation. Although staff is concerned with the level of contributions, there is also a concern that this utility will require additional capacity, as discussed in Issue 41. This additional capacity may require substantial capital investment to accomplish. Although a strict adherence to the Commission's rules would logically indicate that the appropriate action would be to eliminate the utility's service availability charges, historically SGIU has heavily relied on the collection of contributions in order to fund its plant in service.

Therefore, staff is concerned that the elimination of the utility's service availability charges is not an option at this time. The current service availability charges were increased in the utility's last rate case, Docket No. 871177-WU by Order No. 21122, issued on April 24, 1989. At that time, the utility's contribution level was at 23.44%. This indicated that the service availability charges were inadequate at that time. At that time, the utility's total system capacity charge was \$250. In Order No. 21122, the Commission approved a plant capacity charge of \$1,245 and a main extension charge of \$525. However, staff is concerned that this increase in charges, as well as the growth in the service territory has helped to create this over-contributed situation. Staff believes that a gradual reduction in the plant capacity charge will help to alleviate this situation at this time. The reduction will result in the utility investing in plant in service,

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

thereby relieving the over-contributed situation. Staff will continue to monitor this situation and may readdress the modification, or possible elimination, at a later date. The recommended plant capacity charge is as follows:

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

STAFF ANALYSIS OF ALTERNATIVE 2: There was not sufficient information presented in the record to determine the appropriate change in service availability charges at this time. Further, staff is recommending that the utility be ordered to file additional information in Issues 40 and 41, in order to determine the appropriate number of ERC's and to determine if any additional capacity is required in order to provide future service. This information would allow staff to make the determination of whether SGIU's service availability charges should be adjusted.

In order to determine whether service availability charges should be adjusted, staff would need to make the appropriate calculations. These calculations take in consideration, not only present ERC's and present capital expenditures, but also future ERC's and future expenditures. As discussed in Issues 40 and 41, this information is not available at this time. The information required in Issue 40 would allow staff to factor in the appropriate ERC's, while the information required in Issue 41 would provide staff with the necessary information to determine any additional capital expenditures necessary. Therefore, staff believes that it would be appropriate to require the utility to file an application to modify its service availability charges within ninety days of the receipt, by the Commission, of the required additional information in Issues 40 and 41.

STAFF ANALYSIS OF ALTERNATIVE 3: Since the utility's level of contribution in aid of construction exceeds the 75% maximum specified in Rule 25-30.580 (1)(a), Florida Administrative Code, SGIU should be ordered to discontinue collection of all authorized and unauthorized service availability charges, as of the issuance date of the final order in this rate proceeding. As discussed in Issue 41, although additional capacity is required for SGIU, the utility could not produce evidence in the record as to the appropriate amount. Staff believes that the utility should be to required invest in the additional required capacity to ensure that there is an on-going interest in the utility.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 35: Should the utility's service availability charges be escrowed?

RECOMMENDATION: No. SGIU should not be required to escrow CIAC at this time to ensure that future plant improvements are made. Staff believes that the primary reason to escrow any such service availability charges would be to ensure that any necessary plant improvements would be properly and expeditiously completed. However, as discussed in Issues 34 and 41, there has not been adequate evidence presented in the record to determine what, if any, plant improvements should be made at this time or in the near future. (RASBERRY, RENDELL)

POSITION OF PARTIES

SGIU: No. Placing funds in escrow serves to frustrate management of the utility, cause confusion in operations, and to delay payment for needed equipment and supplies. There has been no showing that SGIU has not met its obligations to provide service to customers who have paid service availability charges.

PUBLIC COUNSEL: Yes. This company has consistently disregarded the Commission's rules, regulations, orders, and policies. Accordingly, the Commission can not be assured the company will properly use the service availability charges collected from its customers. As such the funds should be escrowed.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: As indicated in Issues 34 and 41 this utility will require additional capacity in the future. This additional capacity may require substantial capital investment to accomplish. Historically SGIU has heavily relied on the collection of contributions in order to fund it's plant in service. Therefore, staff is concerned that the elimination of the utility's service availability charges is not an option at this time.

During the hearing, evidence was presented that showed the Commission has ordered St. George Island Utility, Ltd. to escrow funds in the past to ensure that capital improvements were made. (TR 1514-1518) Also, Exhibits 61, 70, and 71 show that, not only the Commission, but also developers, banks, and other parties required SGIU to escrow the CIAC paid by them in order that the necessary improvements were made to the system to serve them. Company witness, Gene Brown, also indicated during cross examination that these developers were concerned, and wanted assurance that the improvements were made. (TR 1521-1523) Specifically, Mr. Brown testified that everybody knows the utility doesn't have enough money to operate on, therefore, developers who

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

pay money up front for plant improvements want to ensure that those improvements are made timely. (TR 1523)

In addition, several customers testified at the hearing that they were concerned that the funds would not be used to improve the water system. (TR 28, 29, 30, 31, 384, 389, 393) Specifically, the customers were concerned over where and what the money would be used for.

In the past, the Commission was also concerned with where the monies of SGIU were being spent. In Order No. 21122, the Commission ordered SGIU to escrow its service availability charges in a separate account pending completion of necessary plant improvements and capacity increases to accommodate proposed future customers. (TR 1514) Also, in Order No. 22779, the Commission ordered that certain prepayment of CIAC charges be escrowed into a separate escrow account to be used only for the tank and other improvements mandated by Order 21122.

Further, in Order No. PSC-93-0370-AS-WU, the Commission approved a stipulation that SGIU submitted in response to a revocation docket being opened, Docket No. 920782-WU. (TR 1523) In essence the company proposed, and the Commission approved, that all CIAC would be placed into a separate escrow account for utility improvements. (TR 1524-1525) All dispersals from this account was to be approved by the staff of the Commission and any withdrawals were to require the signature of the Director of the Division of Records and Reporting. The order further stated that the purpose of the agreement was to determine whether utility funds were being used appropriately for utility purposes and to protect the customers from any dissipation of utility assets.

In Issue 19, staff is recommending that the manager's salary be reduced due to mismanagement. Inherent with this mismanagement, is the misuse of funds. The continuance of water service to existing and to future customers is imperative.

Although there is concern with the proper use of the service availability collections by SGIU, staff does not believe it would be appropriate to escrow CIAC at this time. Staff believes that the primary reason to escrow any such service availability charges would be to ensure that any necessary plant improvements would be properly and expeditiously completed. However, as discussed in Issues 34 and 41, there has not been adequate evidence presented in the record to determine what, if any, plant improvements should be made at this time or in the near future.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 36: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: The water rates should be reduced by \$25,471 at the expiration of the four year recovery period as shown in Schedule 5, in compliance with Section 367.0816, Florida Statutes. The utility should be required to file revised tariff no later than one month to the actual date of the required rate reduction. The utility also should be required to file a proposed "customer letter" setting forth the lower rates and the reason for the reduction. (RASBERRY)

POSITION OF PARTIES

SGIU: The appropriate reduction after four years is calculated in accordance with Rule 25-30.470, Florida Administrative Code. Based on the revenue requirement as set out in Paragraph 59 above, and the rate case expense set out in Paragraphs 50 and 51, it is 6.39 percent applied as follows:

Residential & General Service:

<u>Meter Size</u>	<u>Monthly BFC</u>
5/8"x 3/4"	\$ 1.98
1"	4.94
1/2"	9.88
2"	15.80
3" Cmpd	31.60
3" Turbine	34.56
4" Turbine	59.25
6" Turbine	123.44

Gallonage Charge .18 per MG

PUBLIC COUNSEL: No position in brief.

DISTRICT: No position in brief.

STAFF ANALYSIS: Section 367.0816, Florida Statutes, requires that rate case expense be apportioned for recovery over the 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.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

The water rates should be reduced by \$25,471 as shown on Schedule No. 5. The revenue reductions reflect the annual rate case amounts amortized (expensed) plus the gross-up for regulatory assessment fees.

The utility should be required to file revised tariffs no later than one month to the actual date of the required rate reduction. The utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction.

If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 37: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

RECOMMENDATION: The final revenue requirement should be adjusted for items not representative of the period interim rates were in effect before comparing the final revenue requirement with the interim revenue requirement to determine whether a refund is necessary. Based on Staff's calculation, no refund is necessary (MONIZ)

POSITION OF PARTIES

SGIU: No refund is warranted. To the extent that any refund could be warranted, the issue will be determined based upon resolution of other issues.

PUBLIC COUNSEL: Agree with Staff.

DISTRICT: Agree with Staff.

STAFF ANALYSIS: On April 18, 1994, the Commission issued Order No. PSC-94-0461-FOF-WU and approved interim rate increases of \$34,307 (11.11%). These increases resulted in annual revenues of \$348,825. The Commission approved this increase subject to refund in the event that excessive earnings were later determined. According to Section 367.082, Florida Statutes, any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed. Examples of these adjustments would be an attrition allowance or rate case expense, which are recovered only after final rates are established.

In this proceeding, the test period for establishment of interim rates and final rates was the twelve months ended December 31, 1992. The approved interim rates did not include any provisions for pro forma consideration of increased operating expenses or increased plant. The interim increase was designed to allow recovery of actual interest costs and the floor of the last authorized range for equity earnings.

To establish the proper refund amount, we have calculated a revised interim revenue requirement using the same data used to establish final rates, but excluding the pro forma provisions for rate case expense, tank cleaning, supply main cleaning, testing and a fire protection study. Those pro forma charges were excluded since they were not actual expenses during the interim collection

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

period. We computed the comparable revenue requirement using the recommended cost of capital for final rate purposes since the cost of debt included in the calculation was in effect during the interim period.

Using the principles discussed above, we have calculated that the correct interim revenue requirement was \$372,347. This revenue level exceeds test revenues of \$348,825. Therefore, staff does not recommend a refund of interim rates.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 38: Should the utility's AFPI charge be adjusted?

RECOMMENDATION: The appropriate AFPI charges, as calculated by staff, are shown on Schedules 6, located at the back of the recommendation. (AMAYA, WEBB)

POSITION OF PARTIES

SGIU: AFPI will be calculated and collected in the designated "Plantation areas" in accordance with Stipulation 20d.

PUBLIC COUNSEL: Yes, to the extent that the Commission adjusts the Company's rate base and used and useful percentages.

DISTRICT: Agree with Staff.

STAFF ANALYSIS: According to Stipulation No. 20d, AFPI charges will be calculated and collected from new customers in the designated Plantation areas. The amount of plant and the number of connections included in the calculation are \$127,175 and 457 ERCs, respectively. (See Issue 2 and Schedule 6). There is no non-used and useful plant outside of the Plantation. AFPI charges recommended by staff can be found on Schedule 6, located at the back of the recommendation.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 39: Does the utility keep its books and records in substantial compliance with the Commission's Rules and Regulations, and if not, should it be penalized?

RECOMMENDATION: No. The books and records are not in substantial compliance with the Commission's Rules and Regulations. The appropriate fine is addressed in Issue 19. (K. WILLIAMS)

POSITION OF PARTIES

SGIU: Yes. The Commission determined that SGIU's books were kept in substantial compliance with rules and regulations in 1992. The books have improved since then. There is no evidence in this proceeding that would justify a finding that the books and records are not in substantial compliance.

PUBLIC COUNSEL: No position at this time.

DISTRICT: Agree with OPC.

STAFF ANALYSIS: By Order No. 21122, issued on April 24, 1989, the utility was found in violation of the Commission rules regarding preservation and maintenance of records. The order stated that the Commission found that it was appropriate to allow the utility a certain time period in which to improve its operations, instead of imposing a fine at the time. The order specifically stated that the utility shall make a reasonable effort to gather all of its books and records, since its inception and to maintain its books in substantial compliance with the Uniform System of Accounts (USOA).

Order No. 23038, issued on June 6, 1990, required the utility to show cause why it should not be fined for failure to keep its CIAC and plant records in compliance with the USOA. Order No. 23649, issued on October 22, 1990, required the utility to continue to maintain its books and records in accordance with the USOA. Order No. 24458, issued on May 1, 1991, required the utility to bring its books and records into and maintain them in compliance with the requirements of the Commission. Order No. 24807, issued on July 11, 1991, required the utility to show cause why it should not be fined for failure to maintain its books.

In Order No. PSC-92-0122-FOF-WU, issued on March 31, 1992, the utility was found in substantial compliance of the Commission's orders and rules. That order stated that failure of the utility to properly record its accounting activities and preserve its records for audit inspection might result in disallowance of expenses in subsequent rate proceedings.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

Staff witness Gaffney testified that her audit report included 28 audit exceptions and 16 audit disclosures. (TR 839-845) She defines an audit exception as a deviation from the USOA, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. (TR 840) The exceptions ranged from monthly posting of accounts, condition of records, improper plant retirements, lack of supporting documentation and required summary schedules for depreciation and amortization. Many of these audit exceptions were stipulated to by the utility. (EXH 27)

In Audit Exception No. 2, the auditor found two major discrepancies with the USOA: supporting documentation was not readily available for any item included in any account, and books and records were not consistently kept on a monthly basis. Many of the problems were as follows: the books were kept on a cash not an accrual basis; the accountant's journal entries were not supported; some source documentation was missing; the accountant was not readily available during the audit, causing many delays; the bookkeeper could not interpret the accountant's workpapers; the 1992 books were not closed until September 1993, etc. The auditor did note better control of documents after the utility obtained the additional office worker. (EXH 27, PG 7)

Utility witness Drawdy testified that the utility's books and records and supporting documentation were in substantial compliance with the USOA. She stated that she had no responsibility for records established before her engagement. Further, she assisted SGIU in accumulating and verifying supporting documentation since the last rate case. (TR 117) Ms. Drawdy testified that in Order No. PSC-92-0122-FOF-WU, issued on March 31, 1992, the Commission found that the utility's books and records were in substantial compliance with the rules governing the preservation of records and compliance with the USOA. (TR 118)

When questioned whether the support for entries was readily available to the auditors, Ms. Drawdy stated that it was available. (emphasis added) Since the utility had limited funds, she could not be there on a full-time basis. (TR 126) According to Audit Exception No. 2, Ms. Drawdy was only available on Fridays during two months of the staff audit. (EXH 27) Ms. Drawdy did admit that copies of invoices that were missing during the audit were filed several weeks after the conclusion of the audit. (TR 127) Mr. Brown even acknowledged that keeping the utility's records straight has been and still is a problem. (TR 457)

In a memo to Mr. Brown, dated February 4, 1994, Utility witness Seidman stated that 22 of the requested pro forma adjustments needed supporting documentation. (EXH 2) The official filing date for the MFRs was February 1, 1994. The record is

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

replete with instances where the utility could or did not provide sufficient supporting documentation. Several examples were insurance and travel expenses, affiliate transactions, employee benefits. (See Issues 5, 13, 17, 24)

The utility by its own admittance has and continues to have difficulty maintaining its records in compliance. These problems have overflowed into the filing of this case. The lack of documents to support the MFR filing has added difficulty and uncertainty to a filing that resulted in 28 audit exceptions. For a Class B utility, the number of times the issue of books and record has arisen in the last four years is exasperating. Although the utility may have improved its record keeping from the prior rate case, staff is not convinced that the rule will be consistently complied with.

The majority of this problem lies with the poor management of the utility. Obtaining sufficient accounting staff is only one part of the solution. The other requirement is that management provide the appropriate guidance and resources to allow the employees to apply the correct USOA requirements. We would recommend that the utility be ordered to maintain its books in compliance, but this has been done so many times that it does not appear to be effective. The only other recourse the Commission could use would be a penalty. Staff believes that this issue alone supports a reduction in management fees as a penalty for not keeping its books and records in accordance with Commission's rules and regulations. The reduction of the manager's fee, however, is addressed in Issue 19. Therefore, staff recommends that the books and records are not in substantial compliance with the Commission's rules and regulations.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 40: What is the number of ERCs that the utility is currently serving and what is the maximum number of ERCs that the utility is capable of serving while maintaining compliance with the regulatory agencies?

RECOMMENDATION: As of July 20, 1994, SGIU was committed to serving 1,347 ERCs; however, the maximum number of ERCs the utility can presently serve is 1,346, where an ERC is defined as 520 gpd. Therefore, the utility is currently oversold. When the utility's permit modification application before the Northwest Florida Water Management District (NFWFMD) is decided, the utility should provide a copy of the approved consumptive use permit (CUP) to the Commission and to DEP. As part of that filing, the utility should state the new maximum number of ERCs it believes it can serve with such number reconciled between DEP's raw water supply methodology, Mr. Thomas' hydraulic analysis of the distribution system and Baskerville-Donovan's distribution system methodology. (AMAYA)

POSITION OF PARTIES

SGIU: The utility is presently serving approximately 1200 ERCs and is capable of serving well in excess of 1541 ERCs while maintaining compliance with all government regulations.

PUBLIC COUNSEL: No position.

DISTRICT: No position.

STAFF ANALYSIS: There have been different methods proffered in determining the system's capacity in terms of ERCs, and each method is highlighted.

DEP's Determination of Capacity - 1,346 ERCs

Staff witness Kintz testified that the maximum number of allowable ERCs for the utility is 1,346. (TR 827) This number is based on several factors: the NFWFMD's restriction on the utility to 700,000 gpd on a single day, the maximum day pumpage which occurred on May 31, 1993 of 533,000 gallons, and the number of users on the system that day. (TR 827) Mr. Kintz also uses Baskerville-Donovan's conversion of commercial accounts into 140 ERCs. He further states an ERC uses approximately 520 gallons per day. Mr. Kintz's determination includes Well #3 being on-line and system improvements as envisioned under permit DS19-222055 (altitude valve, controls, high service pump) being completed and in place. (TR 827) DEP does not consider that storage adds capacity to a system. (EXH 24, p. 6)

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

Mr. Thomas' Determination of Capacity - 1,807 ERCs

The Utility has testified that it is currently before the NFWFMD with an application to modify its maximum day withdrawal allowance to 939,640 gallons. (TR 1486) Utility witness Thomas conducted a preliminary engineering analysis for the utility and has concluded that if the permit modification before the NFWFMD is successful, the utility could supply 1,807 ERCs at 520 gpd/ERC. (EXH 52) Mr. Thomas' analysis of maximum number of ERCs follows the methodology applied by DEP when it derived 1346 ERCs, even though the utility stated that "Testimony that SGIU can serve only 1346 ERCs is based upon an erroneous view of the system's capacity which ignores the fact that peak load demands only occur on three days during the year and ignore[s] the capacity that is accomplished by combining storage and pumping capacity. (Proposed Findings of Fact No. 103). Staff notes, however, that Mr. Thomas' capacity figure is only valid if the consumptive use permit modification is successful, if DEP allows additional water through the existing raw water main, and then only for the next five years or until the utility reaches beyond its modified maximum withdrawal limit.

Mr. Bidy's/Baskerville-Donovan's Determination of Capacity - 1,541 ERCs

Mr. Bidy, a rebuttal witness for the Utility and a regional manager of Baskerville-Donovan, derived a maximum number of 1,541 ERCs. (TR 1195) His number is based on maintaining the system's pressure at no less than 20 psi at any point in the distribution system. (TR 1198) Within the Baskerville-Donovan Report (EXH 51) an ERC is defined as 300 gpd which is based on an average daily flow, but the modeling that the report relies on includes a peaking factor so his number is also tested under peak flow conditions. As previously stated, the Utility's commercial customers have been equated to 140 ERCs. Statements about the altitude valve, controls and high service pump modifications needing to be on line to achieve this capacity are also made by Baskerville-Donovan. (EXH 51, Addendum Number 2) Mr. Bidy points out, however, that even at 520 gpd/ERC, his 1,541 ERCs would need 801,320 gallons and he states that operating Wells 1 and 2 for 12 hours, then Well 3 for another 12 hours, for a total of 24 hours, could yield 806,400 gallons (TR 1197) which would more than satisfy the requirement. Staff notes that this, again, is greater than the Utility's current maximum aquifer withdrawal limit of 700,000 gpd. Mr. Bidy contends that water storage should be taken into consideration when determining system capacity, but such an analysis has not been undertaken by Baskerville-Donovan. (TR 1197)

Mr. Coloney

Mr. Coloney believes that with Well Number 3 on line, the system capacity increases significantly. (TR 149-50) He further testifies that the Utility with Well Number 3 on line, has adequate capacity through the current year. (TR 160) He goes on to iterate proposed additions as proffered in the 1992 Baskerville-Donovan Report from 1995 through 2002. Those proposed additions are: from 1995-1998 a 50,000 gallon ground storage tank and booster pumps and from 1999-2002 a new elevated storage tank near Windjammer Village. Mr. Coloney also believes that added storage increases a system's capacity. His explanation at hearing was "If you, for example, have storage which equals total demand in a given period of time, then if you were unable to pump during that period for any reason, you would be able to supply that peak demand without further delivery of water from your well field." (TR 228-229)

Staff Conclusions

The background facts are: the utility's peak demand was 533,000 gallons on May 31, 1993; the utility has ground storage of 292,000 gallons and elevated storage of 150,000 gallons. (EXH 23) The utility has three wells for its raw water supply. Well Number 1 is 250 gpm, Well Number 2 is 250 gpm and Well Number 3 is 500 plus gpm. Mr. Garrett testified that Well Number 3 was pumping almost 600 gpm during Memorial Day weekend 1994. (TR 880) Well Number 1 and Well Number 2 are designed to operate together and alternate with Well Number 3. (TR 143) The third well is equipped with a generator and there is also a generator at the water treatment plant on the island, so in the event of a power outage, the system has full emergency supply capability. (TR 812) The Utility is currently limited to 700,000 gpd on a single day by the NFWFMD; but has applied for a modification to its consumptive use permit which, if successful, would allow the utility greater raw water capacity.

The Utility makes an argument that it has only 3 peak periods throughout the year: Memorial Day, 4th of July and Labor Day (TR 227, 1198) and for the balance of the year, demand is one-third of that daily basis. (TR 230) Mr. Coloney believes that DEP gives far greater weight to peak demand than is justified given the extraordinary nature of the water system. (TR 229-230) However, as Coloney also stated, the system must be designed for peak usage. (EXH 8, p. 14) Mr. Kintz, Mr. Thomas, and Mr. Bidy have all considered peak demand when considering the system's capacity to arrive at a maximum number of allowable ERCs. Mr. Kintz's and Mr. Thomas' methodology is concerned with raw water supply, whereas Mr. Bidy's is concerned with the distribution system. Staff, however, defers to DEP and recommends its number as maximum (1,346 ERCs at

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

520 gpd/ERC). In the event that the Utility is successful in modifying its consumptive use permit, the maximum number of ERCs may change, based on DEP's and Mr. Thomas' methodology. Staff believes the Commission should order the Utility to provide the water management district's decision as to its consumptive use permit application, and, if the utility's withdrawal amounts have changed either to what the utility has requested or another amount determined by the water management district, then the filing should include a corresponding change in the maximum number of ERCs. That change in ERCs should be reconciled between Mr. Biddy's limitation of 1,541, what Mr. Thomas supports based on the current hydraulic analysis he is undertaking of the distribution system, and DEP's raw water methodology. It would be unwise to approve 1,807 ERCs based on raw water supply if the distribution system cannot support more than 1,541 ERCs, or the raw water supply cannot provide the water.

As of February 17, 1994, only 86 of the 1,346 connections remained available to SGIU with 15 of those connections to be reserved for emergencies, such as shallow wells going bad. (EXH 24, p. 4) By reviewing Mr. Thomas' preliminary analysis of SGIU, the utility was committed to serving 1,347 ERCs as of July 20, 1994. (EXH 52) With the actual growth that has occurred on St. George Island (TR 830), it is reasonable to expect additional growth in the future. As testified to by staff witness Pierce, 17 residential permits were issued for St. George Island for the first 3 months of 1994. (TR 830) As further testified to by Mr. Pierce, there is a total of approximately 3,000 lots available on the island (including 300 Ocean Mile units as separate lots), 1,200 existing structures, which leaves 1,800 lots available for development. (TR 833) The ability of this Utility to properly serve future customers within its service territory is in question and such concern is addressed in Issue 41 regarding the utility's need for additional capacity.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 41: Is additional capacity required of the utility, and if so, what specific actions, if any, are necessary in order to achieve additional capacity?

RECOMMENDATION: Additional capacity is required, and the Utility must submit specific plans to the DEP by January 1, 1995. In addition, if the Commission approves the amortized expense for a fire flow study in Issue 27, the utility shall consider improved fire protection while undergoing its current system analysis.
(AMAYA)

POSITION OF PARTIES

SGIU: The utility is fully capable of meeting existing needs and projected growth through 1998. By constructing improvements recommended by its engineers, SGIU is capable of meeting needs of its customers in the future. SGIU is fully capable of implementing needed improvements.

PUBLIC COUNSEL: No position.

DISTRICT: No position.

STAFF ANALYSIS: As discussed in Issue 40, there exists the potential for significant additional growth on St. George Island. SGIU is at capacity now (EXH 23, 52, 53). The utility has made additions to its plant since the last rate case which include an elevated storage tank, the third well which is now on-line, a backup chlorination system and a new generator (TR 273-74); but, as stated by utility witness Seidman, "Neither the plant additions nor the pro forma adjustments are growth related." (TR 72-73) In addition, SGIU has recently installed an altitude valve (TR 560) and two new high service pumps with variable speed drives which give an effective pumping capacity over 1,000 gpm and (TR 555) which allow the utility to maintain a 65 psi pressure or higher. (TR 573)

Since the utility must address the issue of additional capacity, staff believes the utility would be prudent to consider addressing improved fire protection at the same time. Staff believes the issue of fire flow could easily be incorporated as Mr. Thomas is conducting the current engineering analysis of the system and is slated to conduct the fire flow study as described in Issue 27.

Various opinions as to what additional capacity is needed have been offered, and each is addressed below. Fire flow is discussed separately and follows the discussion on additional capacity.

DEP Witness Kintz - Utility needs additional raw water line

Staff Witness Kintz testified that the utility must provide an additional raw water line in order to supply additional development in excess of the 1,346 connections (TR 826). However, there are differing opinions as to the maximum carrying ability of the existing raw water main: Witness Bidy expressed the maximum as 620 gpm (TR 1197) whereas Mr. Thomas stated the maximum as 1,200 gpm (EXH 52). Kintz further stated that if fire flow were required by Franklin County, then the size of the distribution mains throughout the island would also need to be increased in addition to increasing the capacity of the raw water transport and adding storage on the island. (TR 826)

Utility Witness Brown - Modified Consumptive Use Permit, Storage, Parallel Mains

Witness Brown stated "Then we plan, as I understand it, if the engineer continues to agree with this, we're going to parallel the eight-inch line on the causeway, which will help the hydraulics of the system. And we believe we can convince DEP that this will help the supply problem that they're concerned with." (TR 561) Brown is concerned with the sections of raw water main that are binding against rocks, and implies that paralleling those sections would alleviate an outage if a section of line broke. (TR 566) The utility does not plan to parallel the ductile iron on the bridges as that would cost \$800,000 (TR 562). The first paralleling the utility will do is with respect to the line between Well Nos. 2 and 3, by paralleling the existing 6" line with an 8" line (TR 565-566). The next expenditure would be for a new elevated tank in the Plantation, probably on the half-acre that Mr. Johnson (a developer) wants to contribute to the utility (TR 562-63). In his response to a question by Chairman Deason, Brown stated that the additional elevated storage would increase fire flow capability on the island (TR 563). Brown went on to say "... I think eventually there will be three elevated tanks, one on the east end near the entrance to the state park, one on Plantation and one in the middle. And if you have that capacity which can be used for peak periods, which is our big problem on St. George Island is three weekends a year, plus fire fighting capacity, then that's the way I see the needs." (TR 564) He states that more storage and more pumping at remote locations away from the central plant will stabilize the pressure throughout the system a little better. (TR 573) He also says that he and Mr. Garrett have been addressing the need for redundancy. (TR 612-13, 878-79) Mr. Garrett echoed several of Mr. Brown's ideas about what changes are needed in the near future (TR 883). Mr. Brown stated that if the utility's requested modification to its consumptive use permit (CUP) is approved, that would take the utility through 1995. (TR 1486-87)

Utility Witness Coloney - Storage

Coloney stated that when Well No. 3 is on-line, system capacity will increase significantly. (TR 149-50) Further, he believes that with system modifications and improvements, including Well No. 3, the utility has adequate capacity through the current year. (TR 160) He stated that from 1995 to 1998 an additional 50,000 gallon ground storage tank and booster pumps are needed. (TR 160) However, during cross-examination by staff, Mr. Coloney replied that he believes the utility has adequate storage for the next four to five years (TR 226) and that if he were to add storage he would choose elevated storage toward Bob Sykes Cut (TR 227). He went on to say that in the period 1999 to 2002, a new elevated storage tank near Windjammer is needed. (TR 160) Coloney's professional opinion is "... that the system as it presently exists, given modifications and improvements which are within the ability of the company to provide, has adequate and sufficient capacity to serve its existing customers and those projected to be added through the year 2002." (TR 161) Mr. Coloney believes that between the current pumping capabilities combined with on-site storage that in a 24-hour period, 1.1 million gallons is available which is more than adequate. (TR 228)

Utility Witness Bidy - Additional Capacity Not Needed Until Serving 1,541 ERCs

Bidy stated that "Perhaps, adding parallel lines for the bridge crossing areas could be added in the future for greater system reliability." (TR 1199) He also outlined some options the utility has to provide additional raw water supply such as: "1. Increase withdrawal rates specified in Consumptive Use Permits (Utility is pursuing). 2. Construct additional raw water supply wells. 3. Install pumping appurtenances to boost higher flows through existing main, taking into consideration design limitations of the existing pipe and practical constraints. 4. Increase finished storage on the island to accommodate future demand. (TR 1196-97) Mr. Bidy believes that after the utility is serving 1,541 ERCs, then elevated storage on either extreme end of the island would be advisable. He think's it's a matter that needs studying on a year-by-year basis projected through maybe a 20 to 30 year growth pattern. (TR 1223)

Bidy also states that there is effective storage on the island of 400,000 gallons and in combination with the withdrawal rate of 700,000 gpd, the utility has 1.1 million gallons of available water. (TR 1216-17) Commissioner Kiesling asked about the second day after a peak day, because the utility would need to fill its storage and could still only pump 700,000 gpd, to which Bidy indicated there is only one spike day per the high usage

weekends. (TR 1217-18) Staff tested this hypothesis by reviewing the utility's additional engineering information for 1991 and 1992 that was included in Exhibit 1. The table attached at the end of this issue shows the three peak weekends each year with consecutive high days highlighted. It does not necessarily support Mr. Biddy's statement. Although the peaks for those periods in 1991 and 1992 never exceeded 449,000 gallons, staff notes that Memorial Day for 1993 was 533,000 gallons (EXH 24). Without having similar engineering data for all of 1993, staff can not review all the peak days for 1993. It is reasonable to deduce that as the utility grows though, the peak days will only increase and in fact, Mr. Coloney supported this idea. (TR 228) The trend in the data shows that the spike does not last for one day, but may be for a two to four day duration. However, since the utility has requested increased withdrawal from the aquifer for three consecutive days (EXH 53), and the utility's maximum day usage is roughly one-half of the available water, staff believes it may not be a problem if the CUP modification is approved.

Utility Engineer Thomas - Modified Consumptive Use Permit

As stated by Mr. Brown "...the reason I got Les Thomas to do this engineering analysis is I wanted to get away from Baskerville-Donovan and Wayne Coloney, who have been at loggerheads with DEP, and I wanted to get a fresh look." (TR 561-62) Exhibit 52 is Mr. Thomas' preliminary analysis. (TR 1253-54) This preliminary analysis shows that the "... system appears to be adequate to meet the needs over the next 5 years provided additional water is granted from the Water Management District." (EXH 52, p. 8)

Staff Conclusions - Additional Capacity

Staff believes that, based on Mr. Thomas' preliminary engineering analysis of the utility, that the utility is at capacity. This conclusion is based on DEP's methodology which has been utilized by Mr. Thomas in his preliminary analysis. (See Issue 40) Staff believes that since the system analysis is still being undertaken, that once that analysis is final, the utility should file a copy both with DEP and with this Commission, with a definite, detailed plan as to how the utility plans to add capacity. Staff notes that there are several options open to the utility, such as obtaining a modified consumptive use permit, adding an additional raw water main or modifying the existing raw water system by paralleling some of the mains, to adding a fourth well to its raw water supply. The utility should follow a two-step process in satisfying the requirements of this issue. (1) The utility would file the final engineering analysis both to DEP and this Commission when it is ready; (2) As a result of the final engineering analysis, the utility would prepare and submit a complete permit application to

the DEP, with a copy to this Commission, which would satisfy the utility's need to add additional capacity. Such permit application shall be made to the DEP by January 1, 1995. If for some reason the Utility cannot fulfill the requirement in the time allotted, the Utility shall notify the Public Service Commission with justification and expected completion date by January 1, 1995. The CUP modification application currently before the NFWFMD should be resolved by then and the maximum number of ERCs, reconciled by the utility as stated in Issue 40, should be incorporated in the prescribed procedures above.

Fire Flow

Staff believes that since the utility is in a position such that it must address future capacity, it would be prudent to consider incorporating improved fire flow in its consideration. As stated in Issue 27, staff recommends that the Commission allow the pro forma expense for a fire flow study. Although the utility is not legally required to provide (TR 223), nor was it designed for, fire flow (TR 1207, 1229), it installs fire hydrants on its distribution system. (TR 396) Staff believes the following discourse during Mr. Coloney's cross-examination is insightful:

Q. Based upon the testimony that you have given on fire flow, should customers reasonably expect the fire hydrants to be able to provide adequate fire protection?

A. No.

(TR 225) Mr. Coloney does say, however, that the condition has significantly improved since his 1988 report in which he stated that adequate fire flows were available only to a very limited extent during periods of low usage. (TR 222) He states that the plant is delivering water with two 50-hp pumps at 65 psi and goes on to say that "They are certainly capable of exceeding a standard fire flow of 500 gpm. And in any period other than absolute maximum usage, they would be able to continue that fire flow for a significant period of time. (TR 222) When staff asked Mr. Coloney what infrastructure was needed to provide multiple fire flows at peak demand, he stated that "In my opinion it would be desirable to provide increased elevated storage, and it would be desirable to provide a supplemental main dedicated to fire protection, as opposed to the combined use of the existing main for delivery of distribution water and fire fighting water from the same line. (TR 224-25) He also believes the system is fully up to any requisite standards at this point in time, that in fact, the hydrants are indeed functional and provide a high degree of protection. (TR 224-25) When questioned about the possibility of replacing the existing 2" main, Mr. Coloney stated it would be desirable. (TR

231) He also stated that the "... nearly 700,000 linear feet of two-inch PVC pipe (Coloney's engineering report states 69,375 linear feet of two-inch main) is totally inadequate for any type of fire protection." (TR 231) However, he would not replace that 2" pipe unless there were provision for additional capital in order to provide fire protection (TR 232) and then at a minimum it should be replaced with 6" main for fire protection. (TR 234)

Mr. Bidy said he would like to see a fire flow system developed, and said he thinks it is coming, sooner or later. (TR 1231) He also stated "... I think the island is growing, and it is highly visible and very high-priced homes on the island, so I think it's a matter of time before fire flow will be designed and built on the island, and I would think it would be a matter of who is willing to pay for it." (TR 1231) Bidy testified that there are several alternatives available to the utility to be able to provide fire flow. "One would be a totally dedicated fire flow system, its own storage tank, high service pump, and distribution system, fire distribution system. That might be the most economical. You could even use salt water, for that matter, if you had a total dedicated system that was not a potable system. Another alternative would be to increase the main sizes in the distribution system, and have the combination of potable water and fire protection. All of them would require extensively more storage and more pumping capacity." (TR 1229-30)

As testified to by Mr. Abbott, the St. George Island Volunteer Fire Department recognizes that the utility is not accepting responsibility for fire protection on St. George Island, but hopes that the utility and the fire department can work together in achieving better fire flow. (TR 836) As further testified to by Mr. Pierce, the utility is the only entity poised to address fire protection on the island. (TR 834) The utility is also claiming it is in a position to address fire protection, as Witness Brown testified "Basically, the utility is ready, willing and able to upgrade its system to provide an improved level of fire protection on St. George Island." (TR 287)

Staff Conclusions - Fire Protection

As stated, staff believes the Commission should order the utility to consider improved fire protection since it must address the issue of adding capacity to its system. If an allowance for a fire flow study is approved in Issue 27, the utility would be afforded the necessary capital to conduct such a study. It may be determined that the utility is providing some standard of fire protection, and it would not be economically feasible to supplement its infrastructure just for fire flow at this time. However, the utility and its ratepayers will have had the benefit of assessing

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

its abilities with respect to providing fire flows on St. George Island and could incorporate such information in all future plant improvements.

DOCKET 940109-WU
 SEPTEMBER 29, 1994

ATTACHMENT 1

Date	1991	1992
May 22		? *
May 23		?
May 24	197000	402000
May 25	260000	422000
May 26	351000	394000
May 27	405000	
May 28	245000	
May 29	235000	
July 1	288000	310000
July 2	?	277000
July 3	344000	347000
July 4	264000	417000
July 5	424000	449000
July 6	411000	440000
July 7	411000	402000
July 8	271000	355000
Sept 1	307000	
Sept 2	361000	
Sept 3	285000	
Sept 4	151000	
Sept 5		203000
Sept 6		384000
Sept 7		374000
Sept 8		320000

* May 1992 and July 2, 1991 MOR information is difficult to read

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 42: Should the Commission accept the utility's proposed findings of fact?

RECOMMENDATION: The Commission should accept and reject as discussed below. (PIERSON)

POSITION OF PARTIES

SGIU: The proposed findings of fact should be accepted.

PUBLIC COUNSEL: No position stated.

DISTRICT: No position stated.

STAFF ANALYSIS: Staff has reviewed each of the utility's proposed findings of fact. Our analysis is stated below for each individual item.

1. The quality of service provided by SGIU is satisfactory and has improved dramatically in recent years. Since 1989, when the last rate case regarding SGIU was before the Commission (Docket No. 871177-WU), SGIU has developed from a system of questionable reliability into a first class system that provides safe and reliable water service for its customers. SGIU has the capacity to grow and to continue serving its existing customers and those projected into the foreseeable future.

This proposed finding of fact should be rejected. The record does not support that the system is a first class system or that St. George has the capacity to serve customers for the foreseeable future.

2. In its Final Order in Docket No. 871177-WU, the Commission directed SGIU to improve its service by implementing specific programs and making designated improvements. In re: Application of St. George Island Utility Company, Ltd., Order No. 21122 (Public Service Commission 1989) at pp. 59-61. Each of the mandated programs and improvements and many others have been implemented.

This proposed finding of fact should be rejected. While St. George has improved its quality of service, it is not in compliance with the National Association of Regulated Utility Commissioners (NARUC) Uniform System of Accounts (USOA).

3. Since the last rate case, SGIU has brought about the following programs and improvements: (A) A third well has been brought into service; (B) A 150,000 gallon elevated storage tank has been added; (C) A chlorine booster has been added; (D) The

aeration plant has been expanded, repaired and improved; (E) A regular flushing program has been implemented; (F) A regular program for detection and repair of leaks has been implemented; (G) Testing programs for chlorine residuals and hydrogen sulfide have been implemented; (H) A regular system pressure testing program has been implemented; (I) A cross connection prevention program has been implemented; (J) Fencing and security have been developed and implemented at the wells and at the plant; (K) Personnel have been made available to deal with emergencies on a 24-hours a day, seven days a week basis; (L) The old generator has been replaced and a backup generator has been added; (M) A new 50 horsepower high efficiency motor and pump together with a 50 horsepower high efficiency replacement motor have been installed; (N) Variable speed drives needed for each new motor to avoid the "water hammer" problem have been installed; (O) Additional pumps are maintained in order to allow complete redundancy in the pumping system; (P) A new butterfly valve and a new altitude valve with necessary piping configuration have been installed.

This proposed finding of fact should be accepted, except for (D) and (H). The record does not support these claims.

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

This proposed finding of fact should be rejected. The record does not support that the improvements have dramatically increased the capacity of the system.

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

This proposed finding of fact should be rejected. The record indicates that tests on the third well were not timely filed.

6. SGIU has accurately stated the original cost of the water system. The issue of original cost was fully litigated in the last rate case conducted with regard to SGIU (Docket No. 871177-WU). Indeed, original cost was the single most contested issue in the proceeding.

This proposed finding of fact should be rejected. There is no hard evidence to substantiate the original cost of the system and

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

the Commission explicitly left the issue open in Docket No. 871177-WU.

7. The same parties, including SGIU, Public Counsel, Commission Staff, and representatives of the Intervenor were all active participants in that proceeding. The issue of original cost in that proceeding was identical to the issue of original cost in this proceeding except in relation to plant investments that have been made since 1987, the test year utilized in Docket No. 871177-WU. No issues have been raised in this proceeding regarding plant investments made subsequent to 1987.

This proposed finding of fact should be rejected. The District was not a party in Docket No. 871177-WU.

8. The Commission determined in Order No. 21122, that the original cost of the SGIU system was \$2,167,138 as of the 1987 test year. Order No. 21122 at p. 75.

This proposed finding of fact should be rejected. It is incorrect.

9. This determination was made with full knowledge that SGIU's original cost records had been lost. The Commission also knew that there had been audited financial statements reflecting plant investment.

This proposed finding of fact should be rejected. The utility is not competent to state what the Commission knew.

10. SGIU offered an original cost study in lieu of its lost records. The Commission expressed the options before it as follows:

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

The second option is for us to accept SGI's original cost study, subject to any adjustments that we determine to be appropriate. This appears to be the only reasonable approach under the circumstances. However,

although we will use SGI's original cost study, we stress that our action should not be construed to imply that a utility can justify investment unsupported by original source documentation with an original cost study. Further, if at any time in the future, evidence is produced which reflects that our analysis of SGI's investment is incorrect, we may, of course, readdress the issue of SGI's level of investment.

Order No. 21122 at pp. 14, 15.

This proposed finding of fact should be accepted.

11. The Commission had statements of original cost that had been provided by SGIU and by Public Counsel. The Commission accepted SGIU's original cost study, but it reduced the estimate by applying an 84 percent reduction factor, stating:

Based upon these two statements of actual cost, and our adjustments, it appears that the actual cost of the plant items addressed by those contracts was only 84 percent of the amount estimated by SGI. In view of SGI's lack of documentation and its apparent inflation of costs, we find it appropriate to apply this 84 percent reduction factor to all of SGI's estimates. Accordingly, we have adjusted all of SGI's original cost estimates to reflect 84 percent of those estimates, as set forth on Schedule No. 4-A.

Order No. 21122 a p. 19.

This proposed finding of fact should be accepted.

12. The SGIU original cost study was conducted by Wayne H. Coloney. Mr. Coloney is an engineer whose credentials are virtually beyond peer. In his study Mr. Coloney fully appraised all of the items and materials that should be accounted for in determining original cost, and determined the cost of the materials at the time they were placed in service.

This proposed finding of fact should be rejected. It is opinion, argumentative, and conclusory.

13. Mr. Coloney made an original cost determination based upon his study. His studies are accurate to within a factor of ten percent.

This proposed finding of fact should be rejected. It is opinion, argumentative, and conclusory.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

14. The Commission also had before it the results of audited financial statements of SGIU in which unqualified opinions had been issued. Indeed, SGIU had offered the statements as a substitute for original source documents and to demonstrate that its record keeping was adequate. The Commission rejected these contentions.

This proposed finding of fact should be rejected. It is not substantiated in the record.

15. The Commission also had before it financial statements and tax returns of Leisure Properties and SGIU for all relevant times, and the Internal Revenue Service simultaneous audit of the books and records of SGIU and Leisure Properties, Ltd. Leisure Properties Ltd. was the former owner of the utility, and is at present a ten percent owner/general partner. The IRS audit determined the depreciable assets of SGIU, which equates to original cost, to be a figure very close to the original cost determined through the Coloney original cost study.

This proposed finding of fact should be rejected. It is not substantiated in the record.

16. Against this prior determination, Public Counsel has offered an appraisal conducted in 1978, a Leisure Properties financial statement for the year 1979, Leisure Properties tax returns for the years 1978 and 1979, and annual reports filed by SGIU with the Commission. All of these documents were either before the Commission when it conducted Docket No. 871177-WU, or through the exercise of reasonable diligence could have been placed in evidence before the Commission by the same parties who are parties in this proceeding.

This proposed finding of fact should be rejected. Public Counsel has relied on other evidence as well, and the record does not support that it could have placed this evidence before the Commission in Docket No. 871177-WU.

17. Public Counsel actually offered the 1979 financial statement and the 1979 income tax return of Leisure Properties, among other statements and returns, as an exhibit in Docket No. 871177-WU through a motion that was filed after the hearing concluded. The Commission took "administrative recognition" of the documents and received them into the record. In re: Petition of St. George Island Utility Company, Ltd., Docket No. 871177-WU, Order No. 20913 (Public Service Commission 1989).

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

This proposed finding of fact should be rejected. The record does not support that the Commission received the documents into the record. The Commission took notice solely of their existence.

18. Copies of the tax returns and financial statements were appended to the Commission order. They are the identical documents Public Counsel is trying to use in this proceeding as the basis for overturning the Commission's prior ruling.

This proposed finding of fact should be rejected. Public Counsel also relies on other documents.

19. Even had Public Counsel not offered the documents, the financial statements and tax returns were already part of the record in the prior proceeding. During the questioning of a witness, Barbara Withers, who also testified in this proceeding, Mr. Gatlin, then representing SGIU offered numerous tax documents and financial statements into evidence.

This proposed finding of fact should be rejected. The record does not support that any financial statements were received into evidence.

20. There was a colloquy among counsel (Mr. Gatlin representing SGIU and Mr. Burgess representing Public Counsel) and Commissioner Herndon at the hearing. Transcript of Proceedings In Docket No. 871177-WU at pp. 530-37.

This proposed finding of fact should be accepted.

21. Counsel and the Commissioner Herndon identified documents that would be included as part of Exhibit 21.

This proposed finding of fact should be accepted.

22. Mr. Gatlin stated at p. 531:

MR. GATLIN: Perhaps the Staff could confirm with me what was furnished to them. I am trying to avoid the issue of trying to put something into evidence that was not already furnished to them, and all I want to put in evidence is what was furnished. I don't have with me a ready reference to it, but I think that it includes the financial statements of Leisure Properties and the utility, and some tax returns, the IRS engineering report, revenue agents reports that have been furnished to staff. I don't think that the copies, when they were filed with the Staff, were furnished to Mr. Burgess but

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

I think that he has looked at them. Mr. Dittmer reviewed them.

This proposed finding of fact should be accepted.

23. Commissioner Herndon and Mr. Gatlin stated at p. 532:

COMMISSIONER HERNDON: Federal Income Tax Returns for the years '79 through '87, Federal Income Tax Schedules and work papers balance sheets, ledgers, financial statements, and summaries of tax depreciation and distribution to partners. That's out of the Order dated -- well, this doesn't have an Order number on it.

MR. GATLIN: The engineering appraisal with the IRS, and the revenue agent report, added to that list that you have.

This proposed finding of fact should be accepted.

24. Commissioner Herndon and Mr. Gatlin stated at p. 534:

COMMISSIONER HERNDON: All right, composite exhibit No. 21. Mr. Gatlin, is this Ms. Withers who is sponsoring this exhibit?

MR. GATLIN: Yes. She got most of it together.

MR. PIERSON: Did you want to include the response to Audit Disclosure No. 9?

MR. GATLIN: Yes.

This proposed finding of fact should be accepted.

25. The 1979 audited financial statement of Leisure Properties, the 1979 tax return and subsequent year tax returns of Leisure Properties, and the tax returns of SGIU were all part of the Response to Audit Exception No. 9. Despite being given seven days to file exceptions to the exhibit, as suggested by Mr. Pruitt, representing the Commission, no exception to Exhibit 21 was ever filed by Public Counsel. Instead, Public Counsel sought to use a few of the documents that were part of Exhibit 21 by having the Commission take official recognition of them.

This proposed finding of fact should be rejected. There is no evidence that the financial statements were ever a part of the record.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

26. In addition, Mr. Thomas Day, who appeared as a witness at the hearing in 1989, and who served as a representative of the Intervenor in the instant proceeding advised the Commission in 1989, that he had all of the tax returns of SGIU and its 1987 audited financial statement. See pp. 34-46 of the transcript of proceedings in Docket No. 871177-WU.

This proposed finding of fact should be accepted.

27. Public Counsel also had access to the 1978 Billy Bishop appraisal that was received in evidence in this proceeding as Exhibit 6. Indeed, just as Public Counsel cross-examined Mr. Coloney, using Bishop appraisals during the course of this proceeding, he did the same thing in 1989. See pp. 277-78 of the transcript of proceedings in Docket No. 871177-WU.

This proposed finding of fact should be rejected. There is no evidence that Public Counsel had access to the study. There is also no evidence that Public Counsel cross examined Mr. Coloney using the study.

28. As to the annual reports of SGIU, Public Counsel advised the Commission in this proceeding that they were obtained from the Commission's records. Since these reports predate the date of the last hearing, they would have been available to Public Counsel then as well. Public Counsel is seeking to make the same case here that it made in 1989, using documents that it used or should have used in 1989.

This proposed finding of fact should be rejected. There is no evidence that Public Counsel used the documents in the prior proceeding. The documents do not comprise Public Counsel's entire case.

29. Even if it were determined, despite the identity of issues parties and evidence that the doctrines of *res judicata* and collateral estoppel do not bar relitigation of the original cost issue, evidence presented in this proceeding does not demonstrate that the Commission's analysis of original cost undertaken in 1989 was incorrect. Indeed, the evidence supports the Commission's 1989 determination.

This proposed finding of fact should be rejected. The record does not support an identity of issues or evidence.

30. Despite the fact that Billy Bishop and other members of his firm who conducted the 1978 appraisal and other appraisals are alive and well, no witnesses were called to testify that any of the appraisals would justify a different conclusion regarding original

cost than was reached by Mr. Coloney in his original cost study. Indeed, an appraisal conducted by Mr. Bishop in 1982, which was received in evidence as Exhibit 47, and an appraisal conducted in 1977 by J. Ed Sayers, M.A.I., which was received in evidence as Exhibit 75, reached different conclusions than Mr. Bishop reached in 1978.

This proposed finding of fact should be rejected. Both Public Counsel Witness Dismukes and Utility Witness Seidman reached different conclusions than Utility Witness Coloney.

31. But, the Bishop study is not inconsistent with the Coloney study. All that it reflects is that some plant investments which Mr. Coloney believed had been put in place before 1978 were put in place later. The result would be that the Coloney study erred on the side of expressing the original cost too low because Mr. Coloney believed that lower cost materials available in 1978 or before were used, rather than higher cost materials used later.

This proposed finding of fact should be rejected. It was only Mr. Coloney's uncorroborated opinion that his study was consistent with the Bishop study.

32. The remainder of Public Counsel's case is grounded on financial statements, tax returns and annual reports. These are the same kinds of documents that the Commission determined in Order No. 21122 could not reliably replace original documents. Furthermore, the documents do not accurately reflect the original cost of SGIU.

This proposed finding of fact should be rejected. Public Counsel also relied upon other evidence.

33. Public Counsel has suggested that a single entry in the 1979 audited financial statement of Leisure Properties, Ltd. labeled "investment in utility" sets the original cost as of that date. It does not. It merely reflects some, but not all, of the hard costs. Hard costs include actual physical improvements, and, under NARUC standards, also include construction costs.

This proposed finding of fact should be rejected. There is no evidence in the record that NARUC or its USOA defines "hard costs".

34. The entry in the 1979 financial statement of Leisure Properties did not include some of the hard costs such as the costs of construction when crews of Leisure Properties were used to lay line. These costs were not attributed to the utility in the 1979 financial statement although they were later attributed to the utility after the Internal Revenue Service conducted its

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

simultaneous audit of the books of Leisure Properties and the books of SGIU. It also did not include the hard cost of improvements put in place by SGIU after the sale but before the end of 1979.

This proposed finding of fact should be rejected. There is no corroborating evidence to support the claim.

35. The entry in the 1979 financial statement also did not include soft costs such as architectural costs, engineering costs, feasibility studies, costs of the development of regional impact process, carrying costs, property taxes and interest, construction overhead, legal fees, supervision and general office salaries. All of these costs are properly allocated to original cost under NARUC standards, and none of them were included in the 1979 financial statement of Leisure Properties entry "investment in utility." When IRS conducted its simultaneous audit of the books of Leisure Properties and SGIU, it included soft costs and reached a conclusion that investment in the utility plant as of 1979, the date that the utility was sold by Leisure to SGIU, exceeded \$2.2 million.

This proposed finding of fact should be rejected. There is no corroborating evidence to support the claim.

36. Entries in the books of SGIU in years subsequent to 1979, that reflected new plant investment also did not include all hard and soft costs that can be allocated to original cost under NARUC standards.

This proposed finding of fact should be rejected. There is no corroborating evidence to support the claim.

37. There is nothing surprising in the fact that the 1979 audited financial statement of Leisure Properties, Ltd., did not include all of the cost items for investment in the utility that could be included under NARUC standards. Leisure Properties was not a utility subject to NARUC standards and there is no reason to believe that the auditing accountants would have applied NARUC standards.

This proposed finding of fact should be rejected. It is conclusory and there is no corroborating evidence to support the claim.

38. SGIU's pro forma adjustment of \$21,000 for engineering design fees is an adjustment to rate base for previously unrecorded engineering fees associated with the construction of the elevated tank. All of the invoices provided by Coloney Company Consulting Engineers, Inc., for engineering services provided between March,

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

1988, and December, 1990, totaling \$21,814.24 were provided in the response to Audit Exceptions 9 and 14. These costs are not a duplication of expense, nor were they previously capitalized.

This proposed finding of fact should be rejected. St. George has not met its burden of proof that the fees were not duplicative.

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

This proposed finding of fact should be accepted.

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

This proposed finding of fact should be rejected. The record reflects that most of the equipment belong to St. George.

41. SGIU uses furniture and equipment owned by an affiliate far more than any affiliate uses furniture or equipment owned by SGIU. In effect SGIU has been provided a furnished office for the same market rental rate as an unfurnished office. Use by an affiliate of SGIU equipment that does occur is minimal, less than any level that is subject to meaningful calculation.

This proposed finding of fact should be rejected. It is conclusory and uncorroborated by hard evidence.

42. Some adjustment to contribution in aid of construction ("CIAC") is appropriate. An adjustment should be made to increase test year CIAC by \$44,440 to reflect contributions received in 1991 but not booked until 1993.

This proposed finding of fact should be accepted.

43. An adjustment in the amount of \$45,600 for 30 lots to ascribe connection fees of \$2020 to those lots is not appropriate. SGIU's CIAC list is accurate and complete. It is supported by the necessary documentation for each account and the proper amount is recorded for each account. Only those lots entitled to the \$500 fee are recorded at that charge.

This proposed finding of fact should be rejected. The CIAC list is not supported by the necessary documentation.

44. An adjustment to increase CIAC by \$65,000 to reflect an advance from companies affiliated with SGIU is not appropriate. These funds represented the proceeds of the settlement of a law suit in which SGIU was not a party. In accordance with the settlement, the affiliated companies "advanced" funds to SGIU to implement improvements to the system. An "advance" is a loan, not a contribution. These funds are properly carried on the books of SGIU as a loan, not as CIAC.

This proposed finding of fact should be rejected. Advances are properly booked as advances.

45. SGIU has presented an appropriate matching of rate base, on the one hand, with revenues and expenses on the other. With the Commission's approval, SGIU used 1992 as its test year, and, in order to implement programs that were not in place in 1992, but that will serve to improve service to its customers, SGIU used pro forma adjustments, including only adjustments which recognize costs necessary to adequately serve 1992 test year customers. The introduction of any revenues or costs that do not apply to the test year are inappropriate.

This proposed finding of fact should be rejected. It is not substantiated by the record.

46. The level of test year rate base depends upon the resolution of other issues. When the effect of prehearing stipulations and reduction of pro forma costs based on information provided at the hearing are considered, the appropriate level of test year rate base is \$791,175.

This proposed finding of fact should be rejected. It is conclusory.

47. The capital structure for ratemaking purposes should be 100 percent debt. SGIU has a negative equity balance, and using 100 percent debt as the capital structure treats this consistently with the Commission's Order No. 21122. The long term and short term debt components should be reconciled to rate base on a pro rata basis, with customer deposits reflected at SGIU's actual average balance for the test year.

This proposed finding of fact should be accepted.

48. The weighted average cost of capital is 8.04 percent, composed of the following components:

	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Long term debt	89.90%	7.68%	6.90%
Short term debt	8.60	12.17	1.05
Customer deposits	<u>1.49</u>	6.00	<u>0.09</u>
	100.00%		8.04%

The cost of customer deposits is reduced from the MFR projection to reflect the current cost allowed by Rule 25-30.311, Florida Administrative Code.

This proposed finding of fact should be rejected. It is conclusory and is not substantiated by the record.

49. There is no justification for contrasting pro forma adjustments to the test year in this case with those requested in the rate case that the Commission dismissed just prior to the filing of the petition in this proceeding. SGIU is seeking, through the pro forma adjustments, to implement programs that are important to the quality of service that SGIU provides its customers. These programs are not now part of SGIU's rate structure, or if they are, have had insufficient funds allocated to implement the programs.

This proposed finding of fact should be rejected. It is conclusory. It is within the Commission's discretion to contrast pro forma adjustments.

50. The fact that these programs were not offered as pro forma adjustments in the dismissed proceeding has no bearing upon whether the programs are desirable, and whether they will help to ensure good quality service. The programs are all important, in most cases vital if SGIU is going to continue to improve the service it is providing its customers as it has improved service during the past three years. Whether the pro forma adjustments should be allowed should be determined based upon the merits of the programs they are designed to implement.

This proposed finding of fact should be accepted.

51. SGIU expenses are not comparable to the expenses of most other Class B utilities. There are many reasons why this is true. SGIU is a unique utility with unique features that add to the cost of providing service. These features include the following:

- A. The physical configuration of SGIU is unusual. Its service area is on a barrier island. Its water source is on the mainland, miles from its nearest customer. The

service area itself is long and narrow. SGIU has an unusually long distribution system for a utility of its customer base.

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

This proposed finding of fact should be accepted.

52. All of these factors add significantly to the cost of maintaining the infrastructure of the utility and operating the utility. There are few other utilities that share this range of unique features. It does not appear that any other Class B utility has this unique combination of operational problems.

This proposed finding of fact should be rejected. The record does substantiate that the factors "add significantly to the cost of maintaining the infrastructure" and operations of St. George.

53. It is therefore inappropriate to compare the cost of operating and maintaining them to the cost of operating and

maintaining SGIU. Indeed, the only utility that shares a number of these features about which there was testimony at the hearing has higher operating expenses than SGIU (sic).

This proposed finding of fact should be rejected. It is conclusory and not corroborated by the evidence.

54. Test year expenses have been properly allocated in SGIU's filing with the exception of insurance expense for Mr. Brown and Ms. Chase. Ms. Chase's insurance expense should be allocated in the same proportion as her salary.

This proposed finding of fact should be rejected. It is conclusory and is not substantiated by the record.

55. None of Mr. Brown's insurance expense should be allocated to SGIU because he is not an employee. No other allocation of test year expenses to utility affiliates should be made.

This proposed finding of fact should be rejected. It is conclusory and is not substantiated by the record.

56. SGIU affiliates do marginally benefit from SGIU expenses. For example, SGIU employees may from time to time answer and route a telephone call that relates to affiliate business. These benefits to affiliates are, however, minimal, quite below anything that can even be meaningfully calculated. SGIU benefits far more significantly from affiliate expenses, including the use of the affiliate's furniture and office equipment, the use of two affiliate telephone lines, and all of the office space occupied by Gene Brown and Sandy Chase while they are working on SGIU business.

This proposed finding of fact should be rejected. It is conclusory and is not corroborated by any hard evidence.

57. It would be foolish to reduce SGIU employees' salaries. One of the primary reasons that SGIU has improved quality of service is that it has recruited and kept good employees. SGIU and its customers have suffered in the past when SGIU staff was not stable and when employees left to find better jobs.

This proposed finding of fact should be rejected. It is argumentative and conclusory.

58. Indeed, virtually every witness with any familiarity with the SGIU system has acknowledged the importance of its operations manager, Hank Garrett, and the desirability of keeping him there. SGIU needs all of its present full-time employees to in

order to continue providing adequate service and in order to continue improving its service.

This proposed finding of fact should be accepted.

59. It has been suggested that SGIU could get along with one fewer full-time field assistant. The suggestion shows a complete lack of understanding of problems that SGIU confronts in its day-to-day operations. SGIU has always needed two full time field assistants in addition to its operations manager.

This proposed finding of fact should be rejected. It is argumentative and the claim that St. George has always needed two full time field assistants is unsubstantiated.

60. Mr. Garrett and a single assistant operated the utility without the second assistant for a period of time in recognition of cash flow problems that SGIU was experiencing. These two employees are now on call seven days every week, 24 hours every day.

This proposed finding of fact should be accepted.

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

This proposed finding of fact should be accepted.

62. Until recently, SGIU has not had a pension program, but it has now implemented a program that completely separates responsibility for managing the funds from management of SGIU has been initiated. While it may be possible to quarrel with some elements of the program, it is clear that the employees of SGIU deserve a pension program and that the pension program will serve the goal of helping to recruit and keep quality employees. There is no justification for reducing pension benefits.

This proposed finding of fact should be rejected. That the responsibility for managing the funds has been separated from the management of St. George or that St. George will actually fund the program has not been adequately demonstrated.

63. Audit Disclosure No. 6 does not suggest reducing engineering expenses. It only summarizes actual test year expenses and describes the retainer agreement between Mr. Coloney and SGIU. There is no evidence in the record to justify rejection of that agreement or to reduce the pro form engineering expense. SGIU uses the services of Wayne Coloney and other engineers for advice and guidance that benefits SGIU and its customers. While day-to-day engineering tasks are provided by less expensive firms, the oversight and advice of Mr. Coloney has proved invaluable to SGIU.

This proposed finding of fact should be rejected. St. George has not substantiated that the pro forma expense should be accepted.

64. Bookkeeping and accounting responsibilities have increased in recent years. By using the services of two accountants, one with day-to-day responsibilities and one with oversight responsibilities, SGIU has improved its books and record keeping from the time of the last rate case in 1989 until 1992, and from 1992 until the present.

This proposed finding of fact should be rejected. The record does not support that accounting responsibilities have increased, or that St. George has improved its recordkeeping since 1992.

65. To keep up with the increased work load, SGIU has recently hired a new full time accountant. It would be counterproductive to adjust contractual services-accounting.

This proposed finding of fact should be rejected. The record does not support that accounting responsibilities have increased, or that St. George has improved its recordkeeping since 1992.

66. In its MFR filing, SGIU requested \$24,000 annually for legal contractual services. The need for legal services is likely to decrease, but it will always be at least \$12,000 annually. SGIU serves a growing community. There will be on going needs to deal with permitting issues at the Water Management District, and all of the other agencies such as the Department of Environmental Protection, and to deal with developers and new customers in contractual relationships with SGIU.

This proposed finding of fact should be rejected. There is no corroborating evidence legal services will always be at least \$12,000 annually.

67. SGIU needs legal assistance to ensure that legal matters are competently negotiated and that legal documents are competently

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

drafted. It also needs on going legal support to ensure that responsibilities imposed by regulatory agencies are met.

This proposed finding of fact should be accepted.

68. Just as it is important to recruit and keep good employees, it is important to have a good manager in charge of SGIU operations. It would serve neither the interests of SGIU nor the interests of its customers if SGIU is not able to hire a competent manager because insufficient fees are allocated in this proceeding.

Although it is argumentative and conclusory, this proposed finding of fact should be accepted.

69. Management fees should not be adjusted in any manner that would render it impossible to recruit, hire and keep a competent manager. At minimum, an annual salary of \$42,000 plus all employee benefits is required to ensure that SGIU will be able to secure and maintain competent management.

This proposed finding of fact should be rejected. It is uncorroborated argument.

70. If insufficient fees are allocated to management through this proceeding there is a prospect that instead of continuing to improve service, the gains accomplished during recent years will be lost.

This proposed finding of fact should be rejected. It is uncorroborated by the record.

71. Five items that fall under the heading "contractual services-other" should be adjusted for a total reduction of \$27,845. The category should be reduced by \$3,873 to reflect Stipulation 21. The category should be reduced by \$1,870 to reflect that triennial testing fees were reflected as annual.

This proposed finding of fact should be rejected. The numbers are not substantiated on the record.

72. The category should be reduced by \$3,876 to reflect an elimination of duplication of sample pickup costs. The category should be reduced \$1916 for tank maintenance expense to show an actual proposal for \$20,493 rather than the \$22,409 estimated in the MFR. The category should be reduced \$16,310 for the pipe cleaning program to reflect an actual proposal to perform the service for \$21,183 rather than the \$37,493 estimated in the MFR.

This proposed finding of fact should be rejected. The numbers are not substantiated on the record.

73. Transportation expenses should not be reduced. SGIU employees are compensated a set amount for travel. The set payment is based upon experience and is a conservative estimate of the travel that employees are required to make as part of their job responsibilities.

This proposed finding of fact should be rejected. It is conclusory and uncorroborated by any hard evidence.

74. While employees did not maintain regular travel logs during the test year, whenever logs have been maintained they have reflected that employees travel more miles in their own private automobiles than they are compensated for traveling. In the past SGIU has owned and maintained its own vehicles. It has been shown that it would cost at least \$2,500 a year more for SGIU to own and operate its own vehicle than to pay the requested travel allowance.

This proposed finding of fact should be rejected. It is merely opinion, is conclusory, and is uncorroborated by any hard evidence.

75. SGIU needs to maintain workers' compensation, casualty and liability insurance. Insufficient fees were allocated for insurance during the last rate case. SGIU has recently obtained insurance through a loan of funds from an affiliate company.

This proposed finding of fact should be rejected. It is conclusory and is uncorroborated by any hard evidence.

76. Total insurance costs reflected in the MFR's can be reduced by \$23,799 to reflect the actual cost of obtaining needed insurance. The actual costs of liability insurance is \$12,044 less than estimated in the MFR. The actual cost of casualty insurance is \$13,061 less than estimated in the MFR. The actual cost of workers' compensation insurance \$1,306 higher than estimated in the MFR.

This proposed finding of fact should be rejected. It is unsubstantiated on the record.

77. SGIU's unaccounted for water is not excessive. It is within normal ranges. Given the unusual length of the SGIU delivery system it is noteworthy that the rate is not higher. No adjustment for "chemical, purchased power" expense item is justified.

This proposed finding of fact should be accepted.

78. SGIU experiences unusually high bad debt expense. There are many residential units within the service area of SGIU that are rented on a month-to-month basis. The transient nature of these renters makes it easy for them to leave without paying utility bills, and they do that. There should be no adjustment for bad debt expense.

This proposed finding of fact should be rejected. It is conclusory and is unsubstantiated on the record.

79. Miscellaneous expenses should be reduced by \$3,544 to adjust for items identified in the audit and not disputed by SGIU. These are non-recurring, non-utility or non-supported expenses that were identified in the staff audit. Otherwise, miscellaneous expense items reclassify test year expenses and reflect an increase in expenses.

This proposed finding of fact should be rejected. It is conclusory and is not substantiated by the record.

80. Rate case expense is substantial. It was estimated in the MFR to be \$105,000. It is already up to \$134,000. It will exceed \$150,000.

This proposed finding of fact should be rejected. It is conclusory and is not substantiated by the record.

81. The primary reasons for the increase in rate case expense has been the extraordinary audit and the need to respond to it, and the fact that Public Counsel and the Intervenor have sought to relitigate the issue of original cost. Two additional rebuttal witnesses were required, and additional testamentary responsibilities were imposed on other rebuttal witnesses.

This proposed finding of fact should be rejected. It is conclusory and is not substantiated by the record.

82. The hearing, originally scheduled for two days took nearly six days to complete. It can be fairly estimated that \$15,000 was added to the cost of Mr. Seidman's participation in the proceeding; \$4,000 to Mr. Coloney's; \$3,000 to Ms. Withers; and \$15,000 for legal counsel.

This proposed finding of fact should be rejected. It is conclusory and is not substantiated by the record.

83. The appropriate amount of rate case expense is \$154,734.88. The annual amortization expense is \$38,683.72. The expense includes \$134,024.88 actually incurred through the first hearings and \$20,710 to complete the proceeding through extended hearings and the post hearing briefs.

This proposed finding of fact should be rejected. It is conclusory and is not substantiated by the record.

84. This has been a costly proceeding, certainly more costly than SGIU anticipated. It is noteworthy, however, that even with unexpected issues and extended hearings the rate case expense is less than had been estimated by Ben Johnson Associates in 1991.

This proposed finding of fact should be rejected. It is conclusory and is not substantiated by the record.

85. Expenses for the system analysis, aerator analysis, hydrological study, and the fire protection study should be reduced by \$28,370 to reflect confirmed reduced contract costs for these studies. In addition all study costs should be amortized over five years rather than two years.

This proposed finding of fact should be rejected. It is conclusory and the numbers are not supported by the record.

86. All of these studies are important features of maintaining and improving service provided by SGIU. There has been no shortage of criticism of past operations of SGIU.

This proposed finding of fact should be accepted.

87. At the conclusion of the last rate case, the Commission directed SGIU to implement new programs even though the cost of the programs was not included as part of SGIU's rate structure. SGIU undertook to implement improvements on its own initiative in addition to improvements mandated by the Commission. These programs were also not included as part of SGIU's rate structure.

This proposed finding of fact should be accepted.

88. Even though it has operated at a loss since the last rate case SGIU has implemented many improvements to its system. Pro forma adjustments, including the various studies, represent the cost of maintaining and continuing to improve service offered by SGIU. They are costs SGIU cannot afford without adequate rates.

This proposed finding of fact should be rejected. It is conclusory and is not corroborated by the record.

89. The fire study is a good example. Obviously many SGIU customers are anxious that SGIU provide a level of service that would meet fire protection standards. At the hearing in this proceeding, however, there were at least three different views expressed about what SGIU will need to do to meet those standards.

This proposed finding of fact should be accepted.

90. Clearly a study is desirable so that SGIU can learn what is the most effective means of meeting the objective in terms of service and in terms of cost. Only in this manner can SGIU customers intelligently evaluate whether they truly desire and are willing to pay for fire protection service.

This proposed finding of fact should be accepted.

91. The cost of maintaining the old generator from the test year should not be eliminated simply because SGIU has purchased a new generator. This generator, too, will require maintenance. Furthermore, SGIU now has two generators, both of which will need to be maintained.

This proposed finding of fact should be accepted.

92. SGIU has presented an appropriate matching of revenues and expenses. Revenues and expenses are both taken from the 1992 test year. Pro forma expenses represent additional costs necessary to provide adequate service to test year customers.

This proposed finding of fact should be rejected. St. George has not substantiated that revenues and expenses are appropriately matched.

93. There is no justification for including revenues or expenses from another period that are not associated with test year customers, especially since the projected expenses have not been shown to be the actual expenses or adequate.

This proposed finding of fact should be rejected. It is conclusory and not substantiated by the record.

94. The appropriate level of test year operating income is \$63,610 after adjusting for the effect of prehearing stipulations and the reduction in pro forma costs based on information provided at the hearing.

This proposed finding of fact should be rejected. It is conclusory and not substantiated by the record.

95. The total revenue requirement is \$629,279 after adjusting the requested amount to recognize the effect of prehearing stipulations and the reduction in pro forma costs based on information provided at the hearing.

This proposed finding of fact should be rejected. It is conclusory and not substantiated by the record.

96. The appropriate rates to cover the adjusted revenue requirement set out in Paragraph 59 are as follows:

Residential & General Service:

<u>Meter Size</u>	<u>Monthly BFC</u>
5/8 " x 3/4"	\$ 30.91
1"	77.27
1 1/2"	154.54
2"	247.27
3" Cmpd	494.54
3" Turbine	540.91
4" Turbine	927.27
6" Turbine	1931.81

Gallorage charge \$2.84 per MG

Rates should become effective when tariffs are approved by the Commission.

This proposed finding of fact should be rejected. It is conclusory and not substantiated by the record.

97. It would serve no useful purpose and would serve only to frustrate management of SGIU if service availability charges were placed in an escrow account. There has been no showing that SGIU has failed to meet its obligation to provide service to customers who have paid service availability charges. Prior escrow agreements have caused great confusion and have been disruptive to SGIU meeting its responsibilities to implement needed improvements to the system.

This proposed finding of fact should be rejected. It is argumentative, conclusory, and not substantiated by the record.

98. The appropriate reduction after four years is calculated in accordance with Rule 25-30.470, Florida Administrative Code. Based on the revenue requirement as set out in Paragraph 59 above, and the rate case expense set out in Paragraphs 50 and 51, it is 6.39 percent applied as follows:

Residential & General Service:
Monthly

<u>Meter Size</u>	<u>BFC</u>
5/8 " x 3/4"	\$ 1.98
1"	4.94
1 1/2"	9.88
2"	15.80
3" Cmpd	31.60
3" Turbine	34.56
4" Turbine	59.25
6" Turbine	123.44

Gallonage charge \$.18 per MG

This proposed finding of fact should be rejected. It is conclusory and not substantiated by the record.

99. The books and records of SGIU are kept in substantial compliance with rules and regulations of the Commission. After the last rate case hearing regarding SGIU, the Commission was critical of the books and records of SGIU. In 1992, however, the Commission determined in Order No. 92-0122-FOF-WU that the books and records of the utility were in substantial compliance.

This proposed finding of fact should be rejected. It is conclusory and not substantiated by the record.

100. The books and records of SGIU have improved since 1992. The staff auditor determined that SGIU books and records are in substantial compliance. Although she added the caveat except as set out in Audit Exceptions, she did not testify that this exception was such as to take the books and records out of substantial compliance.

This proposed finding of fact should be rejected. It is conclusory. The auditor made no such determination.

101. There is no evidence in this proceeding from which it could be determined that the books and records of SGIU are not in substantial compliance.

This proposed finding of fact should be rejected. It is conclusory.

102. SGIU is presently serving approximately 1200 ERCs. SGIU is fully capable of serving well in excess of 1541 ERCs while maintaining compliance with all government regulations.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

This proposed finding of fact should be rejected. The figures are incorrect and not supported by the record.

103. Testimony that SGIU can serve only 1346 ERCs is based upon an erroneous view of the system's capacity which ignores the fact that peak load demands only occur on three days during the year and ignore the capacity that is accomplished by combining storage and pumping capacity. Furthermore the limitation of 1346 ERCs is based upon the consumptive use permit issued by the Northwest Florida Water Management District, which has been temporarily modified and is undergoing permanent modification.

This proposed finding of fact should be rejected. It is not substantiated by the record.

104. SGIU is fully capable of meeting existing needs and projected growth through 1998. By constructing improvements recommended by its engineers, SGIU is fully capable of meeting the needs of its customers into the future. As demonstrated by its implementation of many improvements during the past four years when it was operating at a loss, it is clear that SGIU is fully capable of implementing needed improvements in the future with an improved revenue base.

This proposed finding of fact should be rejected. It is conclusory and is not substantiated by the record.

DOCKET NO. 940109-WU
SEPTEMBER 29, 1994

ISSUE 43: Should the docket be closed?

RECOMMENDATION: Yes, the docket should be closed after the final order has been issued and the proper revised tariff sheets have been filed by the Utility and approved by staff. Further, since no interim refund is appropriate, the bond may be released.
(RASBERRY)

POSITION OF PARTIES:

SGIU: No position in brief. (Brown)

PUBLIC COUNSEL: No position in brief.

DISTRICT: No position no position in brief.

STAFF: The items that are left to be resolved before the docket can be closed would be the issuance of the order and the filing and approval of revised tariffs. Staff recommends that the docket should be closed after the final order has been issued and the proper revised tariff sheets have been filed by the Utility and approved by staff. Further, since no interim refund is appropriate, the bond may be released.

ST. GEORGE ISLAND UTILITY CO.
 SCHEDULE OF WATER RATE BASE
 TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 1--A
 DOCKET NO. 940109--WU

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 2,475,081	\$ 110,261	\$ 2,585,342	(\$ 324,345)	2,260,997
2 LAND	31,542	23,276	54,818	10,516	65,334
3 NON-USED & USEFUL COMPONENTS	0	0	0	(82,285)	(82,285)
4 CWIP	105,828	(105,828)	0	0	0
5 ACCUMULATED DEPRECIATION	(736,847)	223	(736,624)	(57,460)	(794,084)
6 CIAC	(988,742)	(11,110)	(999,852)	(296,907)	(1,296,759)
7 ACCUM AMORT OF CIAC	132,277	6,556	138,833	41,879	180,712
8 ADVANCES FOR CONSTRUCTION	(78,862)	0	(78,862)	(52,968)	(131,830)
10 DEFERRED EXPENSES	0	0	0	0	0
11 WORKING CAPITAL ALLOWANCE	35,113	30,508	65,621	(22,201)	43,420
RATE BASE	\$ 975,390	\$ 53,886	\$ 1,029,276	(\$ 783,771)	245,505

EXPLANATION	WATER
PLANT IN SERVICE	

A. To reduce for lack of support (AE # 5) Stip No. 1	(2,067)
B. To reduce for lack of support for 3rd well (AE #9) Stip No. 2	(876)
C. To reduce for duplicative recording (AE #10 acct 330.4) Stip No. 3	(2,370)
D. To remove costs associated with storage tank (AE #10) Stip No. 4	(12,518)
E. To increase for non recording of retired copier (AE #8) Stip No. 5	1,675
F. To reduce for pump retirement Well #1 (AE #8) Stip No. 5	(7,029)
G. To reduce for pump retirement Well #2 (AE #8) Stip No. 5	(10,378)
H. To reduce for retirement of copier (AE #8) Stip No. 5	(3,654)
I. To reduce for transportation expenses and cost reductions (AE #7) Stip No. 6	(3,098)
J. To increase for fire hydrants not recorded Stip No. 10	13,423
K. To decrease for non support (AE #6) Stip No. 15	(12,665)
L. To increase for utility's new generator (AE #11) Stip No. 16	1,941
M. To reduce for original cost adjustment in Issue No. 2	(379,948)
N. Reduce engineering design fees (AE #14) Issue No. 3	(21,000)
O. To reduce for leasehold improvements Issue No. 4	(647)
P. To reduce general plant for use by affiliates Issue No. 5	(562)
Q. To increase for 1993 growth Issue No. 7	115,428
NET ADJUSTMENT	\$ <u>(324,345)</u>
LAND	

A. To reduce for non related charges (AE #4) Stip #7	(570)
B. To increase for growth adjustment Issue No. 7	11,086
NET ADJUSTMENT	\$ <u>10,516</u>
NON-USED AND USEFUL COMPONENTS	

To increase for lines in plantation Stip No. 20	\$ <u>(82,285)</u>
ACCUMULATED DEPRECIATION	

A. To reduce for removal of storage tank (AE #12) Stip 4	629
B. To increase for retirement of copier (AE #8) Stip 5	(168)
C. To decrease for retirement of pump for well no.1 (AE #8) Stip 5	3,866
D. To decrease for retirement of pump for well no. 2 (AE #8) Stip 5	2,077
E. To decrease for retirement of copier (AE #8) Stip 5	972
F. To correct depreciation error (AE #15) Stip 11	(10,327)
G. To decrease for adjustment eng fees (AE #14) Issue No. 3	1,470
H. To increase for growth adjustment Issue No. 7	(59,543)
I. To decrease for rate change (Stip #14)	3,564
NET ADJUSTMENT	\$ <u>(57,460)</u>

ST. GEORGE ISLAND UTILITY CO.
 ADJUSTMENTS TO RATE BASE
 TEST YEAR ENDED DECEMBER 31, 1992

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

EXPLANATION	WATER
C.I.A.C.	

A. Increase for funds received from Volunteer Fire Dept – Stip No. 10	(29,759)
B. To increase per growth adjustment Issue No 7	(267,148)
NET ADJUSTMENT	\$ <u>(296,907)</u>
ACCUMULATED AMORTIZATION OF C.I.A.C.	

A. To reflect adjustment for funds received from Volunteer Fire Dept – Stip No. 10	2,702
B. To reflect correction to summary records (AE #16) Stip No. 12	10,635
C. To increase per growth adjustment Issue No. 7	28,542
NET ADJUSTMENT	\$ <u>41,879</u>
ADVANCES FOR CONSTRUCTION	

A. To reflect correction to DNR balance (AE #20) Stip No. 10	9,257
B. To increase for funds received from Homeowners Issue No. 6	(65,000)
C. To decrease per growth adjustment Issue No. 7	2,775
NET ADJUSTMENT	\$ <u>(52,968)</u>
WORKING CAPITAL ALLOWANCE	

To reflect adjustment to O&M Expenses	\$ <u>(22,201)</u>

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

SCHEDULE NO. 1-C
DOCKET NO. 940109

ACCT NO.	ACCOUNT TITLE	UTILITY PER BOOKS	ORIGINAL COSTS ADJUSTMENTS	OTHER STAFF ADJUSTMENTS	ADJUSTED PER BOOK BALANCE
304.2	Structures & Improv.	47,801	10,667		58,468
307.2	Wells & Springs	187,356	(31,872)	(11,247)	144,237
309.2	Supply Mains	227,326	129,326	(2,687)	353,965
310.2	Power Generation Equipment	60,661		1,756	62,417
311.2	Pumping Equipment	63,920	(4,286)	(17,522)	42,112
303.3	Land & Land Rights	5,000			5,000
320.3	Water Treatment Equip.	23,270	(9,619)	(919)	12,732
303.4	Land & Land Rights	60,904		(570)	60,334
330.4	Distr. Res. & Standpipes	371,741	(49,568)	(34,245)	287,928
331.4	Trans. & Distr. Mains	1,368,508	(430,289)		938,219
333.4	Services	168,776	(961)	(521)	167,294
334.4	Meters & Meter Inst.	88,095	(349)	(487)	87,259
335.4	Hydrants	74,274	2,237	13,372	89,883
339.4	Other Plant & Misc. Eq.	51	4,767		4,818
340.5	Office Furniture & Eq.	13,986		(3,188)	10,798
343.5	Tools, Shop & Garage Eq.	441			441
347.5	Miscellaneous Equipment	5,302		(4,137)	1,165
TOTAL		2,767,412	(379,947)	(60,395)	2,327,070

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

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

DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	UTILITY WEIGHTED COST	STAFF RECONC. ADJ. TO UTILITY EXHIBIT	BALANCE PER STAFF	WEIGHT	COST	WEIGHTED COST PER STAFF
1 LONG TERM DEBT	\$ 3,940,451	90.94%	7.68%	6.98%	\$ (3,723,156)	\$ 217,295	88.51%	7.29%	6.45%
2 SHORT-TERM DEBT	377,116	8.70%	12.17%	1.06%	(364,292)	12,824	5.22%	9.90%	0.52%
3 PREFERRED STOCK	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
4 COMMON EQUITY	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
5 CUSTOMER DEPOSITS	15,386	0.36%	8.00%	0.03%	0	15,386	6.27%	6.00%	0.38%
7 DEFERRED ITC'S	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
8 ADD NEG EQUITY	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
9 TOTAL CAPITAL	<u>\$ 4,332,953</u>	<u>100.00%</u>		<u>8.07%</u>	<u>\$ (4,087,448)</u>	<u>\$ 245,505</u>	<u>100.00%</u>		<u>7.35%</u>

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

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

	DESCRIPTION	SPECIFIC ADJUSTMENT (1)	SPECIFIC ADJUSTMENT (2)	PRO RATA RECONCILE	NET ADJUSTMENT
1	LONG TERM DEBT	\$ (118,996)	\$ 0	\$ (3,604,160)	\$ (3,723,156)
2	SHORT-TERM DEBT	(151,593)	0	(212,699)	(364,292)
3	PREFERRED STOCK	0	0	0	0
4	COMMON EQUITY	0	0	0	0
5	CUSTOMER DEPOSITS	0	0	0	0
6	ACCUM. DEFERRED INCOME TAX	0	0	0	0
7	OTHER (Explain)	0	0	0	0
8	TOTAL CAPITAL	\$ (270,589)	\$ 0	\$ (3,816,859)	\$ (4,087,448)

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

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

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 317,843	\$ 424,875	\$ 742,718	(\$ 392,769)	\$ 349,949	\$ 94,922	444,871
OPERATING EXPENSES:						27.12%	
2 OPERATION AND MAINTENANCE	\$ 280,907	\$ 244,066	\$ 524,973	(\$ 177,615)	\$ 347,358	\$	347,358
3 DEPRECIATION	39,026	(398)	38,628	(17,225)	21,403		21,403
4 AMORTIZATION	0	41,452	41,452	(19,885)	21,567	0	21,567
5 TAXES OTHER THAN INCOME	29,326	24,020	53,346	(21,108)	32,238	4,272	36,510
6 INCOME TAXES	0	0	0	0	0	0	0
7 TOTAL OPERATING EXPENSES	\$ 349,259	\$ 309,140	\$ 658,399	(\$ 235,833)	\$ 422,566	\$ 4,272	426,838
8 OPERATING INCOME	\$ (31,416)	\$ 115,735	\$ 84,319	(\$ 156,936)	(\$ 72,617)	\$ 90,651	18,034
9 RATE BASE	\$ 975,390		\$ 1,029,276		\$ 245,505		\$ 245,505
RATE OF RETURN	-3.22%		8.19%		-29.58%		7.35%

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

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

EXPLANATION	WATER
OPERATING REVENUES	

A. To remove the utility's test year revenue request	(428,201)
B. To reflect growth adjustment	35,094
C. To increase miscellaneous service charges for growth	338
NET ADJUSTMENT	\$ <u>(392,769)</u>
OPERATION AND MAINTENANCE EXPENSES	

A. To reduce salaries for allocation to affiliates (Issue 13)	(3,214)
B. To reduce health benefits for allowance for only full time employees (Issue 15)	(10,800)
C. To also reduce health benefits for allocation to affiliates (Issue 13)	(1,260)
D. To reverse allowance for pension plan (Issue 15)	(6,156)
E. Increase purchase power for growth adjustment (Issue 30)	908
F. To increase chemicals for growth adjustment (Issue 30)	271
G. To reduce test year chemical expense (AE 21) Stip No. 9	(657)
H. To increase materials and supplies for growth adjustment (Issue 30)	858
I. To reduce materials and supplies (AE 22) Stip 8	(4,851)
J. To reduce contract services—other for non support (AE 24) Stip 21	(3,873)
K. To reduce contract services—eng to disallow retainer (Issue 16)	(1,959)
L. To reduce contract services—acct to disallow retainer (Issue 17)	(6,000)
M. To reduce contract services—legal to decrease retainer (Issue 18)	(21,000)
N. To reduce contract services—mgt for retainer (Issue 19)	(16,000)
O. To decrease contract services—other for tank cleaning (Issue 20)	(1,916)
P. To decrease contract services—other for supply main cleaning (Issue 20)	(35,375)
Q. To decrease contract services—other for testing (Issue 20)	(5,746)
R. To decrease rent for allocation to affiliates (Issue 13)	(3,717)
S. To decrease transportation expense (Issue 21)	(7,800)
T. To decrease insurance expense (Issue 22)	(36,502)
U. To reduce rate case expense (Issue 26)	(789)
V. To reduce bad debt expense (Issue 24)	(4,707)
W. To reduce misc expenses for allocation to non affiliates (Issue 13)	(1,765)
X. To reduce misc expenses for disallowance of cellular phone (Issue 25)	(1,200)
Y. To reduce misc expenses for disallowance on non recurring charges (Issue 25)	(5,055)
Z. To reduce misc expenses for corporate filing fees (Issue 25)	(576)
AA. To increase misc expenses for growth adjustment (Issue 30)	1,266
NET ADJUSTMENT	\$ <u>(177,615)</u>
DEPRECIATION	

A. To reflect adjustment for removal of storage tank (Stip # 4)	(358)
B. To reflect adjustment to retire pump for Well #1 (Stip #5)	(351)
C. To reflect adjustment to retire pump for Well #2 (Stip #5)	(519)
D. To reflect adjustment to retire copier (Stip #5)	(244)
F. To reflect adjustment to record contributions from fire dept (Stip #10)	298
G. To reflect the correction of an error (AE 27) Stip # 13	5,432
H. To reflect the change in rates (Stip # 14)	(8,802)
I. To reflect adjustment to non used and useful plant (Stip #20)	(3,658)
J. To reflect adjustment to plant for original cost (Issue 2)	(9,385)
K. To reflect adjustment for removal of eng design fees (Issue 3)	(2,939)
L. To reflect adjustment for growth (Issue 30)	3,301
NET ADJUSTMENT	\$ <u>(17,225)</u>

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

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

EXPLANATION	WATER
AMORTIZATION	
A. To reduce request for system analysis	(7,111)
B. To reduce request for aerator analysis	(2,574)
C. To reduce request for hydrological analysis	(6,600)
D. To reduce request for fire protection study	(3,600)
NET ADJUSTMENT	\$ <u>(19,885)</u>
TAXES OTHER THAN INCOME	
A. To remove requested provision for RAF's	(17,675)
B. To adjust payroll taxes to reflect salary adjustment	(332)
C. To adjust for per audit except 28	(3,101)
NET ADJUSTMENT	\$ <u>(21,108)</u>
OPERATING REVENUES	
Adjustment to reflect recommended revenues	\$ <u>94,922</u>
TAXES OTHER THAN INCOME	
To reflect RAF's related to adjustment to revenues.	\$ <u>4,272</u>

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

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

ACCT NO.	ACCOUNT TITLE	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR
601	SALARIES AND WAGES – EMPLOYEES	\$ 62,879	\$	60,241	\$	123,120
603	SALARIES AND WAGES – OFFICERS, DIRECTORS, ETC.	0	0	0	(3,214)	\$ 119,906
604	EMPLOYEE PENSIONS AND BENEFITS	4,359	29,997	34,356	(18,216)	16,140
610	PURCHASED WATER	0	0	0	0	0
615	PURCHASED POWER	20,522	404	20,926	908	21,834
616	FUEL FOR POWER PRODUCTION	0	0	0	0	0
618	CHEMICALS	3,899	0	3,899	(386)	3,513
620	MATERIALS AND SUPPLIES	15,573	0	15,573	(3,993)	11,580
631	CONTRACTUAL SERVICES – ENGR.	4,151	1,849	6,000	(1,959)	4,041
632	CONTRACTUAL SERVICES – ACCT.	31,436	(8,796)	22,640	(6,000)	16,640
633	CONTRACTUAL SERVICES – LEGAL	21,818	2,182	24,000	(21,000)	3,000
634	CONTRACTUAL SERVICES – MGMT. FEES	48,000	0	48,000	(16,000)	32,000
635	CONTRACTUAL SERVICES – OTHER	12,344	85,091	97,435	(48,910)	50,525
641	RENTAL OF BUILDING/REAL PROPERTY	9,092	1,076	10,168	(3,717)	6,451
642	RENTAL OF EQUIPMENT	7,163	2,633	9,796	0	9,796
650	TRANSPORTATION EXPENSES	18,022	(2,422)	15,600	(7,800)	7,800
656	INSURANCE – VEHICLE	0	0	0	0	0
657	INSURANCE – GENERAL LIABILITY	0	17,000	17,000	(17,000)	0
658	INSURANCE – WORKMAN'S COMP.	0	4,000	4,000	(4,000)	0
659	INSURANCE – OTHER	0	15,502	15,502	(15,502)	0
660	ADVERTISING EXPENSE	0	0	0	0	0
666	REGULATORY COMMISSION EXPENSES – AMORT. OF RATE CASE EXPENSE	0	26,260	26,260	(789)	25,471
667	REG. COMMISSION EXPENSES – OTHER	0	0	0	0	0
670	BAD DEBT EXPENSE	0	6,276	6,276	(4,707)	1,569
675	MISCELLANEOUS EXPENSES	21,649	2,773	24,422	(7,330)	17,092
	TOTAL OPERATION AND MAINTENANCE	\$ 280,907	\$ 244,066	\$ 524,973	(177,815)	\$ 347,358

ST. GEORGE ISLAND UTILITY COMPANY, LTD.
 COUNTY: FRANKLIN
 DOCKET NO. 940109-WU
 PROJECTED TEST YEAR ENDED: DECEMBER 31, 1992

SCHEDULE NO. 4

**WATER
 RATE SCHEDULE**

<u>Residential and General Service</u>	<u>Current</u>	<u>Commission Approved Interim</u>	<u>Utility Requested Final</u>	<u>Staff Recommended Final</u>
Base Facility Charge:				
Meter Size:				
5/8" X 3/4"	\$14.05	\$15.61	\$30.91	\$20.54
1"	\$35.11	\$39.00	\$77.27	\$51.35
1 1/2"	\$70.24	\$78.03	\$154.54	\$102.70
2"	\$112.37	\$124.83	\$247.27	\$164.36
3" Compound	\$224.74	\$249.67	\$494.54	\$328.64
3" Turbine	\$245.81	\$273.08	\$540.91	\$359.45
4" Compound	\$351.16	\$390.11		\$513.50
4" Turbine	\$421.39	\$468.13	\$927.27	\$616.19
6" Compound	\$702.31	\$780.21		\$1,026.99
6" Turbine	\$877.89	\$975.27	\$1,931.81	\$1,283.74
8" Compound	\$1,123.70	\$1,248.34		\$1,643.18
8" Turbine	\$1,264.17	\$1,404.39		\$1,848.58
10" Compound	\$1,615.33	\$1,794.50		\$2,362.08
10" Turbine	\$2,036.72	\$2,262.63		\$2,978.27
12" Compound	\$3,019.96	\$3,354.93		\$4,416.06
 GALLONAGE CHARGE PER MG (1,000)	 \$1.67	 \$1.86	 \$2.84	 \$1.94

Typical Residential Bills

RESIDENTIAL BILLS – 5/8" x 3/4"

3,000 gallons	\$19.06	\$21.19	\$39.43	\$26.36
5,000 gallons	\$22.40	\$24.91	\$45.11	\$30.24
10,000 gallons	\$30.75	\$34.21	\$59.31	\$39.94

ST. GEORGE ISLAND UTILITY COMPANY, LTD.
 COUNTY: FRANKLIN
 DOCKET NO. 940109–WU
 TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE 5

RATE SCHEDULE

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

Water

Monthly Rates

<u>Residential and General Service</u>	<u>Staff Recommended Rates</u>	<u>Rate Decrease</u>
Base Facility Charge (meter size):		
5/8" X 3/4"	\$20.54	\$1.20
1"	\$51.35	\$2.99
1 1/2"	\$102.70	\$5.98
2"	\$164.36	\$9.56
3" Compound	\$328.64	\$19.12
3" Turbine	\$359.45	\$20.91
4" Compound	\$513.50	\$29.88
4" Turbine	\$616.19	\$35.85
6" Compound	\$1,026.99	\$59.75
6" Turbine	\$1,283.74	\$74.69
8" Compound	\$1,643.18	\$95.60
8" Turbine	\$1,848.58	\$107.55
10" Compound	\$2,362.08	\$137.43
10" Turbine	\$2,978.27	\$173.28
12" Compound	\$4,416.06	\$256.94
Gallonage Charge, per 1,000 gallons	\$1.94	\$0.11

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

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

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

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

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

TOTAL PLANTATION \$ IN DISTRIBUTION

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

Used and Useful 36.9% \$74,424.56

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

Time Periods Induced From Review of Bishop Reports as Follows:

A = Installed after 1982, used average 3/ft from period 1982-1988
 B = Installed between 1978 and 1982, used average 3/ft from period 1978-1982
 C = Installed by 1978, used 1978 3/ft

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

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

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

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

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

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

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

Cost of Qualifying Assets:	\$82,265	Annual Depreciation Expense:	\$ 3,658
Divided By Future ERC:	457	Future ERC's:	457
	-----		-----
Cost/ERC:	\$180.05	Annual Depr. Cost per ERC:	\$ 8.00
Multiply By Rate of Return:	7.35%		=====

Annual Return Per ERC:	\$13.23	Annual Property Tax Expense:	\$ 0
	=====	Future ERC's:	457
Annual Reduction in Return:	\$0.59		-----
(Annual Depreciation Expense	=====	Annual Prop. Tax per ERC:	\$ 0.00
per ERC Times Rate of Return)			=====
Federal Tax Rate:	0.00%	Weighted Cost of Equity:	0.00%
Effective State Tax Rate:	0.00%	Divided by Rate of Return:	7.35%
	-----		-----
Total Tax Rate:	0.00%	% of Equity in Return:	0.00%
	=====		=====
Effective Tax on Return:	0.00%	Other Costs:	\$ 0
(Equity % Times Tax Rate)	=====	Future ERC's:	457

Provision For Tax:	0.00%	Cost per ERC:	\$ 0.00
(Tax on Return/(1 - Total Tax Rate))	=====		=====

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

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

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

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

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

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

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

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