BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for rate increase in Charlotte County by Rotonda West Utility Corporation.	) DOCKET NO. 950336-WS) ORDER NO. PSC-96-0663-FOF-WS) ISSUED: May 13, 1996

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman
J. TERRY DEASON
JOE GARCIA
JULIA L. JOHNSON
DIANE K. KIESLING

NOTICE OF PROPOSED AGENCY ACTION ORDER
APPROVING INCREASED RATES AND CHARGES

BY THE COMMISSION:

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

BACKGROUND

Rotonda West Utility Corporation (Rotonda or utility) is a Class A utility located in Charlotte County. According to the Southwest Florida Water Management District (SWFWMD), Rotonda is in a water use caution area. According to the utility's minimum filing requirements (MFRs) as of December 31, 1994, the utility had an average of 2,828 water and 2,667 wastewater customers. Rotonda reported adjusted test year operating revenues of $1,093,541 for water and $943,409 for wastewater operations respectively for 1994.

The utility came under our jurisdiction on September 30, 1994, pursuant to Charlotte County's resolution declaring the privately-owned water and wastewater utilities in Charlotte County subject to the provisions of Chapter 367, Florida Statutes. By Order No. PSC-95-0780-FOF-WS, issued June 28, 1995, we issued grandfather certificates to Rotonda. The utility has never had a rate proceeding before this Commission, therefore, there is no previously established rate of return on equity.

The utility filed this application for a rate increase on August 11, 1995. After the utility corrected several deficiencies, the official filing date was established as October 16, 1995. The utility requested that this case be processed using the proposed agency action (PAA) procedure pursuant to Section 367.081(8), Florida Statutes.

The utility requested an interim test year of the historical period ending December 31, 1994, and total interim revenues of \$1,432,651 and \$1,033,209 for water and wastewater, respectively. This represented revenue increases of \$339,100 (31.01 percent) for water and \$89,800 (9.52 percent) for wastewater, designed to produce a rate of return of 9.07 percent each. On December 20, 1995, by Order No. PSC-95-1570-FOF-WS, we suspended the utility's proposed rates and granted an interim rate increase subject to refund. On January 11, 1996, we issued Amendatory Order No. PSC-95-1570A-FOF-WS to correct two instances where the decision in this matter was not properly indicated. Order No. PSC-95-1570-FOF-WS was affirmed in all other respects.

Rotonda's requested test period for final rates is the projected year ending December 31, 1995. The utility has requested total revenue of \$1,591,241 for water and \$1,166,609 for wastewater. These revenues reflect revenue increase of \$449,584 (39.38 percent) for water and \$190,559 (19.52 percent) for wastewater. The utility's final revenues are based on the utility's requested overall rate of return of 10.88 percent.

QUALITY OF SERVICE

A customer meeting, attended by approximately fifty customers, was held on November 29, 1995 in the Lemon Bay High School Auditorium. Seven customers provided testimony regarding the proposed rate increase, the proposed decrease in reuse charges, land transactions, and management fees. Two customers provided testimony regarding the taste of the water.

Rotonda's water treatment facility consist of three separate plants with their outputs blended in a single storage tank. The treatment type is different for each of the plants: reverse osmosis, lime softening, and aeration. A field inspection of all of Rotonda's water and wastewater facilities found those facilities to be very clean and orderly. No problems in the systems operational conditions were discovered. A review of the monthly operational reports for the years 1995 and 1994, Department of Environmental Protection (DEP) files, interaction with DEP officials, indicates that the quality of product for all of Rotonda's facilities meets standards.

Upon consideration of these factors, we conclude that the quality of service provided by the utility is satisfactory.

RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is depicted on Schedule Nos. 1-A and 1-B, and our adjustments are itemized on Schedule No. 1-C. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in this Order. The major adjustments are discussed below:

Used and Useful

The method used to derive used and useful percentages for Rotonda's water transmission and distribution system and wastewater collection system is somewhat different than our standard calculation. Rotonda's service area consists of 20 separate subdivisions with different developers and utility investment in each. Some of the subdivisions have no customers while others vary up to 50 percent built-out. In addition, the distribution and collection systems were totally contributed in some sections whereas others were 100 percent utility invest.

We applied the normal lot count method (projected connections/ potential connections) to each separate subdivision to obtain a non-used and useful percentage for each. These percentages were multiplied by the dollar amount of invested plant in service per subdivision to yield a dollar value for non-used and useful. Non-used and useful dollars divided by invested plant in service multiplied by 100 percent yields a non-used and useful percent. The used and useful percentages for each subdivision are calculated by subtracting the non-used and useful percent for that subdivision from 100 percent.

After reviewing and verifying all values used in these calculations, we find the used and useful values and the methodology used in the derivation is the appropriate representation for this particular utility, given the large number of subdivisions and the diversity of investment per subdivision. Therefore, we find Rotonda's water and wastewater plants to be 100 percent and 91 percent used and useful, respectively. The water distribution system and wastewater collection system are 36.02 percent and 20.12 percent used and useful, respectively.

Plant in Service

Our audit revealed that plant additions totalling $86,136 booked prior to 1990 were not supported by any original vendors' invoices or other supporting documentation. Rotonda contended that $57,331 of that amount related to allocated salaries from affiliated companies for engineering work performed. The utility provided a computer generated allocation schedule for this amount but did not provide any other supporting documentation.

It is the utility's burden to furnish supporting documentation for all entries on its books. The information the utility submitted was not sufficient and we therefore shall remove plant additions of $86,136 from plant in service, and adjust related accumulated depreciation and depreciation expenses accordingly. Based on a thirteen month average, the water plant in service and related accumulated depreciation shall be reduced by $55,295 and $2,658, respectively. The wastewater plant in service and related accumulated depreciation shall be reduced by $30,841 and $682, respectively. The depreciation expense for water and wastewater shall be reduced by $1,484 and $685, respectively.

Adjustments to Projected 1995 Capital Additions

In its MFRs, Rotonda projected 1995 capital additions totaling $165,241 and $82,867 for water and wastewater, respectively. Our audit revealed that projected capital projects totalling $58,857 were either not yet started, not completed as of October 31, 1995 or considered no longer required by the utility. Our findings and adjustments for each project are addressed below:

Trihalomethane Reduction Project

While the utility projected this addition to be completed by July, 1995, at a cost of $28,500, the project had not been initiated as of October 31, 1995. The utility stated that the project would be completed by March 31, 1996 at a cost of $20,000. Given the uncertainty of the actual completion date and costs, we find that this plant addition should not be included in rate base. Based on a thirteen-month average, we will reduce plant in service for water and related accumulated depreciation by $14,577 and $1,663, respectively, and reduce test year depreciation expense by $713.

Reverse Osmosis Water Treatment Plant - Dual Feed Chlorinator

The utility initially projected that this addition would be placed in service in June, 1995, at a cost of $2,500, but had not initiate the project as of October 31, 1995. The utility stated that this addition would be completed at the same cost by December 31, 1995. An independent price quote on this addition indicates that the utility's projection is reasonable. We find it appropriate to calculate the impact of the change in completion date using a thirteen month average, resulting in a reduction of plant in service for water and related accumulated depreciation by $1,346 and $132, respectively. The utility's test year depreciation expense shall be reduced by $57.

Booster Pump Station

While the utility projected a booster pump station to be completed by August, 1995, at $7,875, it was not completed as of October 31, 1995. The utility stated that this addition is no longer required and we therefore find it appropriate to remove this plant addition from the utility's rate base. Using a thirteen-month average, the plant in service for water and related accumulated depreciation shall be reduced by $3,028 and $459, respectively. The utility's test year depreciation expense shall be reduced by $197.

Heights Activation

While the utility originally projected this addition to be completed by September 1995, at a cost of $20,000, it was not completed as of October 31, 1995. The utility stated that this addition would be completed by December 15, 1995 at total cost of $1,000. Given the uncertainty of the actual completion date and costs, we find that this plant addition shall not be included in the utility's rate base. Using a thirteen-month average, the plant in service for water and related accumulated depreciation shall be reduced by $6,154 and $543, respectively, and the utility's test year depreciation expense should be reduced by $232.

Collection System Emergency Repair

The utility indicated that it incurred emergency repair expenses of $20,615 for its wastewater collection system. Although this emergency repair was not included in the 1995 projected capital additions, the utility provided supporting documentation for this repair. Because these costs were unexpected but reasonable we find it appropriate to include those costs in the test year rate base. Based on a thirteen-month average, the wastewater plant in service and related accumulated depreciation shall be increased by $2,203 and $534, respectively, and test year depreciation increased by $229.

Operating Plant Permit Renewal

The utility indicated that the actual cost incurred for an operating plant permit renewal is $22,466, which was $11,414 over the amount projected. The copies of invoices from an outside consulting firm were also provided by the utility. The actual cost incurred is reasonable and will be included in the test year rate base. Based on a thirteen-month average, the wastewater plant in service and related accumulated depreciation will be increased by $6,940 and $416, respectively. The utility's test year depreciation will be increased by $178.

Conclusion

Our adjustments to projected 1995 capital additions result in a reduction of plant in service by $25,106 for water and an increase of $9,144 for wastewater, based on a thirteen month average. Accumulated depreciation shall be reduced by $2,797 for water and increased by $951 for wastewater. The utility's test year depreciation expense shall be reduced by $1,199 for water and increased by $407 for wastewater.

Master Plan

The utility's test year expenses included amortization costs for a master plan. A master plan typically includes details such as historic growth in the envisioned service territory and included future growth projections. Rotonda's master plan addresses growth projections through the year 2007. The original cost of the plan was $125,360 which the utility amortized over ten years to engineering contractual services at an annual rate of $6,267 and $6,269 for water and wastewater, respectively. However, according to the National Association of Regulatory Utility Commissioner's (NARUC) Uniform System of Accounts (USOA) this account should only include costs for ongoing and recurring engineering work. Engineering services for plant items should be included in plant. The utility should have capitalized the cost for the master plan and included it in the water and wastewater plant accounts for Other Plant and Miscellaneous Equipment, with a depreciable life of 25 years.

We therefore find it appropriate to remove the costs included in engineering contractual services for the master plan. The utility's inflation factor of 1.95 percent, or $122, for both water and wastewater, shall also be removed. Engineering contractual services shall be reduced by $6,389 and $6,391 for water and wastewater, respectively. Plant in service shall be increased by $125,360 and allocated equally between water and wastewater. Corresponding adjustments shall also be made to increase accumulated depreciation by $74,145 and depreciation expense by $5,014 and allocated equally to both water and wastewater.

Imputation of CIAC for Contributed Land

Rotonda included four parcels of land in its rate base which were contributed and therefore not investments made by the utility. We find that these parcels should have a zero cost for ratemaking purposes. Our audit on this matter also addressed several other minor adjustments to plant. Our findings are set forth below:

Parcels 1 and 2: Main Office, Reverse Osmosis and Wastewater Plant Locations

In prior rate proceedings, Charlotte County disallowed all land used by the utility before 1978. The County determined that all land up to date was contributed and therefore not an investment of the utility, and disallowed $192,213 of land for water and $75,808 of land for wastewater as of December 31, 1990. Parcels 1 and 2 on which the main office, reverse osmosis water plant and wastewater plant are located, and any other parcels of land then being used by the utility, were the subjects of these prior County Rate Orders.

We agree with the prior decisions to disallow the costs of land on the basis that assets were contributed to public utility use should have a zero cost for the ratemaking purposes. In order to properly reflect this rate making effect, Contributions in Aid of Construction (CIAC) will be imputed to equal the booked cost of the land.

Parcel 3: Oakland Hills Well-field Site

The Oakland Hills Well-field was originally part of a 40-acre parcel that was deeded to the utility on February 2, 1967. The deed on this 40-acre site was then transferred to a related company, the Cape Cave Corporation, on December 8, 1969. The utility then purchased a portion of this parcel consisting of 9 platted lots (approximately 3 acres) back from the Cape Cave Corporation on December 31, 1991 for $90,000.

Rotonda argued that it never held a legal title interest in this land during a rate proceeding, the land was never considered in a rate proceeding before Charlotte County or this Commission. The utility also stated that the utility's purchase of this land at a price below the fair market value was due to requests by the Water Management District for the utility to own the site of its well-fields. The utility agreed that this site, as part of a larger parcel, was owned previously by the utility for approximately two and a half years in the late 1960's. However, Rotonda contends that the property was never dedicated to public use until sold to the utility in 1991 and that therefore, the purchase price of $90,000 in 1991 should be included in the water rate base.

The utility is correct in its argument that the NARUC USOA requires that land should be recorded at the original cost when first dedicated to public use. Florida is an original cost jurisdiction and Chapter 367, Florida Statutes, requires that this Commission consider the cost of utility assets at the time those assets were dedicated to public service.

By the utility's own admission, the land was owned and used by the utility in 1967, and subsequently sold back to a related party. In the meantime, a small portion of this land was still used but not owned by the utility until purchased back by the utility in 1991. We find that the property was dedicated to public use as of 1967 not 1991. The utility has not provided the original cost of the land as of 1967. In consideration of the documentation provided, we shall it impute CIAC for the $90,000 purchase price of the Oakland Hill well-field site from the water rate base.

Parcel 4: Core Water Plant Site

A five million gallon water tank was constructed at the very center of the Rotonda development's Core Site in 1972 but was not used until improvements were completed in 1991. In 1989, numerous wells, aeration, filtration, and chlorination facilities were constructed near the center. The utility purchased the Core Water Plant Site (approximately 9.3 acres) from the Cape Cave Corporation on December 31, 1991, for $95,149, including costs. In 1993, the utility constructed its lime-softening plant on this land.

The utility initially submitted an appraisal of this land as of December, 1991, reflecting that the amount paid was less than market value at that time. The utility also argued that while Charlotte County eliminated all of the original costs related to the tank itself in previous rate proceedings, the land was not considered by Charlotte County because the utility did not own it at that time. The water tank itself sits on only 0.85 acres of land and the utility now utilizes the entire 9.3 acres. The utility stated that the tank was not dedicated until it was placed in service in 1991, and at a minimum, only the .85 acres for the tank were dedicated when constructed in 1972. With respect to the remaining 8.45 acres, the utility stated that it commenced construction in 1989 for numerous facilities on the remaining portion of the 9.3 acres. We also deferred our consideration of this matter to permit the utility to file supporting documentation regarding this property. Our review of the utility's position and documentation is set forth below.

The phrase "dedicated to public use", sometimes referred to as "dedicated to public purpose", has been used generally in areas of law such as zoning, taxation, condemnation, and adverse possession. A common law dedication of land for public use requires an intention on the part of the proprietor to dedicate the land to public use, and an acceptance by the public. 10 Fla. Jur, Dedication, Section 1. The courts often look to sources such as plats, maps, tax records, and agreements. The review focuses on the use of the land, not ownership. Tre-O-Ripe Groves, Inc. v. Mills, 266 So.2d 120 (Fla. 1st DCA 1972) held that the "utilization of the property...not the character or nature of its owner, is the major criteria in determining liability for taxes."

The meaning ascribed to the phrase in utility law, although similar, is more narrowly defined when used for ratemaking purposes to establish the cost of land or facilities in rate base. Pursuant to Section 367.081(2)(a), Florida Statutes, the utility is granted a "fair return on the investment of the utility in property used and useful in public service." As stated above, Florida is an original cost jurisdiction. This Commission adheres to the NARUC USOA in recording land when first dedicated to public use.

We have addressed the valuation of land purchased from related parties in numerous cases and reviewed those decisions in reaching our conclusions in this matter. These cases demonstrate that it is the utility's burden to establish the original cost of the land when first devoted to public service. In order to make a determination regarding the appropriate treatment of the land, it is necessary to review 1) when the property was dedicated to public use, and 2) what the appropriate cost was at the time of the dedication.

There are several methods of determining when the land was first dedicated to public use. First, and most obvious, we can look to when the land or facilities were first put into service or use. Secondly, the initiation of planning, construction or permitting for the land can demonstrate that it has been dedicated to public use. Finally, the land's zoning or platting can demonstrate the intention. Consideration should also be given if plans are subsequently changed or abandoned for other reasons.

After the date is determined as to when the property was dedicated to public use, the determination of original cost should be made. To establish what an arms-length transaction would dictate, this Commission has used appraisals to value the land at the point in time when the land was dedicated to public service. Depending on the circumstances, we have accepted or rejected appraisals depending on whether the appraisals were based on equivalent land sales. In lieu of sufficient evidence regarding a reasonable appraised value and when the related party's original cost documentation was available reflecting an arms-length transaction, we have escalated the original cost forward using the Consumer Price Index. We have also used property tax information and documentary stamps when other evidence was not available.

In addition to the materials submitted in its original filing, the utility submitted a map dated January 27, 1970, and a map dated

February 9, 1988, which shows a well field and storage tank occupying a lot which is 250 feet by 500 feet (approx. 2.87 acres). The other documents had either already been submitted, or did not relate to the Core Site area.

Based on the information submitted by the utility, the intended usage in the 1970's of the inner circular area other than generic commercial is unknown. However, the fact remains that the utility constructed the water tank in 1972, which demonstrates that this land was dedicated to public use at that time. There is no distinction in that it was considered plant held for future use and not plant in service. The fact that the utility did not own the land until 1991 is also irrelevant. The intent was established at least in 1972 and the construction of the water tank confirmed this intent.

With respect to the remaining 8.45 acres, we are not convinced that the land was not dedicated to public use as of 1972. It is the utility's burden to prove its investment in its land and not our burden to find evidence to the contrary. If the utility planned to construct the water tank, which was also inside the zoned commercial core, there is no evidence that the developer in 1972 also planned on eventually using the inner core for other utility purposes. Based on the above, CIAC shall be imputed for the purchase price of $95,149 for the Core Site.

Road Construction Costs and Title Search

The utility also included costs in its land account totalling $5,161 which were not appropriately accounted for as land. Accordingly, road construction costs of $1,696 and well-field permit costs of $2,002 shall be reclassified and transferred to Account 304 - Structures and Improvements, and Account 307 - Wells and Springs, respectively. The effect of these adjustments require the utility to take depreciation on these transferred amounts. Accordingly, accumulated depreciation associated with Accounts 304 and 307 will be increased for $148 and $50 using a thirteen month average and test year depreciation expense for these two accounts increased by $42 and $100, respectively.

The utility also included title search costs incurred to determine what property the utility owned and needed to acquire prior to purchasing the Core Site and the Oakland Hill well-field. Because the cost of these two parcels has been disallowed, the related title search costs will also be removed. Therefore, land shall be reduced by $963 and $500 for water and wastewater, respectively.

Conclusion

Based on the above, CIAC for contributed land shall be imputed in the amounts of $377,362 and $75,808 for water and wastewater, respectively. Water Plant Account 304 will be increased by $1,696 for road construction costs, with corresponding increases of $148 and $42 to accumulated depreciation and depreciation expense, respectively. Water Plant Account 307 will be increased by $2,002 for well-field permit costs, with corresponding increases of $50 and $100 to accumulated depreciation and depreciation expense, respectively. Land will be reduced by $4,661 for water and $500 for wastewater.

Working Capital

Pursuant to Rule 25-30.433, Florida Administrative Code, Class A Utilities must use the balance sheet method to compute working capital. Using this methodology, Rotonda requested $485,724 as a working capital allowance. Of this amount, $280,527 was allocated to its water plant and $205,197 to its wastewater plant. We have reviewed the utility's balance sheet and its calculation of working capital, and find several adjustments to be necessary.

Cash

The utility included a 13-month average cash balance of $362,282 in its working capital calculation. This is a large amount of cash to be included in a non-interest bearing account. The utility contended that the large bank balance is necessary in order to meet its loan obligations. We examined several large Class A water and wastewater utilities, and compared the cash balance for each utility to annual revenues. Those utilities kept cash balances from .57 percent to 2.15 percent of their annual revenues. Rotonda's average cash balance is 17.10 percent of its annual revenues.

The utility has not sufficiently demonstrated the need for the large cash balance in an account that is not earning interest. We therefore find it appropriate to disallow the large cash balance. We find that an amount equal to 4 percent of the Rotonda's total revenues is sufficient for the utility to meet its financial obligations. Therefore, the utility's cash balance shall be reduced by $277,282, resulting in a $85,000 cash balance for the working capital determination.

Other Miscellaneous Deferred Debits

This account includes the unamortized portion of the Rotonda's master plan. However, we have determined herein that the utility's master plan will be capitalized. Therefore, the unamortized balance of $49,960 included in working capital shall be removed.

Deferred Rate Case Expense

As addressed herein, the utility's prior rate case expense is fully amortized. Therefore the $13,653 related to deferred rate expense for prior a case shall be removed. Furthermore, because we have found that current rate case expense shall be reduced, the amount included in working capital for current rate case expense shall be reduced by $17,159.

Conclusion

We find the utility's allocation methodology of 58/42 based on relative rate base between water and wastewater to be appropriate. Using this methodology and the adjustments discussed above, we find the working capital allowance is $127,670. Using the same factors, the working capital allowances for water and wastewater are $74,047 and $53,623, respectively. Based upon our adjustments and the use of a thirteen month average projected test year, we find the average rate base to be $3,610,778 and $2,880,938 for water and wastewater, respectively.

COST OF CAPITAL

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

On December 8, 1994, the 41/75 Corporation (41/75) purchased the stock of Rotonda Properties, Inc. (RPI) from a subsidiary of Citicorp, Inc. There were seven companies included in RPI at the time of this transaction: the utility and six real estate related entities. As a condition of the purchase of RPI stock by 41/75, the RPI debt was required to be refinanced. The RPI debt associated with the utility had a favorable effective cost rate of 8.34 percent, due to RPI's affiliation with Citicorp, Inc. The replacement debt has an effective rate of 10.84 percent which we consider to be reasonable.

Because of the transfer of stock between affiliates and the higher refinanced rate, we have closely examined the appropriate cost of debt for the utility. Generally, we hold rate base constant in a stock transfer. Other cost factors may change as a result of a change in ownership including administrative and management support, construction activities and in this case, cost of debt. The key is whether these changes result in reasonable cost of service levels. We find the new cost of debt to be reasonable and therefore find it appropriate to recognize the utility's actual cost of debt of 10.84 percent for ratemaking purposes.

Based upon the components of the adjusted capital structure, as shown on Schedule No. 2, the equity ratio for the utility is 18.02 percent. Using the current leverage graph formula established by Order No. PSC-95-0982-FOF-WS, issued on August 10, 1995 in Docket No. 950006-WS, we find the appropriate return on common equity to be 11.88 percent, with a range of 10.88 percent to 12.88 percent. Based upon our adjustments the overall cost of capital for the utility is 10.98 percent, with a range of 10.80 percent to 11.15 percent.

NET OPERATING INCOME

Our calculation of net operating income is depicted on Schedules Nos. 3-A and 3-B and our adjustments are itemized on Schedule No. 3-C. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on that schedule without further discussion. The major adjustments are discussed below.

Allocation of A&G Expenses

Rotonda's administrative and general (A&G) expenses were historically allocated equally between water and wastewater, which corresponds to the number of customers for each plant. However, the utility requested a change in allocation of labor related general expenses and made proforma adjustments to its historical test year integrating this change. The utility suggested that A&G expenses are more appropriately allocated 40 percent to water and 60 percent to wastewater because more time is spent on wastewater related matters.

A&G expenses more closely follow customer ratios and most Class A and B utilities allocate A&G expenses using the customers ratios. We do not believe the utility has justified its request to change the allocation method. Accordingly, we shall increase water A&G expenses by $22,418 and decrease wastewater A&G expenses by the same amount.

Stock Transfer Legal Fees

The utility included $315 in legal costs related to the transfer of stock from Rotonda Properties, Inc, the utility's parent, to the 41/75 Corporation. These costs have no bearing on the utility's operations, and shall be removed. Legal expenses shall be reduced by $158 and $157 for water and wastewater, respectively.

Miscellaneous Expenses

The utility incurred $9,948 in penalties associated with the redemption certificates of deposits before the maturity date and included these penalties in the miscellaneous expenses account. The utility contended that because of the unexpected cash needs, these certificates were redeemed prior to the maturity date and should be allowed to remain. Because interest income and expense amounts are "below the line" items, penalties associated with earning interest are also below the line. Further, a penalty associated with cashing a certificate of deposit before its due date is not a normal and recurring expense. Based on this, the costs included in miscellaneous expenses for bank penalties will be removed. In addition, the utility included $3,826 in debt issuance costs which were allocated equally between water and wastewater. We find it appropriate to disallow the costs associated with this debt.

Based on the above, miscellaneous expenses shall be reduced by $3,826 for water and by the same amount for wastewater to disallow costs included for bank penalties. Both water and wastewater shall also be reduced by $1,913 to remove the debt issuance costs.

Rate Case Expense

The utility's requested provision for rate case expense includes two components: a provision to amortize expenses from a prior case ($19,860) and a provision to amortize current rate case costs ($120,000). The utility allocated current rate case expense 40 percent to water and 60 percent to wastewater. The utility's current rate case expense and estimate to complete the PAA proceeding produced a revised rate case expense of $119,989. In our review of these costs, we found several areas where adjustments are necessary.

Legal Fees

The utility originally estimated its legal fees for services provided by Rose, Sundstrom and Bentley to be $50,000. In its revised request, the utility reported that $31,980 was actually incurred and $11,350 would be further incurred to process the case through the PAA process, for a total of $43,330. Upon review, $2,940 related to filing the MFR deficiencies is duplicative and shall be removed. The $1,140 related to legal work on the management contract shall also be removed as this does not relate directly to rate case expense. The utility's estimate of $11,350 for 71 hours of legal work and out of pocket costs to complete this case through the PAA process is excessive. We find that 40 hours or $6,000 plus $700 in out of pocket costs is sufficient for completing this case through the PAA process.

In its revised request, Rotonda also included legal expenses in the amount of $4,113 for services performed by the Bollard Group. The utility stated that these costs were related to additional assistance to respond one of the audit disclosures on tax issues. The invoice is addressed to Rotonda Properties, Inc., and reflects a prior balance due which appears to represent an on-going relationship between the Bollard Group and Rotonda Properties. We cannot specifically determine whether these charges relate to the utility or its parent. Further, the detailed response is unnecessary and excessive, since this is a PAA rate case. The time to hire highly specialized experts, in addition to those accounting and legal services already contracted by the utility, should be after the PAA process has been completed, if the case has been protested. Therefore, $4,113 in charges related to services rendered by the Bollard Group shall be disallowed.

Based on the above, legal fees shall be reduced by $12,843, resulting in approved legal fees of $30,487 to process this matter through the PAA order.

Accounting Fees

The utility initially estimated that accounting fees for Ferrell & Moses would be $40,000. The utility's updated information indicated that these charges would be $37,208 to complete this case through PAA. After our review of the invoices we find that $3,566 related to correcting the MFRs for deficiencies should be removed since it is duplicative. In its estimate to complete, the utility included 64 hours at a cost of $5,400 and $1,000 in out of pocket costs. We believe that 30 hours or $3,000 is more than adequate to cover the costs through the conclusion of the PAA process. Therefore, we shall reduce the utility's revised request by $2,400.

In its revised requests, Rotonda included additional accounting costs of $2,438 for accounting services performed by John Sheahen and Associates. The invoice states that the services rendered related to the development of a response to a PSC audit finding. This invoice does not demonstrate the appropriateness of the cost. Since no other information was provided, we are unable to determine whether these charges were duplicative or even necessary. Therefore, we shall disallow the $2,438 requested for this expense.

Based on the above, accounting fees shall be reduced by $8,404, resulting in approved accounting fees of $31,242 to process this matter through PAA.

Engineering Fees

The utility originally estimated its engineering fees to be $20,000. In its revised request, the utility reported $3,025 as being actually incurred to date and $4,000 as remaining to be processed through PAA. The $4,000 included as projected engineering charges shall be removed, because the utility failed to provide any support for these costs. Based on the above, the utility's revised estimate for engineering fees shall be reduced by $4,000.

Support Staff

The MFRs included a $7,000 provision for support staff salaries. The utility's revised request included $4,823 in actual and $2,500 in estimated salaries, to complete the case through PAA. The amount requested includes allocated salaries for four individuals who have assisted the utility management in this rate case: two utility employees and two employees of the parent company. The utility stated that these costs related to work performed by these employees above and beyond their regular duties. However, this does not demonstrate whether overtime was incurred or that the utility even pays over time for these employees. While we accept the amount requested for the employees of the parent company, the $3,213 included for utility employees shall be removed because these salaries are already included in operating expenses. In addition, the $2,500 included for projected salaries shall be removed, because the utility failed to file any documents to support this amount. Accordingly, the utility's revised request shall be reduced by $5,713.

Miscellaneous

In its filing, the utility requested $3,000 for software support and miscellaneous expenses. In its first update, the utility requested $13,453 for actual to date costs, including filing fees, and $5,100 for projected costs to complete. The provision for actual to date costs is reasonable except for the inclusion of $400 for land appraisals. The utility maintained that the appraisals were necessary to respond to the audit disclosure on land. However, as discussed herein, the appraisal was untimely, and the costs shall be removed. In its second update, the utility filed support for $2,154. After our review of the supporting documentation, the $2,154 shall be allowed. Based on the above, our adjustments result in the removal of $3,346 from the utility's requested amount.

Prior Rate Case Expense

The utility included $23,583 in prior rate case expense in its current calculation, for expenses incurred for a service availability case while under county jurisdiction. Because the amortization period ended in February of this year, the prior rate case expense included in the MFRs shall be removed.

Conclusion

After the adjustments for rate case expense are made, $85,682 shall be allowed as reasonable rate case expense. The utility allocated 40 percent of total rate case to its water division and 60 percent to its wastewater division. However, we find it to be more reasonable to allocate these costs based on relative customers. Since the customer ratio is 50/50, rate case expense shall be divided equally between water and wastewater. Based on this finding and the adjustments discussed above, the amount requested in the MFRs for rate case amortization shall be reduced by $11,753 and $17,753 for water and wastewater, respectively.

Gain on Sale for Backhoe

In 1987, the utility purchased a backhoe for $35,191. The utility stated that the backhoe was frequently out of service for repairs and was no longer adequate for utility needs. In May of 1994, the utility transferred the backhoe at zero cost to Rotonda Golf and Country Club, a related party. The utility purchased a new backhoe for $29,000.

The utility agreed that the backhoe should have been transferred to the related party at a cost equal to its fair market value and that the salvage should be recorded on the books. The utility provided a quote from a heavy equipment supplier indicating that the value at the time of transfer was $15,500 to $18,000. Consistent with Commission practice, the gain of $18,000 shall be amortized over five years and allocated equally between water and wastewater. This results in a $1,800 reduction to operating expense for both water and wastewater.

Reallocation of Property Taxes

The utility paid personal property taxes of $212,620. The tax bills did not distinguish between non-used and useful, used and useful plant and plant held for future use. The utility allocated $160,039 of this expense to used and useful plant ($92,475 to water and $67,564 to wastewater) and the remaining $52,581 was allocated to non-used and useful. This allocation was based on the percentage of net book value of the plant in service to the property appraiser's total assessed value of all land and plant.

The method used by the utility does not allocate used and useful property taxes accurately because the net book value of the plant in service and the plant held for future use does not equal the property appraisers total assessed value. We find it to be appropriate to allocate tax bills based on the ratio of net book value of used and useful plant to the total net book value of all land owned by the utility. This method is more mathematically accurate and will properly allocate taxes to used and useful assets. Property taxes for the water plant shall be increased by $5,358 and decreased by $11,472 for the wastewater plant.

Test Year Operating Income

Based on the adjustments made herein we find the test year operating income before any provision for increased revenues to be $199,710 for water and an operating loss of $276,783 for wastewater.

REVENUE REQUIREMENT

We hereby approve a revenue requirement of $1,470,997 and $329,360 for water and wastewater, respectively, allowing the utility the opportunity to earn a 10.98 percent rate of return on its investment in rate base. This represents an increase of $329,360 (28.82 percent) for water and $66,028 (6.76 percent) for wastewater.

RATES AND CHARGES

The utility's original rates, interim rates, requested rates, and final approved rates are shown on Schedule Nos. 4-A and 4-B. A discussion of rate-related issues and major adjustments are set forth below.

Water Management District Reuse Credits

The benefit of reuse to the water customers is derived from the water conservation provided by reuse as a source of irrigation. This is best illustrated by explaining the Consumptive Use Permit (CUP) reuse credits policy of the Southwest Florida Water Management District for utilities located in the SWUCA.

If a permittee (in this case, Rotonda) is withdrawing from the Floridan aquifer and desires an increase in its permitted withdrawal amount, then the utility has two options. One option is for the permittee to install a residential reuse irrigation system, which would directly reduce the consumption of potable water for each residential customer. The other, more commonly used option is to provide reuse to another permittee who is also withdrawing from the Floridan aquifer. The permittee providing the reuse would then receive an increase in its permitted withdrawal amount of 50% of the amount of reuse provided to the other permittee.

As a result, we find that reuse provides significant economic benefits to the utility and all its customers in several ways. The wastewater system (and its customers) benefit by avoiding the installation of additional percolation ponds (which are not feasible in this case due to the high water table in the area). In addition, the water system (and its customers) benefits because not only is there more groundwater available for potable water, but by receiving reuse credits, the need to construct additional sources of water supply is postponed.

Furthermore, SWFWMD has drafted a proposed rule change regarding the SWUCA that is in the administrative hearing process. If the new rule is approved, permittees in the SWUCA must reduce their per capita water withdrawals to 130 gallons per day per capita (gpdc) by September 30, 1999, then to 110 gpdc by September 30, 2004. Based on a discussion with the SWFWMD, the utility's 1993 residential withdrawal average was 138 gpdc, and its gross withdrawal average was 152 gpdc. According to the SWFWMD, reuse represents the best method for reducing the water gpdc withdrawn from the aquifer.

The discussion thus far presents an argument for allocating a portion of Rotonda's wastewater revenue requirement to its water customers. We discuss this in greater detail below.

Wastewater System Revenue Requirement Allocation

Section 367.0817(3), Florida Statutes, sets forth our authority to allocate the costs of providing reuse among any combination of a utility's customer base and recognizes that all customers benefit from the water resource protection afforded by reuse. The evolution of reuse of reclaimed water as a method of effluent disposal, aquifer recharge and water conservation has brought change to the traditional allocation of revenue requirement. In recognition that water customers benefit from the conservation facilitated by reuse, it is appropriate to consider whether a portion of the wastewater or reuse costs should be shared by the water customers.

The original wastewater plant at Rotonda, which was constructed in 1983, had a capacity of .250 mgd. It utilized extended aeration as the method of treatment and percolation ponds as the method of disposal. In 1984, the utility installed a .096 mgd contact stabilization wastewater package plant and filtering system, and the effluent from that plant was disposed of via spray irrigation on nearby property. In 1988, the plant was expanded to .625 mgd and upgraded to advanced wastewater treatment (AWT). In addition, the utility installed additional percolation holding ponds. The costs of the plant upgrade were addressed by the Charlotte County Commission in a prior proceeding and apparently were allocated entirely to the wastewater customers. The plant is currently in the process of being expanded to 1.0 mgd; the DEP paperwork is in progress.

Since a 1988 plant upgrade, Rotonda has been treating wastewater to a standard sufficient for reuse. The utility began selling reclaimed water in January 1994. The utility is located in the Southwest Florida Water Management District (SWFWMD) in the Southern Water Use Caution Area (SWUCA), and withdraws its groundwater from both the Floridan and intermediate aquifers. The utility's average annual withdrawal from the Floridan aquifer is approximately 117.53 millon gallons.

The issue of revenue allocation has been presented in only two recent rate proceedings: Docket No. 950387-SU for Florida Cities Water Company - North Ft. Myers Division (FCWC) and Docket No. 950615-WS. In the FCWC case, by Proposed Agency Action (PAA) Order No. PSC-95-1360-FOF-SU, issued November 2, 1995, we found that although there appeared to be some benefit to water customers, a sharing of the wastewater revenue requirement with the water customers was not appropriate. In the Aloha case, by PAA Order No. PSC-95-1605-FOF-SU, issued December 28, 1995, we found that the initial phase of a plant project was an effluent disposal project rather than a reuse project and that all of the revenue requirement should be allocated to the utility's wastewater customers. However, we further ordered that as part of any subsequent filing made to recover additional costs associated with its reuse project, Aloha should address the allocation of reuse facilities among Aloha's water, wastewater and reuse customers. The PAA orders for both of those dockets have been protested and those matters have been set for hearing.

While our consideration of this issue in this case initially favors an allocation of a portion of the total wastewater system revenue requirement to the water system, because the wastewater revenue requirement increase is relatively small, any significant shift would result in a wastewater system revenue requirement decrease. The magnitude of the revenue requirement increases to the water and wastewater systems leads us to conclude that the sharing of the wastewater revenue with the water customers is not appropriate at this time. Accordingly, all of the wastewater revenue requirement shall be recovered from the wastewater customers and reuse end users. A reuse rate (as set out below) of $.35 per 1,000 gallons shall be established resulting in revenues from the reuse customers of $52,178. The remainder of the wastewater revenue requirement shall be recovered from the wastewater customers.

While we do not find an allocation of a portion of the total wastewater system revenue requirement to the water system to be appropriate at this time, such an allocation may be appropriate in the future. Therefore, as part of any subsequent filing, Rotonda West shall provide an analysis of how the costs associated with the reuse facilities should be spread among its water, wastewater and reuse customers.

Reuse Rate

In July 1993, the utility executed three separate contracts for the provision of reuse, at a stated rate of $.50 per 1,000 gallons. The utility started providing reuse at that rate in January 1994, and collected reuse revenues during the test year of $62,031. This rate was grandfathered in when we granted Rotonda West its water and wastewater certificates. In March 1995, the utility reduced the reuse rate one customer, Rotonda West Golf Partners (RWGP) to $.35 per 1,000 gallons. This contract amendment was executed after the utility came under our jurisdiction, but was not presented to the Commission for review. Furthermore, the utility is still charging the other reuse customers the original contracted rate.

In its filing, the utility requested a reduction of the rate to $.35 per 1,000 gallons, to all of its reuse customers. In its calculation, the utility included 1994 expenses associated with outside labor, purchased power, equipment maintenance, real estate taxes, depreciation, and interest expense. The utility subsequently updated certain information to reflect 1995 expenses. A recalculation of the reuse rate using the utility's methodology would result in a charge of $.21 per 1,000 gallons.

Rotonda's requested rate of $.35 per 1,000 gallons charge is $.14 greater than the recalculated rate. However, we note that the utility did not consider costs for additional treatment plant or DEP-required testing in its reuse rate calculation. While we cannot quantify the excluded expenses at this time, we believe the requested rate is sufficient to recover the excluded expenses. Therefore, we find the utility's requested reuse rate of $.35 per 1,000 gallons is appropriate. This rate, when applied to the end users' billing determinants results in annual reuse revenues of $52,178.

Water and Wastewater Rates

The final service rates approved for the utility are designed to produce annual operating revenues of $1,412,009 and $987,047 for the water and wastewater divisions, respectively. These recommended revenues exclude any miscellaneous revenues and reuse revenues as discussed herein. The utility's requested revenues represent increases of $449,584 (28.25 percent) for water and $190,559 (16.34 percent) for wastewater based on the projected test year ending December 31, 1995.

The final rates approved for the utility are designed to produce annual operating revenues of $1,470,997 for water and $1,042,078 for wastewater using the base facility charge rate design. However, these revenues exclude any miscellaneous and reuse revenues. The utility's base facility charge rate structure for its wastewater division, reflects the same gallonage charge per 1,000 for residential and general service customers. It has been our practice when setting wastewater rates to set general service customers gallonage charge rate 20 percent higher than residential customers gallonage charge rate. This recognizes that approximately 20 percent of the water used by residential customers is used for purposes such as irrigation and is not collected by the wastewater systems. We have therefore reflected this difference in the approved rates.

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

Refund of Interim Rates

By Order No. PSC-95-1570-FOF-WS, issued on December 20, 1995, we suspended the utility's proposed rates and approved interim water and wastewater rates subject to refund, pursuant to Sections 367.082, Florida Statutes. 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.

The approved interim rates did not include any provisions for pro forma consideration of increased operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings. To determine whether a refund was appropriate we calculated a revised interim revenue requirement utilizing the same data used to establish final rates, excluding rate case expense, which was not an actual expense during the interim collection period. Using these principles, we calculated the revenue requirement for the interim collection period to be $1,470,181 for water and $1,041,261 for wastewater. These revenue levels exceed the interim revenues granted in Order No. PSC-95-1570-FOF-WS. Therefore, a refund of interim rates is not appropriate.

Statutory Rate Reduction and Recovery Period

Section 367.0816, Florida Statutes, requires that rate case expense be apportioned for recovery over a period of four years, and that the rates of the utility be reduced immediately by the amount of rate case expense previously included in the rates. At that time, the water rates shall be reduced by $11,215 and the wastewater rates should be reduced by $11,216 as shown in Schedule Nos. 5-A and 5-B. The revenue reductions reflect the annual rate case amounts amortized (expensed) plus the gross-up for regulatory assessment fees.

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

If a protest is not received within 21 days of issuance of this Order, this docket shall be closed administratively upon our staff's verification that the utility has completed the required refunds and upon the utility's filing of and staff's approval of revised tariff sheets.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of Rotonda West Utility Corporation for an increase in water and wastewater rates is approved as set forth in the body of this Order. It is further

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

ORDERED that all matters contained in the schedules hereto are by reference incorporated herein. It is further

ORDERED that all of the provisions of this Order are issued as proposed agency action and shall become final, unless an appropriate petition in the form provided by Rule 25-22.029, Florida Administrative Code, is received by the Director of Records and Reporting at 2540 Shumard Oak Boulevard, Tallahassee, Florida, 32399-0870, by the date set forth in the Notice of Further Proceedings below. It is further

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

ORDERED that the rates and charges approved herein shall be effective for service rendered on or after the stamped approval date on the revised tariff pages, provided that the customers have received notice. It is further

ORDERED that, prior to its implementation of the rates and charges approved herein, Rotonda West Utility Corporation shall submit and have approved a proposed notice to its customers of the increased rates and charges and the reasons therefor. The notice will be approved upon Staff's verification that it is consistent with our decision herein. It is further

ORDERED that Rotonda West Utility Corporation shall provide proof that notice was given within ten days of the date of the notice. It is further

ORDERED that, prior to its implementation of the rates approved herein, Rotonda West Utility Corporation shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon our Staff's verification that they are consistent with our decision herein and that the protest period has expired. It is further

ORDERED that, as part of any subsequent filing, Rotonda West Utility Corporation shall provide an analysis of the allocation of the costs associated with the reuse facilities among its water, wastewater and reuse customers. It is further

ORDERED that, in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission, this 13th day of May, 1996.

Blanca S. Bayó

BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

MEO

DISSENT

Commissioner Deason dissents from the findings of this Order regarding the appropriate cost of capital.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 3, 1996.

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

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

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

ROTONDA WEST UTILITY CORPORATION
SCHEDULE OF WATER RATE BASE
PROJECTED TEST YEAR ENDED 12/31/95

SCHEDULE NO. 1-A
DOCKET NO. 950336-WS

COMPONENT	TEST YEAR PER UTILITY 1994	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR/ UTILITY 1995	COMMISSION ADJUSTMENTS	COMMISSION ADJ. TEST YEAR
1 UTILITY PLANT IN SERVICE	$ 7,189,345	86,893 $	7,276,238	(14,023)	7,262,215
2 LAND & LAND RIGHTS	382,023	0	382,023	(4,661)	377,362
3 NON-USED & USEFUL COMPONENTS	(397,785)	353	(397,432)	0	(397,432)
4 CWIP	0	0	0	0	0
5 ACCUMULATED DEPRECIATION	(1,095,961)	(150,921)	(1,246,882)	(31,816)	(1,278,698)
6 CIAC	(2,153,964)	(51,121)	(2,205,085)	(377,362)	(2,582,447)
7 AMORTIZATION OF CIAC	150,307	5,424	155,731	0	155,731
8 ACQUISITION ADJUSTMENTS	0	0	0	0	0
9 AMORTIZATION OF ACQUISTION ADJ	0	0	0	0	0
10 DEFERRED TAXES	0	0	0	0	0
11 WORKING CAPITAL ALLOWANCE	279,848	679	280,527	(206,480)	74,047
12 OTHER	0	0	0	0	0
RATE BASE	$ 4,353,813	(108,693) $	4,245,120	(634,342)	3,610,778

ROTONDA WEST UTILITY CORPORATION
SCHEDULE OF WASTEWATER RATE BASE
PROJECTED TEST YEAR ENDED 12/31/95

SCHEDULE NO. 1-B
DOCKET NO. 950336-WS

COMPONENT		TEST YEAR PER UTILITY 1995	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR/ UTILITY 1995	COMMISSION ADJUSTMENTS	COMMISSION ADJ TEST YEAR
1 UTILITY PLANT IN SERVICE	$	4,964,912	55,586 $	5,020,498	40,983	5,061,481
2 LAND & LAND RIGHTS		76,308	0	76,308	(500)	75,808
3 NON-USED & USEFUL COMPONENTS		(902,223)	(36,292)	(938,515)	0	(938,515)
4 CWIP		0	0	0	0	0
5 ACCUMULATED DEPRECIATION		(654,346)	(6,135)	(660,481)	(37,342)	(697,823)
6 CIAC		(616,871)	(51,031)	(667,902)	(75,808)	(743,710)
7 AMORTIZATION OF CIAC		69,202	872	70,074	0	70,074
8 ACQUISITION ADJUSTMENTS		0	0	0	0	0
9 AMORTIZATION OF ACQUISTION ADJ		0	0	0	0	0
10 DEFERRED TAXES		0	0	0	0	0
11 WORKING CAPITAL ALLOWANCE		201,747	3,451	205,198	(151,575)	53,623
12 OTHER		0	0	0	0	0
RATE BASE	$	3,138,729	(33,549) $	3,105,180	(224,242)	2,880,938

ROTONDA WEST UTILITY CORPORATION
ADJUSTMENTS TO RATE BASE
PROJECTED TEST YEAR ENDED 12/31/95

SCHEDULE NO. 1-C
DOCKET NO. 950336-WS

	EXPLANATION		WATER	WASTEWATER
(1)	UTILITY PLANT IN SERVICE			
	a. To reflect land adjustment (AD No. 1)	$	3,698 $	0
	b. To decrease for lack of support (AD No. 3)		(55,295)	(30,841)
	c. To capitalize Master Plan		62,680	62,680
	d. To adjust for disallowance of capital additions (AD 6)		(25,106)	9,144
		$	(14,023) $	40,983
(2)	LAND AND LAND RIGHTS			
	To reflect adjusment per Audit Dis No.1	$	(4,661) $	(500)
(3)	ACCUMULATED DEPRECIATION			
	a. Adjustment related to transfer from land to plant (AD No. 1)	$	(198) $	0
	b. Adjustment related to removal of unsupported plant (AD No. 3)		2,658	682
	c. Adjustment related to master plan		(37,073)	(37,073)
	d. Adjustment related to capital additions (AD 6)		2,797	(951)
		$	(31,816) $	(37,342)
(4)	CIAC			
	To increase for contribute land (Audit Dis No.1)	$	(377,362) $	(75,808)
(5)	WORKING CAPITAL			
	To decrease working capital	$	(206,480) $	(151,575)

ROTONDA WEST UTILITY CORPORATION
CAPITAL STRUCTURE
PROJECTED TEST YEAR ENDED 12/31/95

SCHEDULE NO. 2
DOCKET NO. 950336-WS

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY 1995							
1 LONG TERM DEBT	7,905,822	0	(1,942,042)$	5,963,780	81.14%	10.84%	8.80%
2 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
4 COMMON EQUITY	1,738,016	0	(426,939)	1,311,077	17.84%	11.34%	2.02%
5 CUSTOMER DEPOSITS	100,009	0	(24,567)	75,442	1.03%	6.00%	0.06%
6 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
8 OTHER	0	0	0	0	0.00%	0.00%	0.00%
9 TOTAL CAPITAL	9,743,847	0	(2,393,548)$	7,350,299	100.00%		10.88%
PER COMMISSION 1995							
10 LONG TERM DEBT	7,905,822	0	(2,638,667)$	5,267,155	81.14%	10.84%	8.80%
11 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
12 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
13 COMMON EQUITY	1,738,016	0	(580,085)	1,157,931	17.84%	11.88%	2.12%
14 CUSTOMER DEPOSITS	100,009	0	(33,379)	66,630	1.03%	6.00%	0.06%
15 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
16 ADJUSTMENT FOR GAS	0	0	0	0	0.00%	0.00%	0.00%
17 TOTAL CAPITAL	9,743,847	0	(3,252,131)$	6,491,716	100.00%		10.98%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	10.88%	12.88%
OVERALL RATE OF RETURN	10.80%	11.15%

ROTONDA WEST UTILITY CORPORATION
STATEMENT OF WATER OPERATIONS
PROJECTED TEST YEAR ENDED 12/31/95

SCHEDULE NO. 3-A
DOCKET NO. 950336-WS

DESCRIPTION	TEST YEAR PER UTILITY 1995	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR/ UTILITY 1995	COMMISSION ADJUSTMENTS	COMMISSION A TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	$ 1,129,637	$ 461,584	$ 1,591,221	$ (449,584)	1,141,637	329,360	1,470,997
OPERATING EXPENSES:						28.85%	
2 OPERATION AND MAINTENANCE	$ 614,683	$ (5,005)	$ 609,678	$ (2,236)	607,442	$	607,442
3 DEPRECIATION	237,941	(1,927)	236,014	(33)	235,981		235,981
4 AMORTIZATION	232	118	350	(1,611)	(1,261)		(1,261)
5 TAXES OTHER THAN INCOME	179,198	7,494	186,692	(14,873)	171,819	14,821	186,640
6 INCOME TAXES	(74,371)	170,798	96,427	(168,480)	(72,053)	117,952	45,899
7 TOTAL OPERATING EXPENSES	$ 957,683	$ 171,478	$ 1,129,161	$ (187,234)	941,927	132,773	1,074,701
8 OPERATING INCOME	$ 171,954	$ 290,106	$ 462,060	$ (262,350)	199,710	196,587	396,297
9 RATE BASE	$ 4,353,813		$ 4,245,120		3,610,778		3,610,778
RATE OF RETURN	3.95%		10.88%		5.53%		10.98%

ROTONDA WEST UTILITY CORPORATION
STATEMENT OF WASTEWATER OPERATIONS
PROJECTED TEST YEAR ENDED 12/31/95

SCHEDULE NO. 3-B
DOCKET NO. 950336-WS

DESCRIPTION	TEST YEAR PER UTILITY 1995	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR/ UTILITY 1995	COMMISSION ADJUSTMENTS	COMMISSION A TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	$ 998,440	$ 168,169	$ 1,166,609	$ (190,559)	976,050	66,028	1,042,078
OPERATING EXPENSES						6.76%	
2 OPERATION AND MAINTENANCE	$ 459,138	$ 48,551	$ 507,689	$ (53,072)	454,617	$	454,617
3 DEPRECIATION	128,484	(17,386)	111,098	2,229	113,327		113,327
4 AMORTIZATION	232	128	360	(1,800)	(1,440)		(1,440)
5 TAXES OTHER THAN INCOME	136,365	3,470	139,835	(20,047)	119,788	2,971	122,759
6 INCOME TAXES	24,798	44,869	69,667	(56,692)	12,975	23,646	36,621
7 TOTAL OPERATING EXPENSES	$ 749,017	$ 79,632	$ 828,649	$ (129,382)	699,267	26,618	725,884
8 OPERATING INCOME	$ 249,423	$ 88,537	$ 337,960	$ (61,177)	276,783	39,411	316,194
9 RATE BASE	$ 3,138,729		$ 3,105,180		2,880,938		2,880,938
RATE OF RETURN	7.95%		10.88%		9.61%		10.98%

ROTONDA WEST UTILITY CORPORATION
ADJUSTMENTS TO OPERATING STATEMENTS
PROJECTED TEST YEAR ENDED 12/31/95

SCHEDULE NO. 3-C
DOCKET NO. 950336-WS

	EXPLANATION	WATER	WASTEWATER
(1)	**OPERATING REVENUES**		
	a) To reverse the utility's proposed revenue increase.	$ (449,584)	$ (190,559)
		$ (449,584)	$ (190,559)
(2)	**OPERATION AND MAINTENANCE EXPENSES**		
	a) Adjustment to remove bank penalties	$ (4,974)	$ (4,974)
	b) Adjustment to remove legal expenses associated with the transfer	(158)	(157)
	c) Adjustment to remove master plan	(6,389)	(6,391)
	d) Adjustment to remove prior rate case expense	(9,930)	(9,930)
	e) Adjustment to disallow a portion of rate case expense	(1,290)	(7,289)
	f) Adjustment to remove debt issuance costs included in misc expenses	(1,913)	(1,913)
	g) Adjustment to reallocate A&G expenses	22,418	(22,418)
		$ (2,236)	$ (53,072)
(3)	**DEPRECIATION**		
	a) Adjustment related to capitalization of the master plan	$ 2,507	$ 2,507
	b) Adjustment related to removal of capital additions (AD 6)	(1,199)	407
	c) Adjustment related to removal for lack of support (AD 3)	(1,484)	(685)
	d) Adjustment related to transfer from land (AD 1)	143	0
		$ (33)	$ 2,229
(4)	**AMORTIZATION**		
	a) Adjustment to record gain from transfer of backhoe	$ (1,800)	$ (1,800)
(5)	**TAXES OTHER THAN INCOME**		
	a) Adjustment to reallocate property taxes per AD 10.	$ 5,358	$ (11,472)
	b) Adjustment to remove RAF's related to revenue increase	(20,231)	(8,575)
		$ (14,873)	$ (20,047)
(6)	**INCOME TAXES**		
	To remove provision for Income Taxes	$ (168,480)	$ (56,692)
(7)	**OPERATING REVENUES**		
	To reflect recommended revenue increase.	$ 329,360	$ 66,028
(8)	**TAXES OTHER THAN INCOME**		
	Adjustment for increase in RAF's related to revenue increase	$ 14,821	$ 2,971
(9)	**INCOME TAXES**		
	Adjustment to reflect increased income	$ 117,952	$ 23,646