

FLORIDA PUBLIC SERVICE COMMISSION  
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M E M O R A N D U M

APRIL 30, 1998

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF WATER & WASTEWATER (HILL, WILLIS, WILLIAMS, *AA* *9w* *Pum*  
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XANDERS) *B* *ms* *MAE* *RES* *ALM*  
DIVISION OF LEGAL SERVICES (GERVASI, FLEMING) *ALM*  
DIVISION OF AUDITING & FINANCIAL ANALYSIS (MAUREY) *MS*

RE: DOCKET NO. 971186-SU - APPLICATION FOR APPROVAL OF  
REUSE PROJECT PLAN AND INCREASE IN WASTEWATER RATES IN  
SEMINOLE COUNTY BY SANLANDO UTILITIES CORPORATION

COUNTY: SEMINOLE

AGENDA: MAY 12, 1998 - REGULAR AGENDA - PROPOSED AGENCY ACTION  
EXCEPT FOR ISSUE NO. 30 - INTERESTED PERSONS MAY  
PARTICIPATE

CRITICAL DATES: 5-MONTH EFFECTIVE DATE: MAY 15, 1998  
(REUSE PROJECT PLAN)

SPECIAL INSTRUCTIONS: S:\PSC\WAW\WP\971186SU.RCM

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DOCUMENT NUMBER-DATE

04942 MAY-18

FPSC-RECORDS/REPORTING

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CASE BACKGROUND

Sanlando Utilities Corporation (Sanlando or utility) is a Class A water and wastewater utility located in Altamonte Springs, Florida, which operates three water and two wastewater plants. According to the 1996 annual report, Sanlando serves approximately 9,855 water and 8,871 wastewater customers. The revenue collected in 1996 by the utility was \$2,021,561 for the water system and \$2,855,217 for the wastewater system. Sanlando's entire service area lies within the St. John's River Water Management District (SJRWMD), which has declared its entire district as a water use caution area.

By Order No. PSC-92-1356-FOF-WS, issued November 23, 1992, in Docket No. 900338-WS, the Commission approved a water conservation plan for Sanlando, which plan includes the construction of an effluent reuse system. As required by that order, Sanlando filed a petition for a limited proceeding to implement the water conservation plan on March 10, 1993 in Docket No. 930256-WS.

On December 10, 1993, the Commission issued Proposed Agency Action Order No. PSC-93-1771-FOF-WS, approving Sanlando's petition and requiring the utility to file a proposed charge for reclaimed water. Moreover, the Commission authorized increased gallonage charges in order to generate revenue for the conservation plan and required the utility to establish an escrow account to deposit those funds and any excess revenues.

Several timely protests were filed to Order No. PSC-93-1771-FOF-WS, and the Office of Public Counsel (OPC) and SJRWMD intervened in the docket. Consequently, the matter was set for formal hearing. The parties reached a settlement and submitted a proposed stipulation to the Commission for approval, which they later revised. The overall goal of the stipulation was to fund the construction of the proposed reuse facilities without incurring income tax liability, and thereby reduce the total cost of the project by approximately 40%. To accomplish this goal, the parties agreed to create a non-profit corporation which would own the reuse facilities and which would seek tax exempt status from the Internal Revenue Service (IRS). By Order No. PSC-95-0536-S-WS, issued April 28, 1995, the Commission approved the revised stipulation, with modifications, and ordered the docket to remain open pending the issuance of an IRS letter ruling on the parties' proposed plan. The Commission ordered the parties to report the results of the IRS ruling to the Commission, and authorized the parties to implement the terms of the stipulation if the ruling were favorable to the proposed plan. By Order No. PSC-95-1213-S-WS, issued October 2, 1995, the Commission modified Order No. PSC-95-0536-S-WS, striking

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a paragraph unrelated to the IRS ruling and substituting new language in its place, and otherwise affirmed the order. Sanlando requested a tax ruling by letter dated June 15, 1995, to the IRS. By the letter ruling, dated March 15, 1996, the IRS ruled that the monies received by the utility in connection with the reuse facility would not qualify as contributions to capital.

On September 10, 1997, the utility filed a Motion to Hold Docket No. 930256-WS in Abeyance Pending the Commission's Ruling on its Application for Approval of a Reuse Project Plan and Increase in Wastewater Rates. By Order No. PSC-97-1460-PCO-WS, issued November 19, 1997, the Commission granted Sanlando's motion and ordered that Docket 930256-WS be held open in monitor status pending a ruling on the merits of Sanlando's application filed in this docket.

On September 11, 1997, Sanlando filed an Application for Approval of a Reuse Project Plan and Increase in Wastewater Rates (new reuse application), which proposes to undertake the reuse project through the use of borrowed capital. The applicant's SJRWMD Consumptive Use Permit Number 2-117-0006UR2 and proposed renewal of its Florida Department of Environmental Protection (DEP) Wastewater Permit Number FL0036251 require that the utility implement a reuse program. To satisfy the permit conditions, the utility proposes to construct a reuse treatment facility along with reuse transmission and distribution mains. The project is designed to provide reclaimed water to four commercial customers (three golf courses and a commercial nursery). The applicant has requested that the Commission establish reuse rates and increase wastewater rates to recover the initial cost of the reuse project. When reuse customers are hooked-up and the utility starts receiving reuse revenue, the utility proposes to partially reduce the wastewater rates.

This application was filed pursuant to Section 367.0817, Florida Statutes, which provides that all prudent costs of a reuse project shall be recovered in a utility's rates. The Florida Legislature has found that reuse benefits water, wastewater, and reuse customers. Section 367.0817(3), Florida Statutes. This subsection requires the Commission to allow a utility to recover all prudent costs of a reuse project from the utility's water, wastewater, or reuse customers, or any combination thereof, as it deems appropriate. Therefore, while the utility has proposed that the entire cost of the reuse project be recovered from its wastewater rates initially, the Commission may find it appropriate for the costs to be shared in a different manner.

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On September 23, 1997, a deficiency letter was sent to the utility outlining minimum filing requirement deficiencies in the utility's application. The utility subsequently corrected the deficiencies and an official filing date of October 16, 1997 was established.

By Order No. PSC-97-1337-PCO-SU, issued October 27, 1997, the Commission acknowledged intervention of the Citizens of the State of Florida by and through OPC. By Order No. PSC-97-1582-PCO-SU, issued December 17, 1997, the Commission acknowledged intervention by SJRWMD in support of Sanlando's petition for a limited proceeding to implement the water conservation plan.

Staff sent two sets of data requests to the utility dated October 24, 1997 and November 5, 1997. The Commission received the utility's responses to the data requests on December 10, 1997. The Commission also received a draft customer notice from the utility for the originally scheduled January 7, 1998 customer meeting. While reviewing the proposed customer notice, staff noticed that the rates were different from the rates in the original utility filing. After discussions with the utility, staff discovered that the utility, without notifying the Commission staff, revised the original filing by including an additional 300,000 gallons per day potential reuse customer that was unknown at the time of the original filing. Also, since the original filing, the utility received and submitted actual pumping data from the golf courses who are potential customers for the reuse system.

The revisions to the utility's original filing were substantial enough to require the resetting of the five-month statutory timeclock by which the Commission is required to enter its proposed agency action (PAA) vote to approve or disapprove the utility's reuse project plan. Staff reviewed the revised data, found that minimum filing requirements required by Section 367.0817, Florida Statutes, had been met, and established a new official filing date of December 15, 1997.

After reviewing the new information, staff needed additional data and sent interrogatories and a request for production of documents (PODs) to Sanlando on January 30, 1998. Staff received responses to the interrogatories and PODs on March 4, 1998. Staff also held an informal telephone conference on February 24, 1998 with all parties to this docket. The purpose of the conference was to enable Commission staff to ask questions of the utility concerning its filing.

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INFORMAL CUSTOMER MEETING

A customer meeting was held in the utility's service area on March 4, 1998. Staff conducted an afternoon meeting with representatives of the three golf courses who are proposed reuse customers, and officers of four homeowners associations representing over 4,100 water and/or wastewater customers of the utility. Also on hand were representatives of SJRWMD, DEP, and OPC.

The general customer meeting was held at 6:30 pm and attended by eight customers. PSC staff explained the proposed reuse project, the proposed rate increase, and the PAA and hearing process. Four customers commented on the proposed reuse project and quality of service of the utility. A representative of the Sweetwater Oaks Homeowners Association (SOHA) was present and chose to give comments regarding the reuse project and the affect it will have on the residents of the Sweetwater Oaks subdivision. Currently, the utility's effluent runs into Sweetwater Creek which flows into Cove Lake and eventually the Wekiva River. SOHA is concerned about the quality of the effluent being discharged by the utility into the Cove Lake system. Although the utility's effluent meets all DEP standards, SOHA alleges that the Cove Lake system, which is surrounded by homes of the Sweetwater Oaks subdivision, is not being provided adequate environmental protection. An agreement termed the "Cove Lake System Restoration Agreement" was executed on November 8, 1991 between SOHA and the utility. This agreement, referred to as a "one-time clean up operation," was for the purpose of improving and maintaining the water and aesthetic quality of the Cove Lake System. Per the agreement, the utility provided \$95,000 to SOHA over a four year period which ended in 1996. In 1997, the utility applied for renewal of its DEP permit. SOHA filed a protest to the utility's permit renewal which is discussed in Issue No. 1.

Another customer who spoke at the evening meeting expressed concern that there are no agreements in place with the three golf courses and nursery who are the proposed reuse customers and questioned who would be paying for the golf course infrastructure necessary to facilitate the reuse project. The remaining two customers believed the costs of the reuse project should not be borne by the utility's existing water and/or wastewater customers but by the end-users of the reuse effluent.

WATER AND WASTEWATER EARNINGS

Based upon staff's review of Sanlando's 1996 annual report, staff did an investigation of possible overearnings on a going

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forward basis for Sanlando's water and wastewater systems. After examining the utility's 1996 annual report and completing a benchmark analysis, staff completed a limited scope audit of certain operation and maintenance expenses. No in-depth analysis of the utility's books was completed in the way staff would do during the scope of a complete rate case. Staff is attempting to determine if there may be any overearnings on a going forward basis for the utility's water and/or wastewater systems.

The utility filed a response to staff's audit on March 18, 1998. On April 17, 1998, OPC filed "Citizen's Comments on Sanlando's Reuse Application", and on April 24, 1998, the utility filed its "Response to Citizens' Comments on Sanlando's Reuse Application." On March 19, 1998, the Commission received a request from Sanlando for an automatic 30 day extension on its 1997 annual report which was granted in accordance with Rule 25-30.110(3)(c), Florida Administrative Code. Sanlando's 1997 Annual Report is now due to be filed April 30, 1998, the day of this filing.

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### DISCUSSION OF ISSUES

**ISSUE 1:** Should Sanlando Utilities Corporation's proposed reuse plan be approved?

**RECOMMENDATION:** Yes. Sanlando's proposed reuse plan should be approved. However, as discussed in Issue No. 26 of this recommendation, the utility should recover the reuse revenue requirement through potential water and wastewater overearnings. (XANDERS, GOLDEN, RIEGER, GERVASI, BETHEA)

**STAFF ANALYSIS:** The utility has requested that the Commission approve a reuse project plan that will allow the utility to recover the cost of building a 1.3 MGD reuse facility. According to its plan, the utility would recover the cost of the project through wastewater rates and reuse rates. The reuse rates would apply to four reuse customers (Sweetwater Country Club, Wekiva Golf Course, Sabal Point Country Club and Lake Brantley Plant Corp.) who are anticipated to connect to the system once the facility is constructed. The utility has requested that the wastewater rates be decreased commensurately when the reuse rates are implemented. As discussed in Issue No. 26, staff recommends that the utility recover the cost of the project through water and wastewater rates only.

Sanlando's reuse project stems from its water conservation plan which was approved by the Commission by Order No. PSC-92-1356-FOF-WS, issued November 23, 1992, in Docket No. 900338-WS. Sanlando initially sought funding for its reuse project in Docket No. 930256-WS. The Commission approved rates to fund the reuse plan by Order No. PSC-93-1771-FOF-WS, issued December 10, 1993. The Order was protested and a settlement was subsequently reached. The settlement relied upon the Internal Revenue Service (IRS) granting tax exempt status to a non-profit corporation the parties intended to form to construct and own the reuse facilities. However, as a result of unfavorable IRS rulings and interpretations, Sanlando filed its instant reuse plan.

Staff believes the utility's reuse plan should be approved as discussed in the staff analysis below.

### NEED FOR REUSE

Sanlando must implement its reuse plan as a condition of the Consumptive Use Permit (CUP) issued by the SJRWMD. Reuse is also

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required in the CUPs of the golf courses and plant nursery if it is determined to be environmentally, technically and economically feasible. Reuse is also a condition of the utility's current DEP permit, and is required by the utility's draft DEP permit. However, the draft DEP permit has been challenged, as will be discussed later in this issue.

The utility's draft DEP permit allows construction of a public access land application system for public irrigation of three golf courses with an anticipated capacity of 1.1 MGD. The capacity was later increased to 1.3 MGD so that the utility can provide reuse to the Lake Brantley Plant Corp., which is a plant nursery. Sanlando's draft DEP permit also allows the utility to continue disposing all of its effluent into the Sweetwater Creek and to continue the use of its percolation ponds. These additional methods of disposal are still needed because the utility's effluent exceeds the anticipated demand of the reuse customers. Further, the amount of effluent used by the reuse customers may fluctuate depending on rainfall levels, thus requiring diversion of the effluent to other disposal sites. Consequently, the utility must still be able to dispose of all of its effluent whether or not the reuse facilities are utilized.

#### REUSE CUSTOMERS' ACCEPTANCE OF REUSE

In evaluating the utility's plan, staff was initially concerned about whether the SJRWMD will require the potential reuse customers to accept reclaimed water from Sanlando. If the utility constructs the reuse facilities, but the golf courses and Lake Brantley are not required to accept reuse, Sanlando's customers will be paying for facilities to provide reclaimed wastewater which may not be used. The golf courses and plant nursery identified as potential reuse customers are presently able to draw from ground and surface waters for irrigation. Although the CUPs of these potential customers require acceptance of reclaimed water when reuse becomes available, the requirement is conditioned upon reuse being environmentally, technically and economically feasible.

With regard to environmental feasibility, as authorized by Sections 373.250 and 403.064, Florida Statutes, both the DEP and the SJRWMD encourage the implementation of reuse. Sections 373.250 and 403.064, Florida Statutes, state that "[t]he encouragement and promotion of water conservation, and reuse of reclaimed water... are state objectives and are considered to be in the public interest." In accordance with this objective, the Governing Board

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of the SJRWMD has a policy of implementing reuse to the maximum extent feasible and providing greater availability of reclaimed water throughout the District. The SJRWMD has designated its entire District as a water resource caution area (WRCA). Within the WRCA, the District has designated certain Priority Water Resource Caution Areas, which are areas where water supply problems currently exist or where proposed withdrawals to meet demands for the year 2010 are projected to result in significant harm to ground or surface water resources. Sanlando and its potential reuse customers are located in a Priority Water Resource Caution Area. Therefore, both the SJRWMD and the DEP have determined that the project is environmentally feasible due to the critical need for reuse in the area. In fact, reuse for Sanlando is deemed to be so important that the SJRWMD has recommended to the Environmental Protection Agency (EPA) that the utility receive \$163,000 as a grant from the EPA for construction of the reuse project.

With regard to technical feasibility, Sanlando is presently meeting the necessary treatment standards for providing reuse. What remains for the utility in implementing its reuse plan is simply constructing storage, and transmission and distribution facilities for delivery of reclaimed water to the golf courses and nursery. However, in conversations with staff the golf courses initially expressed confusion and deep concern over the utility's plan and how it would effect their operations. Two golf courses were concerned that the utility's proposed method of delivering the reclaimed water was unsuitable to their particular requirements. Unless the utility's plan were modified, it would result in costs to the golf courses that would make acceptance of reuse uneconomical. Another concern the golf courses had was over the quality of the effluent and its effect on fairways and greens. The golf courses also expressed confusion and concern about liability issues and complying with environmental regulations with regard to using reclaimed water for irrigation.

Since the utility and golf courses did not appear to be communicating on these issues, staff attempted to foster better communications among all the parties by meeting with representatives of the SJRWMD, the DEP, the three golf courses and the utility on March 4, 1998. Lake Brantley Plant Corp. was invited, but did not attend. At this meeting, staff from the Commission, SJRWMD and DEP explained the roles of the respective agencies with regard to the reuse project and fielded questions from the golf courses. It became even more apparent from their questions that the golf courses were confused about the reuse

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project and its impact on them. Although staff from the three regulatory agencies and the utility attempted to address the golf courses' concerns, it was clear that additional meetings and/or discussions would be necessary. Staff encouraged the utility to begin working more closely with the golf courses to address their concerns and needs. Representatives from the three regulatory agencies also agreed to assist the golf courses in any way possible.

Since the March 4th meeting, the utility and golf courses have begun working together to determine the best way for the utility to deliver the reclaimed water. Staff also met with the golf courses individually on March 31 through April 1, 1998. Staff met with the golf courses for the purpose of inspecting the onsite irrigation systems and to gain a better understanding of the golf courses' concerns about the utility's proposed delivery of the effluent and its impact on their onsite systems. At these meetings staff again encouraged the golf courses to communicate to the utility their particular needs and concerns regarding the utility's delivery of the reclaimed water. The SJRWMD and DEP have also had follow-up communications with the golf courses in order to address their concerns. As a result of these meetings and discussions, staff believes the technical feasibility issues with regard to the golf courses are being resolved. The utility has indicated its willingness to modify its plan for delivery of the reclaimed water, and is presently negotiating with the golf courses concerning installation of onsite facilities and other costs with regard to the provision of reuse. The golf courses are also better informed about their responsibility for onsite compliance with environmental regulations.

With regard to economic feasibility, the SJRWMD looks at the impact that reuse will have on each specific customer. The SJRWMD rules require an applicant for a CUP to provide information, usually in the form of an economic feasibility study, that demonstrates that the applicant would not be financially able to continue its operations if it were required to use reclaimed water. Although the District does not have a quantitative method to determine economic feasibility, it does have a structured qualitative review policy. The District's review includes all costs such as conversion to reuse, operation and maintenance costs, historical data for other users, and the costs to conduct economic feasibility studies. Further, according to a letter from the SJRWMD, when the supplier of reclaimed water is regulated by the Commission, the District assumes that the Commission will establish

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a "fair" rate for reclaimed water or a combination of water, wastewater, and/or reclaimed water rates that result in a fair distribution of the costs for the reclaimed water system. District representatives have assured staff that the golf courses cannot simply say that they do not want to receive reuse because it is too expensive. The SJRWMD has stated that the District will require the Wekiva Golf Club, Sabal Point Golf Club, Sweetwater Oaks Country Club and Lake Brantley Plant Corp. to accept reclaimed water when it becomes available so long as it meets the feasibility criteria discussed above.

Economic feasibility is the major point of concern for the golf courses and Lake Brantley Plant Corp. The golf courses stated that growing competition from an increasing number of golf courses in the area would prevent them from recovering the utility's proposed reuse rate in addition to the costs they would have to incur to accept reuse. The golf courses would also be unable to absorb the additional costs due to losses being incurred because of declining greens fees.

Staff believes that the concerns expressed by the potential reuse customers are being addressed. Staff further believes that the SJRWMD will determine that reuse is economically feasible for these customers. As discussed above, the utility is presently in discussions with the golf courses concerning ways to mitigate the costs of accepting reuse. As to the reuse rate, staff is recommending in Issue No. 24, that the utility will experience future overearnings on its water and wastewater systems. In Issue No. 26, staff is recommending that the reuse revenue requirement should be paid for through those potential overearnings. Further, as discussed in Issue No. 27, staff believes it is unnecessary and inadvisable to charge for reuse in this case at this time. A charge for reuse is unnecessary in this case at this time because staff believes the reuse revenue requirement will be covered by current rates due to potential overearnings. A charge for reuse is inadvisable at this time because it may jeopardize economic feasibility and therefore customer acceptance of reclaimed water. Staff stresses that its recommendation for a zero rate is applicable to the specific circumstances of this case and does not prevent the Commission from setting a rate for reuse in the future if circumstances change.

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SANLANDO'S DEP PERMIT

Staff had an additional concern about pending approval of the utility's DEP permit. On June 16, 1997, the DEP gave its notice of intent to issue an operating permit renewal for the utility's 2.9 MGD Wekiva Hunt Club Wastewater Treatment Facility. The utility's draft DEP permit authorizes the construction of an upgrade to the existing domestic wastewater treatment facility to provide reclaimed water for public access irrigation and to meet Class I reliability and a new slow-rate public access land application system for irrigation of three golf courses. The proposed renewal included authorization to upgrade the existing facility to provide 1.3 MGD for reclaimed water for public access irrigation, and .4 MGD discharge to restricted public access percolation ponds. Further, the draft permit allows for continued disposal into the Sweetwater Creek and continued disposal into Sanlando's percolation ponds. The DEP's Intent to Issue procedure specifically provides that persons whose interests are affected by the proposed permitting decision may file a Petition for an Administrative Hearing within fourteen days of publication of the public notice or receipt of the Notice of Intent, whichever occurs first. On July 1, 1997, a petition for a formal administrative hearing of the utility's renewal application was made by the Sweetwater Oaks Homeowners Association; and two individuals, James Purvis, and Jon Grant.

The Petitioners for the formal administrative hearing claimed that they had a substantial interest in the permitting process because of their relationship to the Cove Lake system. These are downstream bodies of water that receive treated wastewater effluent from the utility's treatment facility. The Sweetwater Oaks Homeowners Association is a group of two hundred homeowners who live directly on the lake system, or use the system for various recreational purposes. The other two petitioners own real property directly adjacent to the Cove Lake System. Like the association, they also enjoy recreational and other benefits of the system. The Petitioners claim that the utility's treated effluent has adversely affected the receiving waters. The disputed material facts include general concerns over adequate environmental protection of the system. In its statement of relief, the petitioners requested the permit application be denied and/or modified to require the utility to restore the system by removing excess siltation, and keeping the surface water free of algae, and other nuisance plants. The Petitioners believe that the utility should be required to maintain the system as long as it is used as a permanent or temporary

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discharge basin for the effluent of the treatment facility. A formal administrative hearing concerning the petition was scheduled for April 1, 1998. However, this hearing was abated pending the results of settlement negotiations between the parties. Staff is presently waiting on word of the outcome of these negotiations.

The utility has assured staff that there is no doubt that it will receive a permit from the DEP. However, staff is concerned that the utility's permit may be modified as a result of the permit protest. While staff believes that this is a valid concern, the utility disagrees and has informed staff that it believes that it can still construct its reuse facility under the provisions of its existing permit. The utility continues to operate under its existing permit since the current draft permit has been protested. The utility asserts that operating under the existing permit would allow it to construct the facility. However, the DEP has informed staff that the utility is not authorized to begin construction under the terms of its old permit. Staff is recommending in Issue No. 29 that the utility should be required to begin escrowing the water and wastewater revenues that will pay for the reuse project. Once the utility is authorized by the DEP to construct the facility, either through its current permit (if it is modified by the DEP) or the permit under protest, and the utility submits contracts or other assurances that construction will begin, staff is recommending that the escrowed monies may be released.

#### REUSE SERVICE TERRITORY

Staff notes that Sanlando will be providing the Sweetwater Country Club reuse service outside of its certificated wastewater territory. As noted in Order No. PSC-98-0391-FOF-SU, issued March 16, 1998, in Docket No. 960288-SU, the idea that a utility's wastewater certificated territory should automatically be considered its authorized reuse territory does not recognize the fact that wastewater and reuse are two very different services. Accordingly, the Commission has ordered the staff to initiate a generic study on all issues involved in reuse service, including, but not limited to, whether there should be a separate reuse certificate, or whether it would be more appropriate to approve an authorized reuse territory within the utility's wastewater certificate, or even water certificate. The staff has been directed by the Commission to provide the results of the study by January, 1999, so that potential statutory changes, if needed, can be addressed in the 1999 legislative session. Given that the staff will be conducting the study regarding reuse territory and that the

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SJRWMD has indicated to staff that Sanlando is best suited to provide reuse in this area due to the critical need, staff believes that it is appropriate for Sanlando to provide reuse service to the Sweetwater Country Club. However, allowing Sanlando to provide reuse to Sweetwater in no way amends the utility's water or wastewater territory. At the conclusion of the generic study staff will review Sanlando's reuse territory to ensure that it is consistent with the decisions made in the study.

#### APPROVAL OF THE REUSE PLAN

Staff believes that the reuse project is in the public interest and recommends that the plan should be approved for the following reasons. First, as discussed above, the utility is located within a Priority Water Resource Caution Area established by the SJRWMD, and the reuse project was required by the SJRWMD as a condition of the utility's CUP. Additionally, the CUPs of the golf courses and plant nursery require the use of treated effluent when it becomes available and is environmentally, technically and economically feasible. Staff has had several discussions with representatives of the SJRWMD, and they have stressed the intent of the District to enforce the conditions of the CUPs.

Second, the utility's draft DEP permit, which is currently under protest, requires construction of the reuse project. Staff has had several discussions with representatives of the DEP as well, and they have likewise stressed that the provision of reuse by Sanlando is a priority of the DEP.

Third, the utility agreed to pursue the reuse project in its settlement of a dispute over its 1992 DEP permit with the Friends of the Wekiva and the Florida Audubon Society. Approval of this plan would allow the utility to fulfill its settlement agreement, and would provide desired environmental benefits in several ways. Since the utility will discontinue its discharge into the Sweetwater Creek, it will help to preserve the Sweetwater Creek and the Wekiva River System. Reuse will also recharge the aquifer since the reclaimed water will filter down to the aquifer after it has been applied to the golf courses and the nursery. Finally, using reclaimed water for irrigation will preserve the water in the aquifer currently supplying irrigation water to the golf courses and the nursery and will enable the aquifer to be used for potable uses rather than irrigation.

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Fourth, as will be discussed in Issues Nos. 24 and 26, staff believes the utility will overearn on a going forward basis for water and wastewater, and we are recommending that the reuse revenue requirement be recovered through the potential overearnings. Customarily when a utility is found to be overearning, the Commission reduces the utility's rates. However, Sanlando's rates are currently very low and provide very little economic incentive for water conservation. The utility's current water rates consist of a base facility charge of \$4.36 and a gallonage charge of \$.386 per 1,000 gallons. While these are some of the lowest water rates in the state, the average monthly residential consumption, at approximately 23,000 gallons, is among the highest. The average monthly charge for this level of usage is only \$13.24. In consideration of the customers' high water consumption and the utility's low rates, a rate reduction would send an inappropriate signal to the customers and potentially have an adverse effect on water conservation efforts in Sanlando's service area. Consequently, staff believes that a rate reduction should be avoided if possible. Allowing the potential overearnings to be used to fund the project will address the utility's overearnings and reduce or possibly eliminate the need for a rate reduction.

Section 367.0817(3), Florida Statutes, states that:

All prudent costs of a reuse project shall be recovered in rates. The Legislature finds that reuse benefits water, wastewater, and reuse customers. The Commission shall allow a utility to recover the costs of a reuse project from the utility's water, wastewater, or reuse customers or any combination thereof as deemed appropriate by the Commission.

Staff believes that our recommended approach satisfies the requirements of Section 367.0817(3), Florida Statutes, by allowing recovery of the reuse costs through rates, albeit through existing rates. Further, this approach is similar to the utility's plan proposed in Docket No. 930256-WS. In that case, Sanlando requested approval of an inclining block rate structure for water which would generate excess revenues to fund the reuse project. The Commission found that the utility would not be overearning if the plan was approved, because the funds generated by the rate structure change would be used to fund construction of the reuse facilities. Staff believes that a similar situation is presented in the instant case.

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Finally, as will be discussed in Issue No. 25, the utility's current high level of contributions in aid of construction (CIAC) is one reason for the utility's low rates and chronic overearnings. The utility has proposed funding the construction of its project through bank financing, without charging service availability charges. This approach will increase the utility's rate base and reduce its level of CIAC. Therefore, approval of the project will have the added benefit of improving the utility's overall level of CIAC.

In consideration of the above, staff believes the Commission should take a very proactive approach in ensuring the success of the project. Staff believes this project will be highly beneficial in protecting Florida's scarce water resources, and thus, is in the public interest. As stated above, staff believes that the reuse project will meet the environmental, technical and economic feasibility tests as determined by the SJRWMD. Staff believes that the SJRWMD will therefore require the utility to implement its reuse plan and require the golf courses and plant nursery to accept reuse. Additionally, staff believes the project can be paid for without increasing rates and will provide a means of solving the utility's chronic overearnings problem. Further, establishing a zero rate for reuse as discussed in Issue No. 27, should make it economically feasible for the recipients and thereby ensure that there will be customers on line at the completion of the project.

In conclusion, staff recommends that Sanlando's proposed reuse plan should be approved. However, as discussed in Issue No. 26 of this recommendation, the utility should recover the reuse revenue requirement through the potential water and wastewater overearnings.

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**ISSUE 2:** Should the transmission and/or distribution facilities be sized to enable future customers to access reuse?

**PRIMARY RECOMMENDATION:** No. The residential neighborhood is virtually built out at this time and the construction of a distribution system which might enable residential customers to access reuse would be expensive and disruptive to streets and driveways in the area. Although some customers have expressed a desire to have reuse provided in the future, staff recommends that the cost and disadvantages would far outweigh the limited benefits. (CROUCH)

**ALTERNATE RECOMMENDATION:** Yes. Transmission lines going through existing neighborhoods should be sized to handle future flows for the golf courses and for residential reuse customers. Sanlando has virtually no investment in plant or lines. Consequently they are vulnerable for overearning. Any future potential overearnings could be used to study the possibility and feasibility of residential reuse. Distribution facilities would be installed as residential customers become a reality. (CROUCH)

**PRIMARY STAFF ANALYSIS:** When Reuse was first considered for the Sanlando area, several customers expressed an interest in having reuse provided to their neighborhoods at some future date. While this is a commendable idea, the construction costs and potential for neighborhood disruption which would occur as reuse distribution lines were installed would far outweigh the limited additional disposal areas and benefits which might be added. Additional pumping and storage facilities would also have to be installed in order to serve residential reuse customers.

As an illustration of the potential costs for residential reuse if the residential reuse were carried in the mains installed to carry reuse to the golf courses: distribution lines into neighborhood could cost between \$50,000-\$100,000 for a small neighborhood; additional booster pump stations would cost \$60,000 each; while valves, fittings, flow meters, site restoration, permits, fees, and engineering could add another \$20,000-\$50,000 depending on the size of the residential neighborhood to be served. These cost are based upon the estimated costs for the golf course reuse lines which are discussed in Issue No. 5. The utility does not have firm costs as yet for the proposed lines to the golf courses but it is obvious that the cost benefits justify serving large golf courses whereas the benefits derived from serving multiple, small, residential lots would not justify the cost per customer.

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Staff recommends that the transmission and distribution facilities proposed to carry reuse to the three golf courses be sized to carry reuse only to those golf courses, and that due to costs and limited demand, residential reuse not be a consideration at this time.

**ALTERNATE STAFF ANALYSIS:** Transmission lines to the three golf courses will go through several residential neighborhoods that could be potential reuse customers. Sanlando has low rates which cannot be lowered without jeopardizing conservation goals. Conversely, Sanlando is vulnerable for overearning on its limited investment. Any future potential overearnings could be used to study the feasibility of providing reuse to residential customers. There would be a small incremental increase in the cost of installing oversized transmission lines at this time rather than a completely new installation in the future. Therefore staff recommends increasing the size of the transmission lines planned to provide reuse to the golf courses so as to enable reuse to be carried to the future residential customers as well. Residential distribution facilities would not be installed at this time but could be installed when residential reuse customers become a reality.

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ISSUE 3: Do existing percolation ponds have the capacity to handle the wet weather effluent when golf courses cannot take reuse?

RECOMMENDATION: Yes. Currently, Sanlando is disposing of all effluent by discharging into Sweetwater Creek. If all three golf courses are forced to take reuse as proposed, and the Lake Brantley Plant Corp. also becomes a reuse customer, then Sanlando's storage ponds, plus the reactivated percolation ponds, plus the 1 Million Gallon Storage Tank, should provide sufficient wet weather storage. Emergency discharge into Sweetwater Creek would still be an option.  
(CROUCH)

STAFF ANALYSIS: The proposal for the three golf courses to receive reuse effluent is still undecided. The SJRWMD has issued Consumptive Use Permits to the three Golf Courses which stipulate that the permittees must accept reuse water for irrigation when available and if economically, technically, and environmentally feasible. The "economically feasible" question is still undecided. A possible fourth customer, Lake Brantley Plant Corp., has also become a potential reuse user. If we assume that the three golf courses and Lake Brantley do eventually take their allocated quantity of reuse, they will only use approximately 56% of the projected daily average effluent discharged by the Sanlando wastewater treatment plant (WWTP). Slightly less than 44% of the effluent, or 1 MGD, is still projected to go to percolation ponds and possibly to Sweetwater Creek. Wet weather would possibly decrease the quantity going to the golf courses for a short period of time. If this occurs the percolation ponds and Sweetwater Creek could handle the effluent discharged.

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**ISSUE 4:** Are the costs associated with the proposed reuse plant prudent, and if so, what is the appropriate amount?

**RECOMMENDATION:** Sanlando estimates that plant improvements associated with reuse will total \$1,133,446. This includes 15% for contingency and plant misc., modifications to existing percolation ponds, permits, fees, engineering design and construction administration. Staff recommends that these costs are prudent and reasonable. (CROUCH)

**STAFF ANALYSIS:** Sanlando submitted a revised Exhibit "C" Estimated Cost of Construction-Effluent Reuse Project. The revision in costs was the result of a potential additional reuse customer: Lake Brantley Plant. Plant improvements will include a 1 Million Gallon Storage tank dedicated to reuse and a Hydro-pneumatic tank. As discussed in Issue No. 3, this 1 MG storage tank along with existing percolation ponds will provide normal and wet weather storage.

1 MG Storage Tank	\$400,000
Hydro-pneumatic Tank	27,000

Additional plant improvements include:

Chlorine Contact Chamber	92,600
Transfer Pump Station	86,900
Distribution Pump Station	133,000
Metering, Analyzers, Site Work	25,000
Modification to Ponds	57,987
Permits, Fees, Engineering	196,284
15% Contingency	114,675

TOTAL	<u>\$1,133,446</u>
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Staff has investigated these estimates and believes that they are reasonable and prudent. It should be noted that these costs are estimates. No firm bids have been received as yet. Staff is recommending a true-up in Issue No. 32.

These costs added to the costs identified in Issue No. 5 result in an overall estimated project cost of \$2,082,847.

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**ISSUE 5:** Are the costs associated with the reuse transmission and distribution facilities prudent, and if so, what is the appropriate amount?

**RECOMMENDATION:** Sanlando has requested a total of \$949,401 for reuse transmission and distribution systems to irrigate the three proposed golf courses and the Lake Brantley Plant Corp. Staff engineers have investigated these costs and recommend that they are reasonable and prudent. (CROUCH)

**STAFF ANALYSIS:** Originally, three golf courses were identified as potential reuse customers. Recently, however, the Lake Brantley Plant Corp. was added to the list and the Distribution and Transmission costs were re-allocated. These costs include:

	<u>Sabal Point</u>	<u>Wekiva</u>	<u>Sweetwater</u>	<u>Brantley</u>
Piping	\$ 164,500	\$55,050	\$ 178,950	\$ 52,800
Valves/Fittings/ Flow Meter	27,600	5,600	13,350	2,000
Booster Station		60,000	60,000	
Restoration		3,000	1,000	
<b>TOTAL</b>	<u>\$ 192,100</u>	<u>\$123,650</u>	<u>\$ 253,300</u>	<u>\$ 54,800</u>

The Common Costs for Restoration, Surveying, Jack&Bore, and Testing were estimated to be \$239,242 with a 10% Contingency of \$86,309 for a Total Transmission & Distribution cost of \$949,401. It should be pointed out that these costs are estimates. No firm bids have been received to date. Staff is recommending a true-up in Issue No. 32.

Staff recommends that these costs are prudent and reasonable. These costs added to those identified in Issue No. 4 bring the total cost of this Reuse Project to \$2,082,847.

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**ISSUE 6:** Should the utility be allowed to allocate costs approved in the prior rate case to this reuse rate case?

**RECOMMENDATION:** No, the utility should not be allowed to allocate costs approved in the prior rate case to this reuse rate case. (CASEY)

**STAFF ANALYSIS:** The utility's filing included cost allocations of existing utility plant, accumulated depreciation, operation and maintenance expenses, depreciation expense, and taxes other than income. Staff's data request No. 43 requested that the utility provide justification for allocating existing costs to the reuse project. In its response, the utility stated the following:

In order to establish the cost of providing effluent reuse service, all elements of total system costs and utility investments should be considered. Costs associated with the treatment and disposal land, which will accommodate both the existing and reuse facilities, and the general plant facilities will be used in providing all sewer services. This study establishes the cost of providing service to the functional customer groups through allocations and sharing of entire system costs.

Section 367.0817(1)(e), Florida Statutes, provides that a reuse project plan shall include:

The projected costs associated with the reuse project. As used in this section, the term "costs" includes, but is not limited to, all capital investments, including a rate of return, any applicable taxes, and all expenses related to or resulting from the reuse project which were not considered in the utility's last rate proceeding.

This statute clearly states that only expenses which were not considered in the utility's last rate proceeding can be included in the reuse project plan. Since the existing costs which Sanlando allocated in its reuse filing were considered in its last rate case in Docket No. 900338-WS, staff removed the existing allocated costs for purposes of this reuse filing. Although staff agrees that there are existing utility plant costs and other expenses which may apply to the reuse project, allocation of existing utility plant costs and other expenses is beyond the scope of this limited filing and should be examined in the utility's next full rate case.

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**ISSUE 7:** Should Allowance for Funds Used During Construction (AFUDC) be included in the reuse plant costs?

**RECOMMENDATION:** No, AFUDC should not be included in the reuse plant costs. (CASEY)

**STAFF ANALYSIS:** The utility filing contained total project costs of \$2,255,611. This amount included \$93,728 of AFUDC in utility plant. According to Rule 25-30.116(1), Florida Administrative Code, only construction work in progress (CWIP) that is not included in rate base may accrue AFUDC. Since staff is recommending inclusion of all reuse utility plant in initial rates as allowed by Section 367.0817(1)(e), Florida Statutes, AFUDC may not be recovered in this reuse case. Therefore, staff removed AFUDC of \$93,728 which was included in the filing.

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**ISSUE 8:** What are the appropriate reuse plant-related costs that should be recovered in rates, and how should the reuse utility plant be recorded?

**RECOMMENDATION:** The appropriate reuse plant-related costs that should be recovered by Sanlando in this docket should be \$2,082,847. The reuse utility plant should be recorded in the utility's books in accordance with the 1996 Uniform System of Accounts (USOA) adopted by the National Association of Regulatory Utility Commissioners (NARUC) as detailed in the staff analysis. (CASEY)

**STAFF ANALYSIS:** The utility filing contained total project costs of \$2,255,611. This amount included \$79,036 in allocations of existing plant, and \$93,728 of AFUDC. In Issue No. 6, staff is recommending that allocation of existing plant and expenses not be included in this filing. In Issue No. 7, staff is recommending removal of AFUDC from the reuse project costs. Staff made adjustments of \$79,036 to remove allocations of existing costs and \$93,728 to remove AFUDC.

The utility filing also included all reuse plant costs in two accounts, Account No. 382.4 (Outfall Sewers), and Account No. 389.4 (Other Plant and Miscellaneous Equipment). By Order No. PSC-97-0890-FOF-WS, issued July 29, 1997, in Docket No. 970522-WS, the Commission ordered that effective January 1, 1998, water and wastewater utilities under the jurisdiction of the Commission shall maintain their books and records in conformity with the 1996 Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners. The 1996 USOA includes new reuse accounts for the reuse plant in this filing. The following is the staff recommended breakdown of Sanlando's reuse utility plant by account and in accordance with the 1996 NARUC Uniform System of Accounts:

<u>Account No.</u>	<u>Description</u>	<u>Amount</u>
375.6	Piping	\$ 755,485
375.6	Valves Fittings & Flow Meters	81,267
371.6	Booster Stations	200,896
354.6	Restoration	6,693
380.5	Chlorine Contact Chamber	117,139
371.5	Transfer Pump Station	109,929
371.6	Distribution Pump Station	168,245
374.5	Hydro Tank	34,155
374.5	1 MG Storage Tank	506,000
375.6	Metering, Analyzers, Site Work	31,625

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<u>Account No.</u>	<u>Description</u>	<u>Amount</u>
	Permits and Fees:	
375.6	Jack & Bore, Cuts	2,534
353.6	Right of Way Fee	10,892
375.6	Effluent Piping Modifications (Ponds)	<u>57,987</u>
	Total	<u>\$2,082,847</u>

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**ISSUE 9:** What is the appropriate amount of reuse plant accumulated depreciation?

**RECOMMENDATION:** The appropriate amount of reuse plant accumulated depreciation should be \$44,349. (CASEY)

**STAFF ANALYSIS:** The utility's filing contained reuse accumulated depreciation of \$76,226. This amount included \$2,233 of accumulated depreciation of plant which included AFUDC along with \$27,891 in allocations of existing expenses. Staff is recommending that AFUDC be denied in Issue No. 7 since all utility plant should be included in rate base at the time of approval of the reuse project. In Issue No. 6, staff is recommending the allocations of existing expenses which were included by the utility be denied.

The utility also included all reuse plant in two accounts, Account No. 382.4 (Outfall Sewers), and Account No. 389.4 (Other Plant and Miscellaneous Equipment). Staff has broken down the reuse plant costs as outlined in Issue No. 8 and calculated depreciation expense using the accounts and asset lives assigned by the staff engineer (See Issue No. 20).

Staff made adjustments of \$2,233 to remove the accumulated depreciation on the portion of plant which included AFUDC, \$27,891 to remove allocations of existing expenses, and \$1,753 to bring accumulated depreciation to staff's recommended amount. Staff recommends that the appropriate amount of reuse plant accumulated depreciation is \$44,349.

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**ISSUE 10:** How should any funds received by the utility from the Environmental Protection Agency be recorded on the utility books?

**RECOMMENDATION:** If any funds are awarded to the utility from the Environmental Protection Agency, they should be treated as Contributions-in-Aid-of-Construction (CIAC). The utility should be required to show whether it was awarded any funds when it files its true-up proceeding. (XANDERS, CASEY)

**STAFF ANALYSIS:** At its March 11, 1998 meeting, the Governing Board of the SJRWMD voted to recommend to the Environmental Protection Agency (EPA) that the EPA grant the utility \$163,000 towards the cost of constructing its reuse project. Staff has been informed that over \$800,000 of grant money has been appropriated, but not yet approved for specific projects by the EPA. The SJRWMD has recommended that four utilities within its district should receive funds; however, it must now submit to the EPA a single package containing the projects proposed by all the utilities. The utilities are to submit their applications to the SJRWMD by May 24, 1998, and SJRWMD plans to submit the package to the EPA by May 27, 1998. The EPA has indicated that it will reach its decision within five weeks of receiving a completed application. It is unknown if or when Sanlando will receive any funds.

We believe that the customers should receive the benefit of any funding granted to Sanlando and that this benefit should be reflected in the customers' rates for service. Section 367.021(3), Florida Statutes, states that:

"Contribution-in-aid-of-construction" means any amount or item of money, services, or property received by a utility, from any person or governmental authority, any portion of which is provided at no cost to the utility, which represents a donation or contribution to the capital of the utility, and which is used to offset the acquisition, improvement, or construction costs of the utility property, facilities, or equipment used to provide utility services.

Therefore, staff recommends that any funds received from the EPA should be treated as CIAC. Since a decision has not yet been made regarding whether the EPA will grant such funding, staff believes that this can be later addressed in the true-up proceeding discussed in Issue No. 32. Therefore, we also recommend that the utility should be required to show whether it was awarded any funds when it files its true-up proceeding.

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**ISSUE 11:** What method should be used to calculate working capital and what is the appropriate amount of working capital?

**RECOMMENDATION:** In accordance with Rule 25-30.433(2), Florida Administrative Code, the balance sheet approach should be used to calculate working capital. The appropriate amount of working capital for purposes of determining possible overearnings on a going forward basis should be \$42,567 for water and \$98,531 for wastewater. No working capital should be allowed for the reuse system at the present time. (CASEY, MONIZ)

**STAFF ANALYSIS:** The utility used the formula method (1/8 of operation and maintenance expenses) to calculate its working capital allowance in this reuse filing. Rule 25-30.433(2), Florida Administrative Code, states that "Working Capital for Class A utilities shall be calculated using the balance sheet approach." The formula method is allowed for Class B and Class C utilities. Since Sanlando is a Class A utility, it should use the balance sheet approach.

On January 30, 1998, staff sent an interrogatory to the utility requesting that it provide a projected incremental balance sheet which includes only the reuse project. The utility's reply stated that the Commission allowed it to use the 1/8 of O&M approach to working capital in Order No. 23014, issued May 31, 1990, and therefore should allow it to be used for this filing. Since Rule 25-30.433(2), Florida Administrative Code, was promulgated subsequent to that Order, and the utility was unable to provide an incremental balance sheet for the reuse project, staff is recommending no working capital for the reuse project at this time. However, staff may recommend a reuse working capital allowance once this filing is tried-up as recommended in Issue No. 32.

The utility included average unamortized rate case expense as a separate rate base account. Normally, staff would include average unamortized rate case expense in working capital, but as outlined above, the utility could not provide an incremental balance sheet for this reuse project, and staff is not recommending any reuse working capital at this time. Therefore, staff made an adjustment of (\$20,000) to remove the average unamortized rate case expense as a separate component of rate base.

In Issue No. 24, staff is addressing possible overearnings for Sanlando's water and wastewater systems. In determining possible overearnings for the water and wastewater systems on a going forward basis, staff calculated a working capital allowance for each of these systems using the balance sheet approach based on the

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utility's reported figures in its 1996 annual report. Staff recommends a working capital allowance of \$42,567 for water and \$98,531 for wastewater.

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**ISSUE 12:** What is the appropriate amount of rate base associated with the reuse project?

**RECOMMENDATION:** The appropriate rate base for Sanlando's reuse plant should be \$2,038,498. (CASEY, MONIZ)

**STAFF ANALYSIS:** Based upon staff's recommended adjustments, the appropriate rate base for Sanlando's reuse plant should be \$2,038,498. Reuse rate base is shown in Schedule No. 1C, and adjustments to reuse rate base are shown in Schedule No. 1D.

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ISSUE 13: Should Sanlando Utility Corporation's request to meet an interest coverage ratio of 1.25x be allowed, and if so, how?

RECOMMENDATION: No. (MAUREY)

STAFF ANALYSIS: In its filing, Sanlando requests a cost of capital of 12.36%. Although it states the cost rate on the debt used to fund the construction of the reuse project will be 9.00%, the utility contends it will need an effective rate of 12.36% to meet an interest coverage ratio of 1.25x. Sanlando states that because it is so highly leveraged, the lending institution will require a 1.25x interest coverage ratio for the utility to be eligible for financing at the 9.00% rate.

Staff is not persuaded by Sanlando's argument. Staff does not take exception to a 1.25x interest coverage ratio requirement per se, but rather staff does not believe the utility should be able to pass this incremental cost through to its ratepayers in the manner it has proposed. First, the rates for the reuse project will go into effect at least 18 months before the plant will begin operation. This will provide the utility with the opportunity to recover the true cost of capital associated with the reuse project as this cost is being incurred.

Second, despite repeated requests from staff, Sanlando has not provided any documentation to support its contention that the lending institution will require an interest coverage ratio of 1.25x for the utility to be eligible for the 9.00% financing. When staff asked Sanlando for copies of all correspondence between the utility and any lending institutions concerning the terms and conditions under which Sanlando could borrow money to finance the construction of the reuse project, the utility responded that "there is no such correspondence." When staff asked Sanlando to identify all lending institutions that the utility has contacted either in writing or verbally concerning the possibility of financing the construction of the reuse project, the utility responded that "no lending institutions have been contacted." Based upon the calculation in its filing, the annual incremental difference between the cost rate for the new debt of 9.00% and the rate requested by the utility of 12.36% is \$59,609.

Third, Sanlando acknowledges that the lending institution will determine the interest coverage ratio on a total company basis, not on a project-specific basis. While it is true that Sanlando is in a highly leveraged position, staff believes it is a position of the utility's own making. During 1996, the utility reacquired \$1,000,000 of common stock. Given the utility's very low equity ratio, staff believes it was unreasonable for Sanlando to

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repurchase this stock. By reacquiring this stock, the utility's equity ratio dropped from 25.5% to 5.7%. Absent this action, Sanlando would certainly be able to meet a 1.25x interest coverage ratio. Staff believes that Sanlando's decision to reacquire this stock was not in the utility's or its ratepayers best interests and therefore it would not be fair to allow Sanlando to charge its ratepayers an additional \$59,609 per year as proposed in its filing.

Finally, even if the 9.00% financing is conditioned upon a 1.25x interest coverage ratio, there will not be an associated expense for the incremental portion above the actual interest expense. In other words, if Sanlando is allowed to include this incremental charge in its rates, there will be an additional \$59,609 of revenue without an offsetting expense and therefore this amount will flow straight through to net income. Staff is concerned that such a situation will exacerbate the utility's overearnings situation on a going forward basis. The utility's overearnings situation is discussed in Issue No. 24.

For these reasons, staff recommends that the utility not be allowed to include a premium above the actual cost of financing for purposes of determining the cost of capital that will be included in the rates for its reuse project.

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**ISSUE 14:** What is the appropriate cost of capital for the purpose of setting rates for Sanlando Utility Corporation's reuse project?

**PRIMARY RECOMMENDATION:** The appropriate cost of capital for the purpose of setting rates for Sanlando Utility Corporation's reuse project is 9.00%. (WILLIAMS, HILL)

**ALTERNATIVE RECOMMENDATION:** The appropriate cost of capital for the purpose of setting rates for Sanlando Utility Corporation's reuse project is 8.83% with a range of reasonableness of 8.74% to 8.91%. (MAUREY, MERCHANT)

**PRIMARY STAFF ANALYSIS:** While initially this may appear to be a typical technical issue involving the mechanics of deriving the appropriate cost of capital for this company, it is not. This is a policy issue involving the interpretation and implementation of statutes relating to reuse facilities. The cost of capital ultimately approved will reflect the policy decision made.

In its filing, Sanlando states that construction of the reuse project will be funded entirely by debt. Although Sanlando requests a return of 12.36% in its filing, the utility states that the interest rate on the debt will be 9.00%. The matter of the utility's request for an additional \$59,609 over the actual cost of financing to meet a project-specific 1.25x interest coverage ratio requirement was discussed in Issue No. 13.

Sanlando has interpreted the provisions of Section 367.0817, Florida Statutes, to mean that eligible cost recovery is limited to those costs solely related to the reuse project. The utility contends that it can demonstrate that the debt which will be used to fund the construction of the reuse project can be specifically identified. Therefore, the utility argues the cost of capital eligible for recovery in this proceeding should be based on a capital structure of 100% debt. Primary staff agrees.

Section 367.0817, Florida Statutes, was created by the Florida Legislature in 1994 as a part of an overall bill to encourage the reuse of reclaimed water. In addition to the changes made to Chapter 367, the bill also significantly modified the laws of the DEP and Water Management Districts, Sections 403.064 and 373.250, Florida Statutes. All of the statutory changes made in the bill were to remove regulatory impediments and to encourage utilities to implement reuse. From researching the legislative history of Section 367.0817, Florida Statute, legal staff has determined that

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the Legislature has not articulated which methodology is to be used to calculate the appropriate cost of capital. Nevertheless, we believe that Section 367.0817, Florida Statutes, is very clear and unambiguous and that treatment of the cost of capital as suggested in the alternative flies in the face of the express intent of the Legislature to encourage the reuse of reclaimed water.

This issue has been before the Commission in one other case that has gone to hearing. In Order No. PSC-97-0280-FOF-WS issued March 12, 1997, in the case of Aloha Utilities, Inc. (Aloha), the Commission noted that tracing funds is not consistent with how the Commission would normally determine the cost of capital in a rate case. However, in this order the Commission found that a proper interpretation of Section 367.0817, Florida Statutes, requires the specific identification of capital costs used to fund a reuse project. Based upon Aloha's showing that its reuse project would be funded entirely by debt, the Commission ruled that the allowed rate of return would be the utility's cost of debt. Further, while "tracing" funds is not the preferred method for determining cost of capital and may not seem practical, it has in fact been done by all industries for customer deposits and should not prevent us from carrying out the legislative intent.

Because the construction of the reuse project will be funded exclusively by debt, and because funds can be traced, and to be consistent with the Commission's order in the Aloha case and the intent of the Legislature to encourage utilities to implement reuse, staff recommends the appropriate cost of capital to be included in the rates set for Sanlando's reuse project is 9.00% as shown in Schedule No. 2.

**ALTERNATIVE STAFF ANALYSIS:** Generally speaking, alternative staff does not agree that funds should be traced. Funds are fungible, meaning that a company can identify how funds were used but cannot identify which source of capital funded which particular asset. Although Sanlando may argue that it is borrowing money for the purpose of constructing the reuse project, once the money is deposited into its general account it is commingled with dollars raised from all sources of capital such as the proceeds from existing loans, customer deposits, rates and charges earned from providing water and wastewater service, and the interest and dividend income the utility earns on money it lends to affiliates. When Sanlando writes checks to pay its bills, the utility knows how it uses its funds but it has no way of knowing exactly which source of capital provided the funds. Alternative staff recognizes,

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however, that under certain circumstances the Commission has made exceptions to this principle for ratemaking purposes.

A case in point is the Commission's decision in the Aloha case. Although the Commission stated in its order that a specific tracing of funds is different from how it would address cost of capital in a rate case, it ruled that based upon the evidence presented at the hearing, Aloha's rate of return would only recognize debt. Alternative staff, however, does not believe the Aloha decision should be applied universally in every reuse case. It is alternative staff's opinion that theoretically the utility should not trace funds and therefore based upon the facts and circumstances in the instant case the decision in the Aloha case should not be binding.

For example, unlike in the Aloha case, the reuse rates for Sanlando will be recovered from the utility's existing water and wastewater customers, not the actual reuse customers. As discussed in Issue No. 26, staff recommends that the revenue requirement for reuse be recovered through water and wastewater overearnings. The currently authorized water and wastewater rates which give rise to these overearnings are based upon Sanlando's overall cost of capital, not the cost of debt associated with the construction of the reuse project.

Section 367.0817(1)(e), Florida Statutes, defines costs associated with a reuse project as "all capital investments, including a rate of return, any applicable taxes, and all expenses related to or resulting from the reuse project which were not considered in the utility's last rate proceeding." A search of Section 367.081, Florida Statutes, reveals that the term "rate of return" is used without qualification except for authorized, achieved, required, or rate of return on equity. Therefore, alternative staff believes "rate of return" as it is used in Section 367.0817, Florida Statutes, should be based upon the facts and circumstances in the particular case. Alternative staff does not believe the language of Section 367.0817, Florida Statutes, limits recovery to the cost of an individual capital component.

Finally, since this is a policy decision, the Commission should consider the other possible scenarios regarding recovery of the utility's cost of capital. For instance, what if the utility claims the construction of the reuse project will be funded entirely with common equity? Will the Commission set reuse rates based upon a capital structure comprised of 100% equity? Or,

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assuming 100% debt as in the instant case, what will happen 10 or 15 years out when the "traced" debt is retired? Will the Commission set reuse rates based upon a zero cost of capital? These are just two of the practical considerations the Commission must address before it decides if "rate of return" should be traced for the purpose of setting reuse rates.

For the reasons discussed above, alternative staff recommends that the appropriate cost of capital for the purpose of setting rates for Sanlando's reuse project is 8.83%, with a range of reasonableness of 8.74% to 8.91% as shown in Schedule No. 2A. The determination of Sanlando's overall cost of capital is discussed in Issue No. 16.

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**ISSUE 15:** What is the appropriate rate of return on equity for Sanlando Utility Corporation on a going forward basis?

**RECOMMENDATION:** The appropriate rate of return on equity for Sanlando Utility Corporation on a going forward basis should be 10.46% with a range of reasonableness of 9.46% to 11.46%. (MAUREY)

**STAFF ANALYSIS:** The appropriate rate of return on equity (ROE) for Sanlando on a going forward basis should be the return indicated by the Commission's water and wastewater leverage formula. Sanlando's currently authorized ROE of 13.51% was set in Order No. 23809 issued November 27, 1990. In the time since this Order was issued, capital costs have come down significantly. Staff believes the utility's ROE should be reset based upon the return indicated by the current leverage formula. Based upon the leverage formula approved in Order No. PSC-97-0660-FOF-WS issued June 10, 1997, the appropriate ROE for Sanlando is 10.46% with a range of reasonableness of 9.46% to 11.46% as shown on Schedule No. 2A.

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**ISSUE 16:** What is the appropriate overall cost of capital for Sanlando Utility Corporation on a going forward basis?

**RECOMMENDATION:** The appropriate overall cost of capital for Sanlando Utility Corporation on a going forward basis should be 8.83% with a range of reasonableness of 8.74% to 8.91%. (MAUREY)

**STAFF ANALYSIS:** In its filing Sanlando assumes an overall cost of capital of 10.41%. This rate of return is based upon a capital structure comprised of 100% long-term debt.

In reviewing Sanlando's 1996 annual report, staff noted that the utility failed to appropriately recognize its balances of common equity, notes payable, and customer deposits. For this reason, staff made a number of adjustments to the utility's filing to arrive at the recommended overall cost of capital of 8.83%. Staff relied upon Sanlando's 1996 annual report as the starting point for its determination of the utility's cost of capital because Sanlando's 1997 annual report has not yet been filed by the utility.

Schedule No.2A shows the components, amounts, cost rates, and weighted average cost of capital. The first column shows the components and amounts reflected in the utility's filing. The next column shows the four specific adjustments made by staff.

Staff's first adjustment was to the balance of common equity capital. In its filing, Sanlando did not include any equity in its capital structure. However, in its 1996 annual report the utility had an ending balance in common equity of \$215,484. In addition, Sanlando reported that it has not made a distribution to stockholders since 1990 and that since that time all profits have remained in the utility as retained earnings. Assuming Sanlando earned the same net income in 1997 that was achieved in 1996, the utility would have booked an additional \$210,610 to retained earnings in 1997. To recognize the balance of common equity of \$215,484 at the end of 1996 and the additional \$210,610 the utility will have booked to retained earnings in 1997, staff made a specific adjustment to include \$426,094 in Sanlando's capital structure as common equity.

The next adjustment staff made was to the balance of new debt. The figure reflected in Sanlando's filing included AFUDC. However, because all plant associated with the reuse project will be included in rate base up front, staff has removed the \$93,728 of AFUDC from the balance of new debt. The inclusion of the full value of the reuse project in rate base at the front end is discussed in Issue No. 7.

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The final two adjustments concerned notes payable and customer deposits. In its filing, Sanlando did not include either of these sources of capital in its capital structure. However, according to its 1996 annual report the utility had a balance of \$213,078 in notes payable and a balance of \$177,287 in customer deposits. Noting that the balances reported for 1996 were not significantly different from the balances reported in the utility's 1995 annual report, staff made the assumption that these balances would be approximately the same for purposes of determining the overall cost of capital on a going-forward basis. After all specific adjustments were made, staff made a pro rata adjustment over all sources of capital to reconcile total capital to total rate base.

Staff agreed with and used the respective cost rates provided by Sanlando with the exception of the cost rates for common equity and the new long-term debt. Staff used the ROE of 10.46% indicated by the Commission's water and wastewater leverage formula. The determination of the appropriate ROE is discussed in Issue No. 15. Staff used a cost rate of 9.00% for the new long-term debt. Although Sanlando assumes a cost rate of 12.36% in its capital structure, in its filing the utility reports that the actual cost rate on this debt will be 9.00%. The determination of the appropriate cost rate for the new debt is discussed in Issue No. 13. Staff used the cost rate from the utility's filing of 8.40% for the existing long-term debt. Staff used a cost rate of 10.48% for notes payable. This rate was calculated based on interest rate and debt balance data included in the utility's 1996 annual report. Finally, staff used a cost rate of 6.00% for customer deposits. This is the rate specified by Rule 25-30.311(4)(a), Florida Administrative Code.

Based upon the proper components, amounts, and cost rates associated with the pro forma capital structure of Sanlando, staff recommends a weighted average cost of capital of 8.83% on a going forward basis with a range of reasonableness of 8.74% to 8.91%. Schedule No. 2A details staff's recommendation.

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**ISSUE 17:** Should separate reuse revenue requirements be established for each phase of the reuse project?

**RECOMMENDATION:** Yes, separate reuse revenue requirements should be established for each phase of the reuse project. Phase I rates should include the utility's return, rate case expense, depreciation expense, and taxes other than income with the exception of regulatory assessment fees associated with Phase II. Phase II rates should add the remaining operation and maintenance expenses and related regulatory assessment fees with the exception of rate case expense which is included in Phase I rates. (CASEY, MONIZ)

**STAFF ANALYSIS:** The estimated construction time for this reuse project is 18 months. Section 367.0817(4), Florida Statutes, states that:

The Commission's order approving the reuse project plan shall approve rates based on projected costs and shall provide for the implementation of rates without the need for a subsequent proceeding. The Commission shall allow the approved rates to be implemented when the reuse project plan is approved or when the project is placed in service. If the Commission allows the rates to be implemented when the plan is approved, the Commission may order the utility to escrow the resulting revenues until the project is placed in service. Escrowed revenues shall be used exclusively for the reuse project.

The utility will not incur all operation and maintenance expenses when this reuse plan is approved. Most operation and maintenance expenses will begin when the reuse project is placed on-line. Therefore, staff is recommending that rates be implemented in two phases. Phase I rates should include the utility's return, rate case expense, depreciation expense, and taxes other than income with the exception of regulatory assessment fees associated with Phase II.

Phase II rates should add the remaining operation and maintenance expenses and related regulatory assessment fees with the exception of rate case expense which is included in Phase I rates.

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**ISSUE 18:** What is the appropriate amount of rate case expense associated with the reuse project?

**RECOMMENDATION:** The appropriate amount of reuse rate case expense to be included in Phase I should be \$46,987 amortized over four years for an annual expense of \$11,747. (MONIZ)

**STAFF ANALYSIS:** The utility's application included \$40,000 in rate case expense amortized over four years to yield an annual expense of \$10,000. Staff asked the utility to provide supporting documentation for year to date rate case expense and an estimate to complete the PAA process. The utility's current rate case expense and estimate to complete produced a revised rate case expense of \$46,284. This amount consists of the following: \$32,600 for accounting and engineering fees, \$12,684 for legal fees, and \$1,000 for travel and other miscellaneous charges. Staff reviewed the utility's supporting documents and found one area where we believe an adjustment is necessary.

The utility's engineering consultant, John Guastella, charged the utility an hourly rate of \$200. Staff reviewed several past rate proceedings in an attempt to determine the Commission approved hourly rates for engineering consultants. From our review, staff substantiated that Mr. Guastella's hourly rate is much higher than any other engineering consultant. Regardless, staff believes that a utility has the right to choose the consultant whom it wishes to present the utility's case. However, staff also believes that consultants' fees should be maintained at a level which is appropriate for ratepayers to bear.

While staff believes that Sanlando's decision to retain Mr. Guastella for his expertise is reasonable, it does not automatically follow that the customers should have to bear the full costs for his services. The Commission enjoys a broad discretion with respect to allowance of rate case expense. Florida Crown Util. Servs., Inc. v. Utility Regulatory Bd. of Jacksonville, 274 So. 2d 597, 598 (Fla. 1st DCA 1973). Nevertheless, it would constitute an abuse of discretion for the Commission to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. Meadowbrook Util. Sys., Inc. v. PSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rehearing denied, 529 So. 2d 694 (Fla. 1988). Based on the foregoing Court decisions, staff believes it is appropriate to adjust rate case expense for an hourly rate which we believe to be more reasonable for the rate payers of Sanlando. The disallowed portion should be borne by the shareholders, whom we believe benefitted most by Mr. Guastella's expertise.

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Staff believes a more appropriate hourly rate would be a rate consistent with the amounts allowed in the Palm Coast Utility Corporation's and the Hobe Sound Water Company's rate case proceedings. Pursuant to Order No. PSC-96-1338-FOF-WS, issued November 7, 1996, in the Palm Coast case and Order No. PSC-97-1225-FOF-WU, issued October 10, 1997, in the Hobe Sound rate case, the Commission found that an hourly rate of \$140 was a more appropriate rate for Mr. Guastella's expertise. However, staff believes that because several months have passed since the orders were issued in both of the cases stated above and Mr. Guastella's actual hourly rate increased, it would be more fitting to increase the recommended hourly rate to \$145. Based on the above, staff recommends reducing the utility's requested amount by \$3,438.

Additionally, Exception No. 4 of the staff audit revealed that the test year ended December 31, 1996, included \$5,341 in consultant fees related to the reuse case. In 1996 the utility charged \$2,831 to water-consultant fees and \$2,510 to wastewater-consultant fees for work performed by Guastella Associates, Inc. Therefore, since the above work relates to the reuse case, it should be removed from test year expenses and added to rate case expense. However, staff has made an adjustment to reduce Mr. Guastella's hourly rate to \$145 as discussed above. Based on this, we recommend that test year expenses for water and wastewater be reduced by \$2,831 and \$2,510, respectively, and rate case expense be increased by \$4,141 (\$5,341-\$1,200). This amount takes into account an additional \$1,200 reduction to Mr. Guastella hourly rate.

Based on the above, staff recommends approval of \$46,987 in total rate case expense. This represents \$11,747 in annual amortization expense.

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**ISSUE 19:** What are the appropriate operation and maintenance expenses associated with the reuse plant for Phase I and Phase II?

**RECOMMENDATION:** The appropriate amount of operation and maintenance expenses associated with the reuse plant for Phase I should be \$11,747, and the appropriate amount of operation and maintenance expenses associated with the reuse plant for Phase II should be \$86,623. (CASEY)

**STAFF ANALYSIS:** In Issue No. 17, staff is recommending that all reuse operation and maintenance (O & M) expenses be included as Phase II of the revenue requirement with the exception of rate case expense, which should be included in Phase I rates. The utility's filing included O & M expenses of \$98,010 for the reuse project. During the rate case the utility advised staff of another potential reuse customer which increased the reuse gallons per day usage from 1.1 million gallons per day (mgd) to 1.3 mgd. The increased usage caused the O & M expenses to be increased by \$14,180. Also, in answer to staff's data request No. 42, the utility stated that rate case expense increased by \$6,284 (\$1,571 per year amortized over 4 years.) The utility's total adjustment to its reuse O & M expenses is therefore \$15,751.

After examining the reuse O & M expenses, staff discovered that \$15,567 of the costs were for allocations of existing expenses. In Issue No. 6, staff recommends that allocations of existing expenses by the utility be disallowed since the existing costs which Sanlando allocated in its reuse filing were considered in its last rate case in Docket No. 900338-WS, and should not be allowed in this filing per Section 367.0817(1)(e), Florida Statutes. Staff made adjustments of (\$15,567) to remove the allocations of existing expenses. Staff also made an adjustment of \$1,335 to account No. 766 to allow for \$5,341 (amortized over 4 years) of additional rate case expense after receiving copies of consultant invoices and written estimates to complete the case. In addition, as detailed in Issue No. 18, staff made an adjustment of (\$1,159) to allow for a reduction of \$4,638 (amortized over 4 years) in consultant's fees.

Staff recommends reuse O & M expenses of \$98,370, \$11,747 of which should be allowed in Phase I rates, and \$86,623 of which should be allowed in Phase II rates. Reuse O & M expenses are shown in Schedule No. 3G.

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**ISSUE 20:** What are the appropriate reuse plant depreciation rates and what is the appropriate amount of reuse plant depreciation expense?

**RECOMMENDATION:** The appropriate reuse plant depreciation rates should be as set forth in the staff analysis. The appropriate annual reuse plant depreciation expense should be \$88,700. (CASEY)

**STAFF ANALYSIS:** The utility filing indicates depreciation expenses of \$111,799. This amount contains depreciation of utility plant which includes AFUDC. In Issue No. 7, staff is recommending AFUDC be denied since all utility plant should be included in rate base at the time of approval of the reuse project. This amount also includes depreciation expense on existing plant which was allocated to the reuse project by the utility. In Issue No. 6, staff is recommending that the allocations of existing expenses which were included by the utility be denied. Staff made adjustments of (\$15,129) to remove allocated depreciation expense of existing plant, (\$4,461) to remove depreciation on the AFUDC portion of plant, and (\$3,509) to adjust depreciation expense to staff's recommended balance using the USOA.

The utility included all reuse plant in Account No. 382.4 (Outfall Sewers), and Account No. 389.4 (Other Plant and Miscellaneous Equipment). In accordance with the 1996 NARUC Uniform System of Accounts, staff assigned the reuse plant costs to the proper accounts and calculated depreciation expense using the corresponding depreciation rates which are as follows:

<u>No.</u>	<u>Description</u>	<u>Account Amount</u>	<u>Rate</u>	<u>Depreciation Expense</u>
375.6	Piping	\$ 755,485	2.22%	\$16,789
375.6	Valves Fittings & Flow Meters	\$ 81,267	4.00%	\$ 3,251
371.6	Booster Stations	\$ 200,896	5.00%	\$10,045
354.6	Restoration	\$ 6,693	20.00%	\$ 1,339
380.5	Chlorine Contact Chamber	\$ 117,139	10.00%	\$11,714
371.5	Transfer Pump Station	\$ 109,929	6.67%	\$ 7,329
371.6	Distribution Pump Station	\$ 168,245	5.56%	\$ 9,347
374.5	Hydro Tank	\$ 34,155	2.86%	\$ 976
374.5	1 MG Storage Tank	\$ 506,000	4.00%	\$20,240
375.6	Metering, Analyzers, Site Work	\$ 31,625	20.00%	\$ 6,325

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Permits and Fees:				
375.6	Jack & Bore, Cuts	\$ 2,534	2.22%	\$ 56
353.6	Right of Way Fee	\$ 10,892	N/A	N/A
375.6	Effluent Piping Modifications (Ponds)	<u>\$ 57,987</u>	2.22%	<u>\$ 1,289</u>
	Total	\$2,082,847		<u>\$88,700</u>

Staff recommends a reuse plant depreciation expense of \$88,700. Depreciation expenses are shown in Schedule No. 3C and depreciation expense adjustments are shown in Schedule No. 3D, Page 2 of 2.

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ISSUE 21: What are the appropriate amounts to be included in determining reuse taxes other than income?

RECOMMENDATION: The appropriate amounts of reuse taxes other than income should be \$25,599. (CASEY, MONIZ)

STAFF ANALYSIS: The utility filing showed \$40,649 for taxes other than income. Staff made the following adjustments to the utility's reuse taxes other than income balance:

#### Payroll Taxes

The filing included \$2,048 in reuse payroll taxes. Staff made an adjustment of (\$164) to remove an allocation of existing payroll taxes and made an adjustment of \$395 to include payroll taxes on salaries which were increased when an additional reuse customer was added. Staff recommends payroll taxes of \$2,279.

#### Property Taxes

Property taxes of \$5,479 were included in this filing. This amount included property tax on plant which included AFUDC. Since staff is recommending AFUDC be denied in this proceeding, an adjustment of (\$322) was made to remove property taxes associated with AFUDC. An adjustment of \$337 was also made to remove an allocation of existing property taxes. Staff recommends property taxes of \$5,494.

#### Other Taxes and Licenses

An allocation of \$10,649 of existing taxes and licenses expense was contained in the utility's filing. Issue No. 6 of this recommendation recommends denial of allocations of existing expenses in this proceeding. Staff made an adjustment of (\$10,649) to remove the allocated taxes and licenses expense.

#### Regulatory Assessment Fees

The company calculated reuse regulatory assessment fees of \$22,473. Staff calculated a reuse revenue requirement of \$396,134 and recommends reuse regulatory assessment fees of \$17,826.

Based on the above adjustments, staff recommends reuse taxes other than income of \$25,599. If the Commission approves staff's alternate recommendation in Issue No. 14, the appropriate amount of taxes other than income should be \$25,757.

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ISSUE 22: What is the appropriate amount of reuse income tax expense?

RECOMMENDATION: The appropriate amount of reuse income tax expense should be \$0. (CASEY)

STAFF ANALYSIS: The utility is financing this project with 100% debt. The utility's filing included a coverage requirement of 1.25 or \$59,609 per year on its loan. As a fallout to this coverage requirement, the utility included income taxes of \$35,964. As discussed in Issue No. 13, staff is not recommending approval of the 1.25 coverage requirement, and therefore, recommends no reuse income tax for this proceeding.

If the Commission approves the alternate staff recommendation in Issue No. 14, the appropriate amount of reuse income tax would be \$6,835.

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**ISSUE 23:** What is the appropriate reuse revenue requirement for Phase I and Phase II?

**RECOMMENDATION:** The appropriate reuse revenue requirement for Phase I should be \$305,429, and the appropriate revenue requirement for Phase II should be \$396,134. (CASEY, MONIZ)

**STAFF ANALYSIS:** As stated in Issue No. 17, staff is recommending a two phase revenue requirement. Phase I rates would include the utility's return, rate case expense, depreciation expense, and taxes other than income with the exception of regulatory assessment fees associated with Phase II. Phase II rates would add the remaining O & M expenses and related regulatory assessment fees.

The utility should be allowed a Phase I reuse revenue requirement of \$305,429, and a Phase II reuse revenue requirement of \$396,134. This will allow the utility the opportunity to recover its expenses and earn the recommended 8.83% return on its investment. Based on the results of staff's analysis, the revenue requirement calculations are as follows:

	<u>Phase I</u>	<u>Phase II</u>
Adjusted Rate Base	\$ 2,038,498	\$ 2,038,498
Rate of Return	<u>x .0900</u>	<u>x .0900</u>
Return on Investment	183,465	183,465
Adjusted Operation Expenses	11,747	98,370
Depreciation Expense (Net)	88,700	88,700
Taxes Other Than Income Taxes	21,517	25,599
Income Taxes	<u>-0-</u>	<u>-0-</u>
Revenue Requirement	\$ <u>305,429</u>	\$ <u>396,134</u>

The reuse revenue requirement is shown on Schedule No. 3C.

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**ISSUE 24:** On a going forward basis, will Sanlando Utility Corporation's water and wastewater systems earn in excess of its newly authorized ROE?

**RECOMMENDATION:** Yes, based on staff's analysis, Sanlando Utility Corporation's water and wastewater systems will earn in excess of its newly authorized ROE on a going forward basis as shown below:

	<u>Test Year</u> <u>Revenues</u>	<u>Utility</u> <u>Overearnings</u>	<u>Staff</u> <u>Recommended</u> <u>Decrease</u>
Water	\$2,021,561	\$219,142	10.84%
Wastewater	\$2,855,217	\$301,883	10.57%

(CASEY, MONIZ)

**STAFF ANALYSIS:** Surveillance monitoring of utility earnings is accomplished primarily through review of annual reports which are due to the Commission on March 31 of each year. A potential for overearnings exists when the reported return on equity exceeds the last authorized range for the return on equity. Section 367.082(1), Florida Statutes, allows the Commission to establish interim rates if a utility is earning outside the range of reasonableness on rate of return.

Sanlando's last authorized rate of return on equity was established as 13.51% by Order No. 23809, issued November 27, 1990. As stated in Issue No. 15, staff is recommending a new authorized return on equity of 10.46%. After reviewing the utility's 1996 annual report, conducting a limited scope audit, and making necessary adjustments, staff determined that the utility's water system will overearn by \$219,142 (10.84%) per year, and the utility's wastewater system will overearn by \$301,883 (10.57%) per year on a going forward basis. The following adjustments were made to utility figures provided in its 1996 annual report to make this determination:

#### RATE BASE

##### Utility Plant in Service

Staff made two adjustments to the utility's water and wastewater utility plant in service. Water utility plant was increased by \$404 and wastewater utility plant was increased by \$345 to reflect land adjustments made by Order No. 23809, issued November 27, 1990.

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### Working Capital

Staff recalculated the utility's working capital for water and wastewater. The formula method (1/8 of O & M expenses) of working capital was allowed in the utility's 1990 rate proceeding. Since Rule 25-30.433(2), Florida Administrative Code, which requires all Class A utilities to use the balance sheet approach, was issued subsequent to that Order, staff calculated a working capital allowance for water and wastewater using the balance sheet approach based on the utility's reported figures in its 1996 annual report. Staff made an adjustment of (\$158,197) to water working capital and (\$171,207) to wastewater working capital to reflect working capital using the balance sheet approach instead of the formula method.

Staff recommends water rate base of \$758,305 and wastewater rate base of \$1,949,651 on a going forward basis. Water rate base is shown on Schedule No. 1A and wastewater rate base is shown on Schedule No. 1B.

### COST OF CAPITAL

As stated in Issue No. 15, the newly established cost of equity on a going forward basis should be 10.46% with a range of 9.46% to 11.46%. As stated in Issue No. 16, the newly established overall rate of return on a going forward basis should be 8.83% with a range of 8.74% to 8.91%. The utility capital structure on a going forward basis is shown in Schedule No. 2.

### NET OPERATING INCOME

#### Operation and Maintenance Expenses

Staff made a number of adjustments to O & M expenses on a going forward basis:

Employee Pensions and Benefits - The utility recorded \$93,244 in water and \$115,697 in wastewater employee pensions and benefits for 1996. Staff made an adjustment of (\$3,822) to water and (\$4,957) to wastewater to remove non-utility related expenses for a picnic, employee gifts, and college season tickets. By Order No. 17196, issued February 17, 1987, the Commission advised Sanlando that an employee picnic is not an appropriate expense to be recovered through customer rates.

Staff recommends employee pensions and benefits of \$89,422 for water, and \$110,740 for wastewater.

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Contractual Services - Engineering - The utility recorded \$58,981 in wastewater system engineering contractual services for 1996. This total included \$28,095 for an engineering study of the Cove Lake System. The Cove Lake System is the body of water which receives the utility effluent after it flows through Sweetwater Creek. The purpose of the study was to determine the feasibility of routing water from Lake Brantley to the Cove Lake System. The study concluded that the project was too environmentally sensitive to implement, at which time the utility expensed the cost. Since this is a non-recurring expense, staff made an adjustment of (\$22,476) to amortize the cost of the engineering study over 5 years in accordance with Rule 25-30.433(8), Florida Administrative Code.

Staff recommends wastewater system engineering contractual services of \$36,505.

Contractual Services - Legal - Audit Exception No. 1 of staff's audit report shows the utility recorded \$35,873 in water and \$41,485 in wastewater legal contractual services for 1996. Staff has received the supporting documentation for legal expenses and has determined that included in this amount were legal expenses for a sexual discrimination lawsuit filed by a former employee. Staff made an adjustment of (\$3,710) to water and (\$3,290) to wastewater to remove the plaintiff's legal expenses which were paid by the utility, and made an adjustment of (\$4,793) to water and (\$4,251) to wastewater to remove the legal expenses charged by the utility's attorneys for this lawsuit.

These accounts also included \$9,118 of water and \$8,086 of wastewater non-utility related legal expenses pertaining to a possible sale of the utility and a stock purchase. The utility advised audit staff in answer to Document Request Number 4-2, that these items were charged to Account No. 426.1 (non-utility expenses) because it would benefit the owners of the utility and not the ratepayers. However, after staff found no balance in the account on the utility's 1996 annual report, staff determined these expenses were included in contractual services - legal. Staff made an adjustment of (\$9,118) to water and (\$8,086) to wastewater to remove non-utility legal expenses from legal contractual services.

Staff recommends \$18,252 of water and \$25,858 of wastewater legal contractual services.

During the limited scope audit of the utility's books, staff discovered that legal retainer fees from a related party did not show hours or hourly rates on the invoices, and most listed general services for a description. The NARUC Class "A" Accounting

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Instruction No. 2, General Records, states, in part, that: "Each entry shall be supported by such detailed information as will permit a ready identification, analysis and verification of all facts relevant thereto."

By Order No. 23809, issued November 27, 1990, the Commission found that "In its response to the utility audit report, the utility listed many general areas of service provided by the attorney." Additionally, the Commission found that:

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

Finally, the Commission placed the utility on notice that: "in future rate proceedings it must provide greater detail to justify contract or outside legal services."

Staff does not recommend penalizing the utility at this time. We believe the balance of legal expenses are reasonable considering the reuse project will incur added legal costs. However, the utility should be put on notice that all future legal expenses will be closely scrutinized to determine prudence and reasonableness, and any invoices not showing appropriate detail may not be considered in future proceedings.

Contractual Services - Management Fees - The utility showed \$121,978 in water and \$109,799 in wastewater management contractual services in 1996. These amounts included \$150,000 of director's fees. The utility had six directors who were paid \$25,000 each. The water system was charged with \$78,224 of these fees, and the wastewater system was charged with \$71,776 of these fees.

In Docket No. 840310-WS, the Commission determined that the appropriate amount for director's fees was \$5,000 per director. In Docket No. 860683-WS, the Commission determined the appropriate amount of directors fees was \$5,456, which was calculated by staff indexing-up the fees allowed in Docket No. 840310-WS. In the utility's last rate proceeding (Docket No. 900338-WS), the utility,

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in its minimum filing requirements (MFR's), used the same methodology for director's fees, indexing-up the director fees approved in Docket No. 840310-WS, to come up with director's fees of \$6,500 each, split \$3,510 for water, and \$2,993 for wastewater. In this proceeding, staff used the same methodology, indexing-up director's fees using the Commission approved yearly index figures to calculate director's fees of \$7,500, split \$4,000 to water and \$3,500 to wastewater for each director. Staff made an adjustment of (\$54,224) to water and (\$50,776) to wastewater to reduce total director's fees to \$24,000 for the water system and \$21,000 for the wastewater system for this proceeding.

Disclosure No. 3 of staff's audit report indicated \$81,600 in consulting fees charged in 1996 by Greater Construction Corporation, an affiliated company. The consulting fee was allocated \$43,656 to water and \$37,944 to wastewater. In Docket No. 900338-WS, the Commission allowed a total consulting fee of \$25,000 for Greater Construction Corporation. Staff indexed up the previously approved consulting amount for Greater Construction Corporation using the Commission approved yearly index figures, and made an adjustment of (\$28,037) to the water and (\$24,863) to wastewater for a total Greater Construction consulting fee of \$28,700. Staff recommends a Greater Construction consulting fee allocation of \$15,619 for water and \$13,081 for wastewater.

Staff recommends \$39,717 in water and \$34,160 in wastewater management contractual services.

Contractual Services - Other - The utility charged \$12,644 to water and \$38,125 to wastewater contractual services - other in 1996.

Audit Exception No. 2 of staff's audit report showed the utility included in this account a \$20,000 payment made to Sweetwater Oaks Homeowners Association, Inc. as part of the "Cove Lake System Restoration Agreement." This amount was the last of four payments made under the agreement. Since this is a non-recurring expense, staff made an adjustment of (\$20,000) to remove the payment.

Audit Exception No. 3 of staff's audit report showed a non-recurring out-of-period consulting fee of \$2,943 for water and \$2,507 for wastewater was included in these figures for consulting work done by a former chief financial officer of Greater Construction Corporation who was also a former assistant treasurer of Sanlando. Staff made adjustments of (\$2,943) to water and (\$2,507) to wastewater to remove these non-recurring out-of-period expenses. The utility concurred with these adjustments in a response to the staff audit.

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Audit Exception No. 4 of staff's audit report revealed reuse rate case expenses of \$2,831 and \$2,510 were charged to water and wastewater respectively. Staff made adjustments of (\$2,831) to water and (\$2,510) to wastewater to reclassify these expenses to reuse rate case expense and to amortize them over 4 years. The utility also concurred with these adjustments in a response to the staff audit.

Staff recommends contractual services - other of \$6,870 for water and \$13,108 for wastewater.

Miscellaneous Expenses - The utility recorded \$142,023 in water and \$214,964 in wastewater miscellaneous expenses for 1996. Staff made adjustments of (\$6,890) to water and (\$6,110) to wastewater to remove sexual discrimination settlement payments made to a former employee.

The utility also included \$2,753 of water and \$2,347 of wastewater charitable contributions in this account in 1996. According to the NARUC uniform system of accounts, charitable contributions are to be charged to Account 426, a below the line account. Therefore, staff made an adjustment of (\$2,753) to water and (\$2,347) to wastewater to remove charitable contributions made by the utility.

Staff recommends miscellaneous expenses of \$132,380 for water and \$206,507 for wastewater for this proceeding.

#### Operation & Maintenance Expense Summary

The above adjustments to O & M expenses total (\$119,121) for water and (\$152,173) for wastewater. Staff recommends O & M expenses of \$1,486,987 for water and \$2,005,729 for wastewater for this proceeding.

#### TAXES OTHER THAN INCOME

The utility 1996 annual report shows \$194,124 in water and \$227,931 in wastewater taxes other than income for 1996. After reviewing the supporting documentation, staff made adjustments of (\$164) to water and (\$146) to wastewater to remove IRS penalties, and made adjustments of (\$10,877) to water and (\$9,645) to wastewater to remove an out of period non-recurring 1992 IRS settlement.

Staff recommends test year taxes other than income of \$183,083 for water and \$218,140 for wastewater.

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INCOME TAXES

The utility recorded income taxes of \$36,779 for water and \$56,644 for wastewater in 1996. Based on staff's adjustments which increased operating income, staff made an adjustment of \$46,050 to water and \$62,324 to wastewater to reflect income taxes on staff's recommended test year figures.

Operating Revenue, Operating Expense, and Income Summary

The above adjustments result in operating revenues of \$2,021,561 for water and \$2,855,217 for wastewater, with operating expenses of \$1,824,083 for water and \$2,503,273 for wastewater, resulting in net operating incomes of \$197,478 (26.04%) for water and \$351,944 (18.05%) for wastewater.

REVENUE REQUIREMENT

Water operating revenues total \$2,021,561 for water and \$2,855,217 for wastewater for the test year. This represents a 26.04% overall rate of return for water and a 18.05% overall rate of return for wastewater. Staff's calculation indicates a revenue requirement of \$1,802,419 for water, which represents a \$219,142 (10.84%) decrease in revenue, and a revenue requirement of \$2,553,334 for wastewater, which represents a \$301,883 (10.57%) decrease in revenue. This would allow the utility the opportunity to recover its expenses and earn staff's recommended return of 8.83% on its investment on a going forward basis.

	<u>Test Year Revenues</u>	<u>Staff Recommended Decrease</u>	<u>%Decrease</u>
Water	\$2,021,561	\$219,142	10.84%
Wastewater	\$2,855,217	\$301,883	10.57%

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

**RECOMMENDATION:** Yes, the utility's water system CIAC level exceeds the guideline level of Rule 25-30.580, Florida Administrative Code, based on staff's calculations of the appropriate rate base which is shown on Schedule No. 1A. Sanlando should be ordered to discontinue collection of the water system plant capacity charge as of the issuance date of the final order in this rate proceeding. The utility should be ordered to submit revised tariff sheets reflecting the elimination of the water system plant capacity charge. The tariff sheets should be effective for service rendered or connections made on or after the stamped approval date on the tariff sheets provided customers have received notice. The tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision. (CASEY)

**STAFF ANALYSIS:** The utility's existing service availability policy was "grandfathered" in 1976 after the Commission gained jurisdiction in Seminole County. New customers or developers are required to donate all on-site and off-site water and wastewater lines, pay plant capacity charges based on anticipated usage, pay meter installation charges based on meter size and tap-in charges based on actual cost. The utility's present water system service availability rates are:

Plant Capacity Charge		
Residential-per ERC (400GPD)		\$ 225.00
All others-per gallon		\$ .56
Meter Installation Fee		
5/8" x 3/4"		\$ 60.00
1"		\$ 110.00
All others		Actual Cost
Customer Connection (Tap-In Charge)		
All Sizes		Actual Cost

In Docket No. 900338-WS, the utility's CIAC contribution level was 91% for water and 88% for wastewater for the year ending December 31, 1989. Although the CIAC contribution level has shown improvement since the utility's last rate case, the utility's water system level of CIAC still exceeds the 75% maximum specified in Rule 25-30.580 (1)(a), Florida Administrative Code. In this docket, staff calculated Sanlando's CIAC contribution level at

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89.46% for water and 73.32% for wastewater based on net plant in service. Rule 25-30.580, Florida Administrative Code states:

(1) A utility's service availability policy shall be designed in accordance with the following guidelines:

(a) The maximum amount of contributions 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 designed capacity; and

(b) The minimum amount of contributions in aid of construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems.

The utility's high level of CIAC (\$10,268,154 for water and \$10,334,989) can be attributed to the amount of contributed transmission and distribution lines and collection lines that have been received over the years, and it has been an issue in three previous dockets before the Commission (Docket Nos. 840310-WS, 860683-WS, and 900338-WS). In each of the previous dockets, an exception to Rule 25-30.580(1), Florida Administrative Code, has been granted as allowed by Rule 25-30.580(2), Florida Administrative code, which states:

In any case where compliance with the guidelines of subsection (1) introduces unusual hardship or unreasonable difficulty, and the Commission, utility, or interested party shows that it is not in the best interests of the customers of the utility to require compliance, the Commission may exempt the utility from the guidelines.

The reason staff is bringing the CIAC contribution level of the utility before the Commission in this docket is because the utility's water system contribution level is above the recommended 75% level at 89.46%, and the water system is now overearning by \$219,142. The utility is for all practical purposes "built out", and staff believes continued collection of the water system plant capacity charge will only bring the utility further away from the Commission's goal of 75% maximum contribution.

Sanlando should be ordered to discontinue collection of the water system plant capacity charge as of the issuance date of the final order in this proceeding. It should be noted that staff is not recommending discontinuance of Sanlando's policy to require

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developers to donate all on-site and off-site water and wastewater lines. Staff believes this is consistent with Rule 25-30.580(1)(b), Florida Administrative Code. Since the meter installation charges and customer connection (tap-in) charges are cost recovery items, staff is not recommending a change to these items.

The utility should be ordered to submit revised tariff sheets reflecting the elimination of the water system plant capacity charge. The tariff sheets should be effective for service rendered or connections made on or after the stamped approval date on the tariff sheets provided customers have received notice. The tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision.

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**ISSUE 26:** Should any of the reuse revenue requirement approved in this docket be allocated to the water and/or wastewater customers, and if so, what are the appropriate rates?

**RECOMMENDATION:** The revenue requirement should be allocated to both water and wastewater customers. The Phase I revenue requirement should be recovered through the water overearnings in the amount of \$219,142 and the wastewater overearnings in the amount of \$86,287. The additional Phase II revenue requirement should be recovered through additional wastewater overearnings held subject to refund in the amount of \$90,705. For annual reporting purposes, the allocation of reuse costs to water should be recorded in Account 668 - Water Resource Conservation Expense of the utility's books, and the offsetting entry should be recorded on the wastewater books in Account 544 - Reuse Revenues From Other Systems. The utility should be authorized to continue collecting its currently approved water and wastewater rates pending completion of the true-up proceeding. (XANDERS, GOLDEN, RIEGER, BETHEA)

**STAFF ANALYSIS:** In this case, the utility has proposed that the wastewater customers pay for the project through increased rates. According to the utility's plan, once the project is constructed and the utility is providing service to reuse customers, the reuse customers will share a portion of the project costs through a reuse rate. At that time, the wastewater customers' rates will be reduced commensurately. In this issue, we are determining the most appropriate allocation of the reuse costs.

The Commission has the authority to allocate the cost of a reuse project among a utility's customers as authorized by Section 367.0817(3), Florida Statutes. This section reads:

All prudent costs of a reuse project shall be recovered in rates. The Legislature finds that reuse benefits water, wastewater, and reuse customers. The commission shall allow a utility to recover the costs of a reuse project from the utility's water, wastewater, or reuse customers or any combination thereof as deemed appropriate by the commission.

This legislation recognizes that all customers benefit from the water resource protection afforded by reuse. Under this legislation, the Commission has the authority to require all customers to pay for the benefits they receive from reuse. Consequently, it allows the Commission to depart from traditional ratemaking where the water customers pay only those costs

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associated with water service and the wastewater customers pay only those costs associated with wastewater service.

The utility has not requested that its water customers share in the cost of the reuse project. According to a response to a staff data request, the reason this request was not made was that:

A vast majority of the utilities' water customers (over 75%) are also wastewater customers...Because there is so little distinction between the two universes of customers, [Sanlando] believes allocating a portion of the costs of the reuse facilities to water customers is unwarranted in this case.

Staff notes that in the prior docket involving the reuse project, Docket No. 930256-WS, the utility proposed that the project be funded entirely by the water customers through an inverted rate structure.

The concept of requiring the water customers to pay for a reuse project is relatively new. As mentioned above, traditionally, costs associated with the provision of water service are allocated to the water customers, and those associated with the provision of wastewater service are allocated to the wastewater customers. Although the statute allowing the Commission to allocate the costs has been in place for four years, the Commission has only made such an allocation in one case thus far (Florida Cities Water Company, Barefoot Bay Division - See Order No. PSC-96-1147-FOF-WS, issued September 12, 1996, in Docket No. 951258-WS.)

The benefit of reuse to the water customers is derived from the water conservation provided by reuse as a source of irrigation. The utility is located within an area designated by the SJRWMD as a Priority Water Resource Caution Area, wherein critical water supply concerns have been identified. Using treated effluent for irrigation recharges and reduces withdrawal from the aquifer, thus protecting the water resource and making available more water for potable water users. Reuse is also a much more efficient and environmentally sound use of the effluent than continuing to discharge into the Sweetwater Creek.

The reuse project is needed more for water resource protection than for wastewater effluent disposal. The project is included in the utility's draft DEP permit as the primary method of effluent disposal. Although the draft DEP permit requires the utility to implement reuse, the permit also allows Sanlando to continue

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disposing its entire flow into the Sweetwater Creek. This will allow the utility to continue disposing of its effluent if it is not needed by the reuse customers due to rainfall or if the utility does not have any reuse customers. Therefore, since the current method of disposal will remain in place, effluent disposal is not the primary reason for the reuse plan.

The project is needed, however, for resource protection. The Sweetwater Creek, where Sanlando disposes of its effluent, is a part of the Wekiva River System. Diverting the effluent flow from the Sweetwater Creek to the golf courses and the nursery will help protect the Sweetwater Creek. Staff believes the water resource protection afforded by reuse is a benefit to the water customers of Sanlando which should be recognized by shifting at least a portion of the reuse project costs to the water customers.

In addition, over time, shifting some of the costs to the water customers may provide a conservation incentive to the water customers and protect their source of water. This is especially important in this case due to the extremely high water consumption by Sanlando's customers. Reuse has become an even more critical need because of this high consumption. In the utility's last rate case, the Commission recognized that Sanlando's water customers need to conserve their water. By Order No. 23809, issued on November 27, 1990, in Docket No. 900338-WS, at page 19, the Commission stated:

Sanlando has some of the lowest water rates in the State of Florida. Using the original rates, the average monthly residential bill is \$13.81. This average is based on a calculated water consumption of 26,551 gallons per month, which is considerably higher than the average use per ERC across the state. If we were to require the utility to lower its already extremely low rates, we would be sending a very adverse sign to the customers. At a time when utilities in the state need to encourage customers to conserve this resource, the Commission should not provide an incentive for the customers to use even more water.

By Order No. PSC-92-1356-FOF-WS, issued November 23, 1992, in that same docket, the Commission approved Sanlando's water conservation plan and ordered the utility to file a limited proceeding to implement the conservation program. It was noted in that order that "Sanlando asserts its proposed reuse program, in addition to encouraging reduced water consumption by its customers, would

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result in an immediate and significant reduction in water resource withdrawal from Florida's diminishing potable water supply."

As mentioned above, in the limited proceeding docket, Docket No. 930256-WS, the utility proposed that the project be paid for entirely by the water customers. In that docket, Sanlando recognized that increasing the water customers' rates to pay for the reuse project would provide an incentive to conserve. In Proposed Agency Action Order No. PSC-93-1771-FOF-WS, issued on December 10, 1993, in Docket No. 930256-WS, it was noted that "Sanlando believes that its proposed reuse program [in which the water customers would pay for the project] will encourage reduced water consumption by residential customers which comprises 80 percent of the total utility consumption."

The need to conserve is still present. As mentioned above, Sanlando is located in a Priority Water Resource Caution Area. Since this is an area where water supply problems currently exist or where proposed withdrawals to meet demands for the year 2010 are projected to result in significant harm to ground or surface water resources, the use of reclaimed water for irrigation will be beneficial in this area.

As discussed in Issue No. 23, the total projected reuse revenue requirement is \$396,134 (Phase I revenue requirement is \$305,429 and the additional Phase II revenue requirement is \$90,705). In this case, staff originally considered allocating the entire cost of the reuse project to the water customers and the reuse customers. However, as shown in Issue No. 24, Sanlando's water and wastewater systems will be overearning on a going forward basis. Sanlando's currently approved water and wastewater rates are sufficient to recover both the Phase I and additional Phase II reuse revenue requirements. Therefore, staff recommends that the Phase I revenue requirement should be recovered through the water overearnings in the amount of \$219,142, and the wastewater overearnings in the amount \$86,287. This allocation will completely eliminate the water overearnings and a portion of the wastewater overearnings. There is an additional projected Phase II revenue requirement consisting of operation and maintenance expenses in the amount of \$90,705. The additional Phase II reuse revenue requirement should be recovered through the remaining wastewater overearnings. Additionally, as will be discussed in Issue No. 27, staff is recommending that the reuse rate should be established at zero at this time.

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For annual reporting purposes, the allocation of reuse costs to water should be recorded in Account 668 - Water Resource Conservation Expense of the utility's books, and the offsetting entry should be recorded on the wastewater books in Account 544 - Reuse Revenues From Other Systems. According to the 1996 Uniform System of Accounts for Class A Water Utilities, Account 668:

shall include amounts required by a regulatory authority to be paid to other utility systems, such as wastewater systems to defray the costs of the wastewater utility in supplying reclaimed water for reuse purposes.

After allocation of the reuse revenue requirement to the water and wastewater systems, the wastewater system will still be overearning by \$215,596 in Phase I and \$124,891 in Phase II, on an annual basis. Customarily when the Commission initiates an overearnings investigation, the utility is authorized to continue collecting the previously authorized rates subject to refund pending completion of the investigation. If it is determined that the utility is in fact overearning, the utility's rates are lowered. Accordingly, staff considered recommending that Sanlando's wastewater rates be reduced in this proceeding for the amount of the overearnings that will remain in excess of the reuse revenue requirement. However, staff believes that it would be more appropriate to defer any possible rate reductions until the reuse project is completed.

Staff considered several factors in reaching this conclusion. First, as discussed in Issue No. 1, there is a critical need for water conservation in Sanlando's service area. Staff believes a rate reduction would be contrary to conservation objectives for that area. Second, as discussed in Issue No. 23, staff is recommending that the reuse revenue requirement be split into two phases. The overearnings are sufficient to recover both the projected Phase I and Phase II reuse revenue requirements. If the Commission reduces the utility's wastewater rates at this time, a subsequent increase may be necessary when construction of the project is completed and the Phase II revenue requirement is implemented.

Finally, as discussed in Issues Nos. 4, 5, and 32, because the reuse project is based upon estimates, Section 367.0817(6), Florida Statutes, provides for a true-up proceeding after the project is completed. Based upon staff's March 4 and April 2, 1998 meetings with the DEP, SJRWMD, utility and golf courses, staff believes the utility's original plans regarding placement of pumps, etc. to

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provide the reclaimed water to the golf courses may require some modification. It is conceivable that the utility's actual costs could be higher than the projections used to generate the revenue requirement. Similar to the example above, if the Commission reduces the utility's rates at this time, a subsequent increase may be necessary following the true-up. Considering the potential impact of a rate reduction on conservation, along with the potential for subsequent rate increases associated with this project, staff believes the best alternative is to leave the rates unchanged pending the true-up proceeding.

Section 367.0817(4), Florida Statutes, states in part that "the Commission's order approving the reuse project plan shall approve rates based on projected costs and shall provide for the implementation of rates without the need for a subsequent proceeding." As discussed previously, the utility's overearnings are sufficient to recover both the Phase I and Phase II reuse revenue requirements. Therefore, staff believes that our recommendation to leave the rates unchanged at this time satisfies the requirement of the statute regarding implementation of the rates for the reuse project. Further, at the March 4, 1998 Customer Meeting, one of Sanlando's customers expressed some concern over the possibility of subsequent rate increases. Staff believes this approach addresses that concern and provides rate stability for the customers by reducing the number of potential rate adjustments associated with this project. Finally, since Section 367.0817(6), Florida Statutes, allows for an adjustment to the rates in conjunction with the true-up proceeding, staff believes any overearnings that may remain at that point can be addressed in that proceeding.

Regarding security for the overearnings, staff is recommending in Issues Nos. 29, 30 and 31 that all of the overearnings be placed in escrow. In the event the true-up results in a reuse revenue requirement that is higher than the overearnings, staff believes that any resulting revenue increase should be to the water rates for the purpose of promoting water conservation.

Therefore, staff recommends that the utility should be authorized to continue charging its currently approved water and wastewater rates. The utility's current rates are as follows:

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WATER

Monthly Service Rates

RESIDENTIAL, GENERAL SERVICE  
AND MULTI-RESIDENTIAL

Base Facility Charge:

Meter Size:

5/8" x 3/4"	\$	4.36
3/4"	\$	6.53
1"	\$	10.87
1 1/2"	\$	21.77
2"	\$	34.81
3"	\$	69.63
4"	\$	108.82
6"	\$	217.64
8"	\$	391.26
Gallonage Charge per 1,000 gallons	\$	0.386

BULK SALES

Base Facility Charge:

Meter Size:

5/8" x 3/4"	\$	4.36
3/4"	\$	6.53
1"	\$	10.87
1 1/2"	\$	21.77
2"	\$	34.81
3"	\$	69.63
4"	\$	108.82
6"	\$	217.64
8"	\$	391.26
Gallonage Charge per 1,000 gallons	\$	0.386

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**Water Rates (Continued):**

**PRIVATE FIRE PROTECTION**

**Annual Charge**

**Line Size:**

1 1/2"	\$ 86.96
2"	\$ 139.15
3"	\$ 278.27
4"	\$ 434.80
6"	\$ 869.61
8"	\$1,391.41

**WASTEWATER**

**Monthly Service Rates**

**RESIDENTIAL**

**Base Facility Charge:**

All Meter Sizes	\$ 10.30
Gallonage Charge per 1,000 gallons (Maximum 10,000 gallons)	\$ 1.359

**GENERAL SERVICE**

**AND MULTI-RESIDENTIAL**

**Base Facility Charge:**

**Meter Size:**

5/8" x 3/4"	\$ 10.30
3/4"	\$ 15.45
1"	\$ 25.75
1 1/2"	\$ 51.51
2"	\$ 82.41
3"	\$ 164.81
4"	\$ 257.52
6"	\$ 515.05
8"	\$ 824.07

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**Wastewater Rates (Continued):**

Gallonge Charge per 1,000 gallons (No Maximum)	\$ 1.643
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**BULK SALES**

**Base Facility Charge:**

**Meter Size:**

6"	\$ 515.05
8"	\$ 824.07
Gallonge Charge per 1,000 gallons (Gallonge Charge based on meter readings from sewage flow meter)	\$ 1.703

**FLAT RATE SERVICE**

Residential - Single Family	\$ 21.81
Multiple Dwelling Unit	\$ 21.81
General Service, Per ERC	\$ 21.81

In summary, staff recommends that the Phase I revenue requirement should be recovered through the water overearnings in the amount of \$219,142. The remaining Phase I revenue requirement should be recovered through the wastewater overearnings in the amount of \$86,287. The additional Phase II revenue requirement should be recovered through additional wastewater overearnings held subject to refund in the amount of \$90,705. For annual reporting purposes, the allocation of reuse costs to water should be recorded in Account 668 - Water Resource Conservation Expense of the utility's books, and the offsetting entry should be recorded on the wastewater books in Account 544 - Reuse Revenues From Other Systems. Also, the utility should be authorized to continue collecting its currently approved water and wastewater rates pending completion of the true-up proceeding.

If the Commission approves staff's alternate recommendation in Issue No. 14, the Phase I reuse revenue requirement will increase

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by \$3,505 on an annual basis. Consequently, the amount of the Phase I reuse revenue requirement that should be recovered through the wastewater overearnings will increase from \$86,287 to \$89,792. All other allocations will remain as discussed above.

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**ISSUE 27:** What are the appropriate reuse rates?

**RECOMMENDATION:** The utility should be authorized to provide effluent reuse service at a zero rate specifically to the three golf courses and nursery identified in the utility's application. The utility should file a wastewater tariff sheet reflecting the effluent reuse class of service. The tariff should be effective for services rendered on or after the stamped approval date of the tariff pursuant to Rule 25-30.475, Florida Administrative Code, provided the reuse customers have received notice. (XANDERS, GOLDEN, RIEGER, BETHEA)

**STAFF ANALYSIS:** The reuse rates would apply to four potential reuse customers: Sweetwater Country Club, Wekiva Golf Course, Sabal Point Country Club, and Lake Brantley Plant Corp. As discussed in Issue No. 26, the utility proposed that a portion of the reuse costs should be recovered from reuse customers through a separate reuse irrigation rate. The utility proposed monthly reuse rates of either a gallonage charge of \$0.22 per 1,000 gallons or a combination of a \$1,060 base facility charge and a \$0.11 per 1,000 gallons gallonage charge. As discussed in Issue No. 26, Sanlando's current water and wastewater rates are sufficient to recover the total reuse revenue requirement, and staff has recommended that the full reuse revenue requirement be recovered through the overearnings. Consequently, staff believes that a reuse rate of zero should be established at this time.

Staff considered factors other than overearnings in determining a reuse rate in this case and believes they warrant further discussion. In a response to a staff data request, the utility stated that it proposed sharing the reuse project costs between the wastewater and reuse customers because "sharing the project costs is necessary to set rates that are reasonable and not cost prohibitive for any one customer group." However, at our March 4, 1998 meeting, a utility representative indicated that the utility would be agreeable to recovery of the costs from the wastewater customers with no reuse rate if the Commission determines that is more appropriate.

As discussed in Issue No. 1, the three golf courses attended the meeting held on March 4, 1998, and expressed their concerns over the reuse project. The golf courses believe they should not be charged a rate for the effluent service. On March 11, 1998, the Wekiva Golf Club submitted the results of a survey that it conducted of 16 golf courses in its area that use or will use

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reclaimed water. The reclaimed water providers are primarily city or county owned utilities. Additionally, some of the golf courses were designed for reclaimed water irrigation when they were built, and thus, did not require system modifications as will be required of the three golf courses in this case.

Regarding the survey results, of the 16 golf courses, 13 are currently receiving reclaimed water, two will receive reclaimed water in the future, and one has discontinued the service. Regarding the latter, DEP discontinued the reclaimed water operations due to continual failures of the perimeter monitoring system which controlled the level of the retention pond for storage of the reclaimed water. Of the 13 golf courses currently receiving reclaimed water, 11 do not pay for the reuse service, but do pay for either all or a portion of the electric costs for the pumps. In almost every case, the reclaimed water providers paid for the additional facilities needed for delivery of the reclaimed water. In one instance, a city installed the entire irrigation system and currently pays the golf course \$54,000 for two irrigation employees and irrigation parts. In another instance, a city paid for all modifications to the irrigation system, and maintains the pumps. Also, one city has contributed money, labor, and equipment to expand the golf course's irrigation system, and another city has paid half of the irrigation repairs and irrigation technician's salary for the first years.

Regarding the two golf courses identified in the survey that pay a reuse rate, the first golf course pays a rate of \$0.15 per 1,000 gallons and the electricity for the pumps. However, the City of Sanford gave the golf course \$1.1 million to take the reclaimed water. Also, the City installed all of the piping and the pump station. The second golf course pays \$0.10 per 1,000 gallons, but no electric costs. The City of Apopka paid for a new pump station and all the tie ins, and maintains the pump.

Regarding the two golf courses identified in the survey that will receive reclaimed water in the future, neither will pay a reuse rate and only one will pay a portion of the electric costs. The reclaimed water providers are paying for a portion of the facilities needed to provide the reclaimed water.

Additionally, several golf courses surveyed have experienced problems with the reclaimed water, resulting in increased chemical costs. Specifically, in some cases the reclaimed water has caused a high ph in the soil which weakens the turf grass root system, and

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algae which clogs the filter, pipe lines, and sprinkler heads. These problems are corrected through the application of sulfur, gypsum, additional fertilizers and/or fungicides, which results in increased costs to the golf courses.

The fourth potential reuse customer, the Lake Brantley Plant Corp., told staff that its acceptance of reuse is dependent upon the rate established and cost to receive it for irrigation. An inexpensive supply of water is key to the nursery remaining competitive. Lake Brantley presently has an adequate supply of water through its own wells at a cost of simply pumping it.

As discussed in Issue No. 1, the SJRWMD will require the golf courses to use the reclaimed water if it is economically, environmentally and technically feasible. At the March 4, 1998 meeting, SJRWMD (District) representatives indicated that the District views economic feasibility from the stand point of whether or not the golf course can remain a viable business. The three golf courses that would be served by Sanlando are all older golf courses, between 20 and 27 years old. The golf courses informed staff that they are currently having some difficulty competing with the newer golf courses. They believe that the additional expense of modifying their existing irrigation systems, the cost of the reclaimed water service, and possible additional chemical expenses will make competition with the other golf courses even more difficult. In general, the golf courses do not believe they should be required to pay for the service and upgrades when the other golf courses in the area are not paying for the service or facilities. Further, some of the golf courses believe they should not be required to pay for the effluent because they did not create the wastewater from which it was derived.

The flip side of this argument comes from the utility's customers. Based upon the customer testimony provided at the March 4, 1998 Customer Meeting, some of the customers believe the golf courses should pay for the project because they will be receiving the service. Also, the customers were concerned that there are no guarantees that the golf courses will take the reclaimed water, and that all of the utility's effluent will not be used for reuse irrigation even if all four reuse customers connect.

Regarding the latter concern, a SJRWMD representative indicated that because the golf courses and nursery can withdraw over 700,000 gallons per day from the aquifer, even using only 50% of the utility's effluent for irrigation would be highly

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beneficial. Regarding the other concerns, staff believes both the customers and golf courses have valid arguments. In general, both sides appear to recognize the benefits of reuse; the question is who should pay for it.

Staff believes a key element to the success of this project is finding a point at which the potential customers will accept reuse, without imposing rates upon the utility's water and wastewater customers that would be unduly burdensome. We believe we have found that point with this recommendation for a zero reuse rate. First, based upon initial estimates, the project can be fully funded without increasing the water and wastewater customers' rates. Second, the establishment of a zero rate will improve the likelihood that the project will be determined to be economically feasible for the golf courses. Competition among golf courses in Sanlando's area has intensified in recent years due to an increasing number of new courses. Consequently, greens fees have declined significantly. In order to encourage these customers to accept reuse, a market based rate must be considered. As stated above, most of the golf courses surveyed are not charged for reuse. Additionally, in most cases the reuse providers paid for the additional facilities to deliver the reclaimed water. Therefore, staff believes that a zero reuse rate is key to the success of this project. However, it should be noted that a zero reuse rate in this case does not preclude the Commission from establishing a different rate in future rate proceedings if the circumstances change, or for other reuse customers who connect at a later date.

Based on the above, staff recommends that the utility should be authorized to provide effluent reuse service at a zero rate to the four customers identified above. The utility should file a wastewater tariff sheet reflecting the effluent reuse class of service to those specific customers. The tariff should be effective for services rendered on or after the stamped approval date of the tariff pursuant to Rule 25-30.475, Florida Administrative Code, provided the reuse customers have received notice.

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**ISSUE 28:** What is the appropriate amount by which annual water and wastewater rates should be reduced after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

**RECOMMENDATION:** Annual water and wastewater rates should be reduced as shown on Schedules Nos. 4 and 4A by a total of \$12,301 4 years from the effective date of the order to reflect the removal of rate case expense grossed up for regulatory assessment fees which is being amortized over a four year period. The decrease in rates should become effective immediately following the expiration of the recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised water and wastewater tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (CASEY, MONIZ, GOLDEN)

**STAFF ANALYSIS:** Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. In Issue No. 18, staff is recommending that the rate case expense should be included in Phase I. Therefore, the reduction should occur four years from the implementation of Phase I rates. In this case, since the existing rates will be used to fund the reuse revenue requirement, the reduction should occur 4 years from the effective date of the order. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$12,301. Staff apportioned rate case expense to water and wastewater using the same allocation as reuse revenues which were assigned to water and wastewater. The reduction in revenues results in the rates recommended by staff on Schedules Nos. 4 and 4A.

The utility should be required to file revised tariffs no later than one month prior 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 should be filed for the price index and/or pass-through increase or

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decrease, and for the reduction in the rates due to the amortized rate case expense.

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**ISSUE 29:** If the Commission approves staff's recommendation on the reuse plan in Issue No. 1, should the Commission require the utility to escrow the overearnings allocated to the reuse project?

**RECOMMENDATION:** Yes. The utility should be required to escrow the portion of the overearnings allocated to the reuse project as detailed in the staff analysis, as of the effective date of the Order. Staff recommends that the Commission give staff the administrative authority to grant future requests for release of this portion of the escrow account through the Director of the Division of Records and Reporting upon verification that the utility has obtained signed contracts for the construction of the reuse facilities. The utility should keep an accurate and detailed account of all monies it receives. Pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. If the utility elects to combine all of the escrowed revenues into a single account, the utility's monthly reports should provide a breakdown of the escrowed monies representing the overearnings allocated to reuse, the overearnings in excess of the overearnings allocated to the reuse project, and any additional revenue generated by the utility's implementation of its proposed rates in the event of a protest by another party. (XANDERS, GOLDEN, RIEGER, BETHEA)

**STAFF ANALYSIS:** Section 367.0817(4), Florida Statutes, states in part that:

If the Commission allows the rates to be implemented when the plan is approved, the Commission may order the utility to escrow the resulting revenues until the project is placed in service. Escrowed revenues shall be used exclusively for the reuse project.

As discussed in Issue No. 26, the utility's current water and wastewater rates are sufficient to cover the reuse costs due to the utility's overearnings. In light of the utility's overearnings and the pending protest of the DEP permit renewal application discussed in Issue No. 1, staff believes it would be prudent to require the utility to escrow the overearnings allocated to the reuse project. As discussed in Issue No. 26, staff has recommended that the Phase I reuse revenue requirement be recovered from the utility's overearnings in the amount of \$219,142 from water revenues and \$86,287 from wastewater revenues on an annual basis. Therefore, staff recommends that the utility should be required to

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escrow \$18,262 for water and \$7,191 for wastewater, or a total of \$25,453, each month. Further, staff recommends that the utility should begin escrowing the revenues as of the effective date of the Order because of the utility's overearnings.

The escrow account should be established between the utility and an independent financial institution pursuant to a written escrow agreement. The Commission should be a party to the written escrow agreement and a signatory to the escrow account. The written escrow agreement should state the following: That the account is established at the direction of this Commission for the purpose set forth above, that no withdrawals of funds should occur without the prior approval of the Commission through the Director of the Division of Records and Reporting, that the account should be interest bearing, that information concerning the escrow account should be available from the institution to the Commission or its representative at all times, and that pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d. DCA 1972), escrow accounts are not subject to garnishments.

As discussed above, the utility should deposit the funds to be escrowed, \$18,262 for water and \$7,191 for wastewater, into the escrow account each month. The utility may request release of this portion of the escrow account after it obtains signed contracts for the construction of the reuse facilities. Staff recommends that the Commission give staff the administrative authority to grant future requests for release of this portion of the escrow account through the Director of the Division of Records and Reporting upon verification that the utility has obtained signed contracts for the construction of the reuse facilities. If a refund to the customers is required, all interest earned by the escrow account should be distributed to the customers. If a refund to the customers is not required, the interest earned by the escrow account should revert to the utility.

The utility should keep an accurate and detailed account of all monies it receives. Pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. In Issue No. 30, staff is recommending that additional revenues be escrowed in the event the Proposed Agency Action Order is protested and the utility elects to implement its proposed rates. Also, in Issue No. 31, staff is recommending that additional revenues be escrowed for the portion of wastewater overearnings in excess of the overearnings allocated

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to the reuse project. It is possible that refunds could be required following the hearing if the case is protested, and again after the true-up proceeding if the utility is still overearning at that point. Therefore, staff believes it is important to distinguish between these revenues for the purpose of subsequent refunds.

Staff believes the utility should be given the option of placing the revenues in a single escrow account or separate accounts. However, if the utility elects to combine all of the escrowed revenues into a single account, the utility's monthly escrow reports should provide a breakdown of the escrowed monies representing the overearnings allocated to reuse, the overearnings in excess of the overearnings allocated to the reuse project, and any additional revenue generated by the utility's implementation of its proposed rates in the event of a protest by another party. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and should be borne by, the utility.

As discussed in Issue No. 26, if the Commission approves staff's alternate recommendation in Issue No. 14, the Phase I reuse revenue requirement will increase by \$3,505 on an annual basis. Consequently, the amount of the Phase I reuse revenue requirement that should be recovered through the wastewater overearnings will increase from \$86,287 to \$89,792. Accordingly, the amount of wastewater revenues to be escrowed each month should be increased from \$7,191 to \$7,483, for a total of \$25,745 ( $\$18,262 + \$7,483 = \$25,745$ ), to correspond with the increase in the revenue requirement.

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**ISSUE 30:** If the Proposed Agency Action Order is protested by a party other than the utility and the utility elects to implement its proposed rates on a temporary basis, should the Commission require the utility to escrow its proposed rates?

**RECOMMENDATION:** Yes. The utility should be required to escrow the additional revenue generated by its proposed rates as detailed in the staff analysis. All other provisions of the escrow account should remain as specified in Issue No. 29. (XANDERS, GOLDEN, RIEGER, BETHEA)

**STAFF ANALYSIS:** Section 367.0817(5), Florida Statutes, states in part:

If the Commission allows rates to be implemented when the plan is approved, the utility may place its proposed rates into effect on a temporary basis, subject to refund, in the event of a protest by a party other than the utility.

As discussed in Issue No. 26, staff believes the utility's currently approved water and wastewater rates are sufficient to recover the full reuse revenue requirement. However, as stated above, the statute allows the utility to implement its proposed rates on a temporary basis in the event of a protest by a party other than the utility.

According to the Division of Auditing and Financial Analysis (DAFA), Sanlando's financial ratios do not meet the criteria for approval of a corporate undertaking sufficient to secure the amount of potential refund. As discussed in Issue No. 29, staff is recommending that the utility be required to escrow the overearnings allocated to the reuse project. If the Proposed Agency Action Order is protested and the utility elects to implement its proposed wastewater rates, the proposed rates will generate additional revenues of \$356,684 on an annual basis. Consequently, the amount of the wastewater revenues to be escrowed would increase from \$86,287 to \$442,971 on an annual basis.

Therefore, if the Proposed Agency Action Order is protested and the utility elects to implement its proposed rates on a temporary basis, staff recommends that the amount of wastewater revenues to be escrowed as discussed in Issue No. 29 should be increased by an additional \$29,724, each month, for the additional revenues generated by the proposed rates. All other provisions of

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the escrow account should remain as specified in Issue No. 29. If the Proposed Agency Action Order is protested, release of this portion of the escrow account will be addressed at the hearing.

The additional revenues generated by the utility's proposed rates are not affected by staff's recommendation in Issue No. 14. Therefore, if the Commission approves staff's alternate recommendation in Issue No. 14, staff's recommended additional escrow amount as discussed above will remain at \$29,724, each month.

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**ISSUE 31:** If the Commission approves staff's recommendation on the reuse plan in Issue No. 1, should the Commission require the utility to escrow the wastewater overearnings in excess of the wastewater overearnings allocated to the reuse project?

**RECOMMENDATION:** Yes. The utility should be required to escrow the wastewater overearnings in excess of the overearnings allocated to the reuse project as detailed in the staff analysis, as of the effective date of the Order. All other provisions of the escrow account should remain as specified in Issue No. 29. (XANDERS, GOLDEN, RIEGER, BETHEA)

**STAFF ANALYSIS:** As discussed in Issue No. 26, Sanlando's water and wastewater systems will be overearning on a going forward basis, and staff is recommending that the reuse revenue requirement should be recovered through the overearnings. As discussed in Issue No. 29, staff is recommending that those revenues should be placed in escrow as authorized by Section 367.0817(4), Florida Statutes. However, the utility's overearnings exceed the reuse revenue requirement on an annual basis by \$215,596 for Phase I and by \$124,891 for Phase II. Staff believes the utility should be required to escrow these additional revenues as well.

Therefore, staff recommends that the utility should be required to escrow an additional \$17,966 for wastewater, each month, during Phase I, for the overearnings in excess of the overearnings allocated to the reuse project. Upon completion of construction of the reuse facilities, the additional Phase II revenue requirement should be implemented. At that point the amount of wastewater overearnings to be escrowed should be reduced on an annual basis by \$90,705. The remaining overearnings after implementation of the Phase II reuse revenue requirement will be \$124,891 on an annual basis. Consequently, the amount to be escrowed may be reduced by \$7,559, each month, after the project is placed in service and the Phase II revenue requirement is implemented. At that time, the amount to be escrowed per month will be \$10,407 ( $\$17,966 - \$7,559 = \$10,407$ ). Further, staff recommends that the utility should begin escrowing the revenues as of the effective date of the Order because of the utility's overearnings.

Finally, as discussed in Issue No. 26, staff believes any overearnings which remain after the true-up proceeding should be addressed in conjunction with the true-up process. Therefore, staff recommends that all other provisions of the escrow account

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should remain as specified in Issue No. 29. Release of this portion of the escrow account will be addressed in the true-up proceeding.

As discussed in Issue No. 26, if the Commission approves staff's alternate recommendation in Issue No. 14, the Phase I reuse revenue requirement will increase by \$3,505 on an annual basis, and staff believes the additional revenue should be recovered through the utility's wastewater overearnings. This change will result in a corresponding decrease of \$3,505 in utility's wastewater overearnings in excess of the overearnings allocated to the reuse project. Therefore, the additional amount that should be escrowed each month during Phase I will decrease from \$17,966 to \$17,674. Staff's recommendation in Issue No. 14 does not affect the amount of the additional Phase II reuse revenue requirement. Therefore, the reduction associated with the implementation of the additional Phase II reuse revenue requirement will remain at \$7,559. The amount to be escrowed per month after implementation of the additional Phase II reuse revenue requirement will be \$10,115 ( $\$17,674 - \$7,559 = \$10,115$ ).

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**ISSUE 32:** Should Sanlando Utility Corporation be required to file a subsequent true-up proceeding after the reuse project is placed in service pursuant to Section 367.0817(6), Florida Statutes?

**RECOMMENDATION:** Yes, Sanlando Utility Corporation should be required to file a subsequent true-up proceeding within 90 days of the date the reuse project is placed in service pursuant to Section 367.0817(6), Florida Statutes. This filing should also include information on water and wastewater earnings. (CASEY, MONIZ)

**STAFF ANALYSIS:** Section 367.0817(6), Florida Statutes, states that "After the reuse project is placed in service, the Commission, by petition or on its own motion, may initiate a proceeding to true-up the costs of the reuse project and the resulting rates."

Because staff is working from engineering estimates due to the statutory timeframe in this limited proceeding, staff is recommending a true-up of all costs of this reuse project. Further, staff has been informed that the estimated costs may increase due to continuing discussions between the potential reuse customers and the utility. Therefore, the utility should be required to file a true-up proceeding within 90 days of the date the reuse project is placed in service. This filing should also include information on water and wastewater earnings.

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**ISSUE 33:** Should this docket be closed?

**RECOMMENDATION:** No, upon expiration of the protest period, if a timely protest is not received, this docket should remain open to allow staff to monitor escrowed funds and address the true-up of the reuse project costs. (CASEY, GERVASI)

**STAFF ANALYSIS:** In Issues Nos. 29, 30 and 31, staff is recommending that funds be held in escrow. In Issue No. 32, staff is recommending that the utility file a true-up proceeding as authorized by Chapter 367.0817(6), Florida Statutes, within 90 days of the date the reuse project is placed in service. Upon expiration of the protest period, if a timely protest is not received, this docket should remain open to allow staff to monitor the escrowed funds and address the true-up of reuse costs once the project is completed.

SANLANDO UTILITIES CORPORATION  
 TEST YEAR ENDING DECEMBER 31, 1996  
 SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1 A  
 DOCKET NO. 971186-SU

	BALANCE PER UTILITY 1996 ANN.RPT	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$ 12,000,378	\$ 404 A	\$ 12,000,782
NON-USED AND USEFUL PLANT	0	0	0
ACCUMULATED DEPRECIATION	(5,209,538)	0	(5,209,538)
ACQUISITION ADJUSTMENT	0	0	0
ACCUM. AMORT. OF ACQUISITION ADJUSTMENT	0	0	0
CIAC	(10,268,154)	0	(10,268,154)
ACCUMULATED AMORTIZATION OF CIAC	4,192,648	0	4,192,648
AVERAGE UNAMORTIZED RATE CASE EXPENSE	0	0	0
ADVANCES FOR CONSTRUCTION	0	0	0
WORKING CAPITAL	200,764	(158,197) D	42,567
OTHER	0	0	0
WATER RATE BASE	\$ 916,098	\$ (157,793)	\$ 758,305

SANLANDO UTILITIES CORPORATION  
 TEST YEAR ENDING DECEMBER 31, 1996  
 SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1 B  
 DOCKET NO. 971186-SU

	BALANCE PER UTILITY <u>1996 ANN.RPT</u>	STAFF ADJUST. <u>TO UTIL. BAL.</u>	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$ 13,540,093	\$ 345 A	\$ 13,540,438
NON-USED AND USEFUL PLANT	0	0	0
ACCUMULATED DEPRECIATION	(6,601,807)	0	(6,601,807)
ACQUISITION ADJUSTMENT	0	0	0
ACCUM. AMORT. OF ACQUISITION ADJUSTMENT	0	0	0
CIAC	(10,334,989)	0	(10,334,989)
ACCUMULATED AMORTIZATION OF CIAC	5,247,478	0	5,247,478
AVERAGE UNAMORTIZED RATE CASE EXPENSE	0	0	0
ADVANCES FOR CONSTRUCTION	0	0	0
WORKING CAPITAL	269,738	(171,207) D	98,531
OTHER	<u>0</u>	<u>0</u>	<u>0</u>
WASTEWATER RATE BASE	\$ 2,120,513	\$ (170,862)	\$ <span style="border: 1px solid black; padding: 2px;">1,949,651</span>

SANLANDO UTILITIES CORPORATION  
 PROJECTED TEST PERIOD  
 SCHEDULE OF REUSE RATE BASE

SCHEDULE NO. 1 C  
 DOCKET NO. 971186-SU

	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$ 2,255,611	\$ (172,764) A	\$ 2,082,847
NON-USED AND USEFUL PLANT	0	0	0
ACCUMULATED DEPRECIATION	(76,226)	31,877 B	(44,349)
ACQUISITION ADJUSTMENT	0	0	0
ACCUM. AMORT. OF ACQUISITION ADJUSTMENT	0	0	0
CIAC	0	0	0
ACCUMULATED AMORTIZATION OF CIAC	0	0	0
AVERAGE UNAMORTIZED RATE CASE EXPENSE	20,000	(20,000) C	0
ADVANCES FOR CONSTRUCTION	0	0	0
WORKING CAPITAL	12,251	(12,251) D	0
OTHER	0	0	0
REUSE RATE BASE	\$ 2,211,636	\$ (173,138)	\$ 2,038,498

SANLANDO UTILITIES CORPORATION  
 WATER AND WASTEWATER TEST YEAR ENDING DECEMBER 31, 1996  
 PROJECTED REUSE TEST PERIOD  
 ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1 D  
 DOCKET NO. 971186-SU

	<u>WATER</u>	<u>WASTEWATER</u>	<u>REUSE</u>
<b>A. <u>UTILITY PLANT IN SERVICE</u></b>			
1. To remove capitalized AFUDC on reuse plant.	\$ 0	\$ 0	\$ (93,728)
2. To remove allocation of existing plant.	0	0	(79,036)
3. To reflect land adjustment from Order 23809.	404	345	0
	<u>\$ 404</u>	<u>\$ 345</u>	<u>\$ (172,764)</u>
<b>B. <u>ACCUMULATED DEPRECIATION</u></b>			
1. To remove allocation of existing accum. depr.	\$ 0	\$ 0	\$ 27,891
2. To adjust depr. to engr. recommended accts and rates.	0	0	1,753
3. To remove accum. depr. which included AFUDC.	0	0	2,233
	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 31,877</u>
<b>C. <u>AVERAGE UNAMORTIZED RATE CASE EXPENSE</u></b>			
1. To remove unamortized rate case expense.	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (20,000)</u>
<b>D. <u>WORKING CAPITAL ALLOWANCE</u></b>			
1. To reflect staff calculated working capital allowance.	<u>\$ (158,197)</u>	<u>\$ (171,207)</u>	<u>\$ (12,251)</u>

SANLANDO UTILITIES CORPORATION  
 PROJECTED TEST PERIOD  
 SCHEDULE OF PROJECTED REUSE CAPITAL STRUCTURE

SCHEDULE NO. 2  
 DOCKET NO. 971186-SU

	PER UTILITY FILING	SPECIFIC ADJUSTMENTS	PRO-RATA ADJUSTMENTS	ADJUSTED BALANCE	RATIO	COST RATE	WEIGHTED COST
COMMON EQUITY	\$ 0	\$ 0	\$ 0	\$ 0	0.00%	10.46%	0.00%
NOTES PAYABLE	0	0	0	0	0.00%	0.00%	0.00%
DEBT - EXISTING	0	0	0	0	0.00%	0.00%	0.00%
DEBT - NEW	2,176,575	(93,728)	(44,349)	2,038,498	100.00%	9.00%	9.00%
CUSTOMER DEPOSITS	0	0	0	0	0.00%	6.00%	0.00%
<b>TOTAL</b>	<b>\$ 2,176,575</b>	<b>\$ (93,728)</b>	<b>\$ (44,349)</b>	<b>\$ 2,038,498</b>	<b>100.00%</b>		<b>9.00%</b>

<u>RANGE OF REASONABLENESS</u>	<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY	9.46%	11.46%
OVERALL RATE OF RETURN	9.00%	9.00%

SANLANDO UTILITIES CORPORATION  
 CAPITAL STRUCTURE ON A GOING FORWARD BASIS  
 WATER , WASTEWATER, AND REUSE

SCHEDULE NO. 2 A  
 DOCKET NO. 971186-SU

	PER UTILITY FILING	SPECIFIC ADJUSTMENTS	PRO-RATA ADJUSTMENTS	ADJUSTED BALANCE	RATIO	COST RATE	WEIGHTED COST
COMMON EQUITY	\$ 0	\$ 426,094	\$ (21,752)	\$ 404,342	8.52%	10.46%	0.89%
DEBT (EXISTING)	2,102,484	0	(107,330)	1,995,154	42.03%	8.40%	3.53%
DEBT (NEW)	2,176,575	(93,728)	(106,327)	1,976,520	41.64%	9.00%	3.75%
NOTES PAYABLE	0	213,078	(10,877)	202,201	4.26%	10.48%	0.45%
CUSTOMER DEPOSITS	0	177,287	(9,050)	168,237	3.54%	6.00%	0.21%
<b>TOTAL</b>	<b>\$ 4,279,059</b>	<b>\$ 722,731</b>	<b>\$ (255,336)</b>	<b>\$ 4,746,454</b>	<b>100.00%</b>		<b>8.83%</b>

<u>RANGE OF REASONABLENESS</u>	<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY	9.46%	11.46%
OVERALL RATE OF RETURN	8.74%	8.91%

SANLANDO UTILITIES CORPORATION  
 TEST YEAR ENDING DECEMBER 31, 1996  
 SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3 A  
 DOCKET NO. 971186-SU

	BALANCE PER UTILITY 1996 ANN.RPT	STAFF ADJ. TO UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE/ (DECREASE)	TOTAL PER STAFF
OPERATING REVENUES	\$ 2,021,561	\$ 0	\$ 2,021,561	\$ (219,142) E -10.84%	\$ 1,802,419
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	1,606,108	(119,121) A	1,486,987	0	1,486,987
DEPRECIATION (NET)	71,184	0 B	71,184	0	71,184
AMORTIZATION (OTHER)	0	0	0	0	0
TAXES OTHER THAN INCOME	194,124	(11,041) C	183,083	(9,861) F	173,222
INCOME TAXES	36,779	46,050 D	82,829	(78,752) G	4,077
TOTAL OPERATING EXPENSES	\$ 1,908,195	\$ (84,112)	\$ 1,824,083	\$ (88,614)	\$ 1,735,469
OPERATING INCOME/(LOSS)	\$ 113,366		\$ 197,478		\$ 66,950
WATER RATE BASE	\$ 916,098		\$ 758,305		\$ 758,305
RATE OF RETURN	12.37%		26.04%		8.83%

SANLANDO UTILITIES CORPORATION  
 TEST YEAR ENDING DECEMBER 31, 1996  
 SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3 B  
 DOCKET NO. 971186-SU

	BALANCE PER UTILITY 1996 ANN.RPT	STAFF ADJ. TO UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE/ (DECREASE)	TOTAL PER STAFF
OPERATING REVENUES	\$ 2,855,217	\$ 0	\$ 2,855,217	\$ (301,883) E -10.57%	\$ 2,553,334
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	2,157,902	(152,173) A	2,005,729	0	2,005,729
DEPRECIATION	160,436	0 B	160,436	0	160,436
AMORTIZATION	0	0	0	0	0
TAXES OTHER THAN INCOME	227,931	(9,791) C	218,140	(13,585) F	204,555
INCOME TAXES	56,644	62,324 D	118,968	(108,487) G	10,482
TOTAL OPERATING EXPENSES	\$ 2,602,913	\$ (99,640)	\$ 2,503,273	\$ (122,071)	\$ 2,381,202
OPERATING INCOME/(LOSS)	\$ 252,304		\$ 351,944		\$ 172,132
WASTEWATER RATE BASE	\$ 2,120,513		\$ 1,949,651		\$ 1,949,651
OVERALL RATE OF RETURN	11.90%		18.05%		8.83%

SANLANDO UTILITIES CORPORATION  
 PROJECTED TEST PERIOD  
 SCHEDULE OF REUSE OPERATING INCOME

SCHEDULE NO. 3 C  
 DOCKET NO. 971186-SU

	<u>PER UTILITY FILING</u>	<u>STAFF ADJ. TO UTILITY</u>	<u>STAFF ADJUSTED TEST YEAR</u>	<u>ADJUST. FOR INCREASE</u>	<u>TOTAL PER STAFF</u>
OPERATING REVENUES	\$ 0	\$ 0	\$ 0	\$ 396,134 E	\$ 396,134
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	113,761	(14,232) A	98,370	0	98,370
DEPRECIATION	111,799	(23,099) B	88,700	0	88,700
AMORTIZATION	0	0	0	0	0
TAXES OTHER THAN INCOME	40,649	(32,876) C	7,773	17,826 F	25,599
INCOME TAXES	<u>35,964</u>	<u>(35,964) D</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	\$ <u>302,173</u>	\$ <u>(107,330)</u>	\$ <u>194,843</u>	\$ <u>17,826</u>	\$ <u>212,669</u>
OPERATING INCOME/(LOSS)	\$ <u>(302,173)</u>		\$ <u>(194,843)</u>		\$ <u>183,465</u>
REUSE RATE BASE	\$ <u>2,211,636</u>		\$ <u>2,038,498</u>		\$ <u>2,038,498</u>
RATE OF RETURN	<u>0.00%</u>		<u>-9.56%</u>		<u>9.00%</u>

SANLANDO UTILITIES CORPORATION  
WATER AND WASTEWATER TEST YEAR ENDING DECEMBER 31, 1996  
PROJECTED REUSE TEST PERIOD  
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3 D  
PAGE 1 OF 2  
DOCKET NO. 971186-SU

	WATER	WASTEWATER	REUSE
<b>A. OPERATION AND MAINTENANCE EXPENSES</b>			
1. Salaries and Wages - Employees			
a. To remove allocation of existing expenses.	\$ 0	\$ 0	\$ (2,010)
2. Salaries and Wages - Officers			
a. To remove allocation of existing expenses.	\$ 0	\$ 0	\$ (3,236)
3. Employee Pensions and Benefits			
a. To remove non-utility related expenses.	\$ (3,822)	\$ (4,957)	\$ 0
b. To remove allocation of existing expenses.	0	0	(409)
	<u>\$ (3,822)</u>	<u>\$ (4,957)</u>	<u>\$ (409)</u>
4. Purchased Power			
a. To remove allocation of existing expenses.	\$ 0	\$ 0	\$ (170)
6. Contractual Services - Engineering			
a. To amortize Cove Lake feasibility study over 5 years.	\$ 0	\$ (22,476)	\$ 0
7. Contractual Services - Accounting			
a. To remove allocation of existing expenses.	\$ 0	\$ 0	\$ (147)
8. Contractual Services - Legal			
a. To remove allocation of existing expenses.	\$ 0	\$ 0	\$ (963)
b. To remove plaintiff's legal exp. in discrimination lawsuit.	(3,710)	(3,290)	0
c. To remove utility legal exp. for employee discrimination lawsuit.	(4,793)	(4,251)	0
d. To remove non-utility legal expenses.	(9,118)	(8,086)	0
	<u>\$ (17,621)</u>	<u>\$ (15,627)</u>	<u>\$ (963)</u>
9. Contractual Services - Mgt. Fees			
a. To reduce directors fees to staff recommended level.	\$ (54,224)	\$ (50,776)	\$ 0
b. To reduce Greater Construction consulting fees.	(28,037)	(24,863)	0
c. To remove allocation of existing expenses.	0	0	(2,550)
	<u>\$ (82,261)</u>	<u>\$ (75,639)</u>	<u>\$ (2,550)</u>
10. Contractual Services-Other			
a. To remove non-recurring Cove Lake contract payment.	\$ 0	\$ (20,000)	\$ 0
b. To remove non-recurring consulting costs.	(2,943)	(2,507)	0
c. To remove allocation of existing expenses.	0	0	(178)
d. To reclassify to reuse rate case expense.	(2,831)	(2,510)	0
	<u>\$ (5,774)</u>	<u>\$ (25,017)</u>	<u>\$ (178)</u>
11. Rental of Building/Real Property			
a. To remove allocation of existing expenses.	\$ 0	\$ 0	\$ (2,031)
12. Equipment Rental			
a. To remove allocation of existing expenses.	\$ 0	\$ 0	\$ (1)
13. Transportation Expense			
a. To remove allocation of existing expenses.	\$ 0	\$ 0	\$ (71)
14. Insurance Expense - Vehicle			
a. To remove allocation of existing expenses.	\$ 0	\$ 0	\$ (356)
15. Insurance Expense - General Liability			
a. To remove allocation of existing expenses.	\$ 0	\$ 0	\$ (973)
16. Insurance Expense - Worker's Compensation			
a. To remove allocation of existing expenses.	\$ 0	\$ 0	\$ (684)
17. Regulatory Commission Expense			
a. To reclassify rate case expense & amortize over 4 yrs.	\$ 0	\$ 0	\$ 1,335
b. To reduce consultant hourly rate to an acceptable level.	0	0	(1,159)
	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 176</u>
18. Miscellaneous Expenses			
a. To remove non-recurring sex discrimination settlement.	\$ (6,890)	\$ (6,110)	\$ 0
b. To remove charitable contributions.	(2,753)	(2,347)	0
c. To remove allocation of existing expenses.	0	0	(1,788)
	<u>\$ (9,643)</u>	<u>\$ (8,457)</u>	<u>\$ (1,788)</u>
<b>TOTAL O &amp; M ADJUSTMENTS</b>	<u>\$ (119,121)</u>	<u>\$ (152,173)</u>	<u>\$ (14,232)</u>

SANLANDO UTILITIES CORPORATION  
 WATER AND WASTEWATER TEST YEAR ENDING DECEMBER 31, 1996  
 PROJECTED REUSE TEST PERIOD  
 ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3 D  
 PAGE 2 OF 2  
 DOCKET NO. 971186-SU

**B. DEPRECIATION EXPENSE**

1. To remove allocated depreciation of existing plant.	\$ 0	\$ 0	\$ (15,129)
2. To remove depreciation on AFUDC portion of plant.	0	0	(4,461)
3. To adjust depreciation expense to staff recommended balance.	0	0	(3,509)
	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (23,099)</u>

**C. TAXES OTHER THAN INCOME**

1. To remove allocation of existing expenses from payroll taxes.	\$ 0	\$ 0	\$ (164)
2. To adjust payroll taxes to updated O & M amount.	0	0	395
3. To remove allocation of existing expenses from property taxes.	0	0	337
4. To remove property taxes on capitalized AFUDC.	0	0	(322)
5. To remove I.R.S. penalties.	(164)	(146)	0
6. To remove out of period 1992 IRS tax settlement.	(10,877)	(9,645)	0
7. To remove allocation of existing expenses from other taxes and licenses.	0	0	(10,649)
8. To remove utility calculated regulatory assessment fees.	0	0	(22,473)
	<u>\$ (11,041)</u>	<u>\$ (9,791)</u>	<u>\$ (32,876)</u>

**D. INCOME TAXES**

1. To adjust for test year income taxes.	\$ 46,050	\$ 62,324	\$ (35,964)
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**E. OPERATING REVENUES**

1. To reflect staff's recommended increase in revenue.	\$ (219,142)	\$ (301,883)	\$ 396,134
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**F. TAXES OTHER THAN INCOME**

1. To reflect regulatory assessment fee associated with recommended revenue requirement.	\$ (9,861)	\$ (13,585)	\$ 17,826
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**G. INCOME TAXES**

1. To adjust for recommended revenue requirement.	\$ (78,752)	\$ (108,487)	\$ 0
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SANLANDO UTILITIES CORPORATION  
 TEST YEAR ENDING DECEMBER 31, 1996  
 ANALYSIS OF WATER OPERATION AND  
 MAINTENANCE EXPENSE

SCHEDULE NO. 3 E  
 DOCKET NO. 971186-SU

	BALANCE PER UTILITY 1996 ANN.RPT	STAFF ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$ 454,024	\$ 0	\$ 454,024
(603) SALARIES AND WAGES - OFFICERS	98,673	0	98,673
(604) EMPLOYEE PENSIONS AND BENEFITS	93,244	(3,822)	89,422
(610) PURCHASED WATER	23,855	0	23,855
(615) PURCHASED POWER	356,595	0	356,595
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	47,918	0	47,918
(620) MATERIALS AND SUPPLIES	49,964	0	49,964
(631) CONTRACTUAL SERVICES-ENG.	24,981	0	24,981
(632) CONTRACTUAL SERVICES-ACCT.	4,483	0	4,483
(633) CONTRACTUAL SERVICES-LEGAL	35,873	(17,621)	18,252
(634) CONTRACTUAL SERVICES-MGT FEES	121,978	(82,261)	39,717
(635) CONTRACTUAL SERVICES-OTHER	12,644	(5,774)	6,870
(641) RENTAL OF BUILDING/REAL PROPERTY	61,822	0	61,822
(642) RENTAL OF EQUIPMENT	686	0	686
(650) TRANSPORTATION EXPENSES	27,997	0	27,997
(656) INSURANCE-VEHICLE	6,622	0	6,622
(657) INSURANCE-GENERAL LIABILITY	18,100	0	18,100
(658) INSURANCE-WORKER'S COMPENSATION	23,003	0	23,003
(659) INSURANCE-OTHER	0	0	0
(660) ADVERTISING EXPENSE	0	0	0
(666) REGULATORY COMMISSION EXPENSE	0	0	0
- AMORTIZATION OF RATE CASE EXPENSE	0	0	0
(667) REGULATORY COMMISSION EXPENSE OTHER	0	0	0
(670) BAD DEBT EXPENSE	1,523	0	1,523
(675) MISCELLANEOUS EXPENSES	142,023	(8,643)	132,380
	\$ 1,606,108	\$ (119,121)	\$ 1,486,987

SANLANDO UTILITIES CORPORATION  
 TEST YEAR ENDING DECEMBER 31, 1996  
 ANALYSIS OF WASTEWATER OPERATION AND  
 MAINTENANCE EXPENSE

SCHEDULE NO. 3 F  
 DOCKET NO. 971186-SU

	BALANCE PER UTILITY 1996 ANN.RPT	STAFF ADJUST.	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$ 567,925	\$ 0	\$ 567,925
(703) SALARIES AND WAGES - OFFICERS	139,364	0	139,364
(704) EMPLOYEE PENSIONS AND BENEFITS	115,697	(4,957)	110,740
(710) PURCHASED SEWER TREATMENT	149,289	0	149,289
(711) SLUDGE REMOVAL EXPENSE	109,796	0	109,796
(715) PURCHASED POWER	230,437	0	230,437
(716) FUEL FOR POWER PURCHASED	0	0	0
(718) CHEMICALS	119,970	0	119,970
(720) MATERIALS AND SUPPLIES	49,139	0	49,139
(731) CONTRACTUAL SERVICES-ENG.	58,981	(22,476)	36,505
(732) CONTRACTUAL SERVICES-ACCT.	6,332	0	6,332
(733) CONTRACTUAL SERVICES-LEGAL	41,485	(15,827)	25,658
(734) CONTRACTUAL SERVICES-MGT. FEES	109,799	(75,639)	34,160
(735) CONTRACTUAL SERVICES-OTHER	38,125	(25,017)	13,108
(741) RENTAL OF BUILDING/REAL PROPERTY	87,458	0	87,458
(742) RENTAL OF EQUIPMENT	364	0	364
(750) TRANSPORTATION EXPENSES	29,966	0	29,966
(756) INSURANCE-VEHICLE	15,328	0	15,328
(757) INSURANCE-GENERAL LIABILITY	41,896	0	41,896
(758) INSURANCE-WORKER'S COMPENSATION	29,436	0	29,436
(759) INSURANCE-OTHER	0	0	0
(760) ADVERTISING EXPENSE	0	0	0
(766) REGULATORY COMMISSION EXPENSE	0	0	0
- AMORTIZATION OF RATE CASE EXPENSE	0	0	0
(767) REGULATORY COMMISSION EXPENSE-OTHER	0	0	0
(770) BAD DEBT EXPENSE	2,151	0	2,151
(775) MISCELLANEOUS EXPENSES	214,964	(8,457)	206,507
	\$ 2,157,902	\$ (152,173)	\$ 2,005,729

SANLANDO UTILITIES CORPORATION  
 PROJECTED TEST PERIOD  
 ANALYSIS OF REUSE OPERATION AND  
 MAINTENANCE EXPENSE

SCHEDULE NO. 3 G  
 DOCKET NO. 971186-SU

	BALANCE PER FILING	UTILITY ADJUST.	TEST YEAR PER UTILITY	STAFF ADJUST.	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$ 25,025	\$ 4,844	\$ 29,869	\$ (2,010)	\$ 27,859
(703) SALARIES AND WAGES - OFFICERS	3,236	0	3,236	(3,236)	0
(704) EMPLOYEE PENSIONS AND BENEFITS	5,098	986	6,084	(409)	5,675
(710) PURCHASED SEWER TREATMENT	0	0	0	0	0
(711) SLUDGE REMOVAL EXPENSE	0	0	0	0	0
(715) PURCHASED POWER	31,104	5,824	36,728	(170)	36,558
(716) FUEL FOR POWER PURCHASED	0	0	0	0	0
(718) CHEMICALS	3,413	620	4,033	0	4,033
(720) MATERIALS AND SUPPLIES	3,545	692	4,237	0	4,237
(731) CONTRACTUAL SERVICES-ENG.	977	179	1,156	0	1,156
(732) CONTRACTUAL SERVICES-ACCT.	147	0	147	(147)	0
(733) CONTRACTUAL SERVICES-LEGAL	983	0	983	(983)	0
(734) CONTRACTUAL SERVICES-MGT. FEES	2,550	0	2,550	(2,550)	0
(735) CONTRACTUAL SERVICES-OTHER	4,167	892	5,059	(178)	4,881
(741) RENTAL OF BUILDING/REAL PROPERTY	2,031	0	2,031	(2,031)	0
(742) RENTAL OF EQUIPMENT	47	8	55	(1)	54
(750) TRANSPORTATION EXPENSES	1,285	221	1,506	(71)	1,435
(756) INSURANCE-VEHICLE	356	0	356	(356)	0
(757) INSURANCE-GENERAL LIABILITY	973	0	973	(973)	0
(758) INSURANCE-WORKER'S COMPENSATION	684	0	684	(684)	0
(759) INSURANCE-OTHER	0	0	0	0	0
(760) ADVERTISING EXPENSE	0	0	0	0	0
(766) REGULATORY COMMISSION EXPENSE					0
AMORTIZATION OF RATE CASE EXPENSE	10,000	1,571	11,571	176	11,747
(767) REGULATORY COMMISSION EXPENSE-OTHER	0	0	0	0	0
(770) BAD DEBT EXPENSE	0	0	0	0	0
(775) MISCELLANEOUS EXPENSES	2,409	114	2,523	(1,788)	735
	\$ 98,010	\$ 15,751	\$ 113,761	\$ (15,391)	\$ 98,370

**RECOMMENDED RATE REDUCTION SCHEDULE**

SANLANDO UTILITIES CORPORATION  
 TEST YEAR ENDING DECEMBER 31, 1996

SCHEDULE NO. 4  
 DOCKET NO. 971186-SU

**CALCULATION OF RATE REDUCTION AMOUNT  
 AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS**

**MONTHLY WATER RATES**

<u>RESIDENTIAL, MUTI RESIDENTIAL, GENERAL, AND BULK SERVICE</u>	<u>MONTHLY RATES</u>	<u>MONTHLY RATE REDUCTION</u>
<b>BASE FACILITY CHARGE:</b>		
<b>Meter Size:</b>		
5/8" x 3/4"	\$ 4.36	\$ 0.02
3/4"	6.53	0.02
1"	10.87	0.04
1-1/2"	21.77	0.08
2"	34.81	0.13
3"	69.63	0.26
4"	108.82	0.41
6"	217.64	0.81
8"	391.26	1.46
 <b>GALLONAGE CHARGE PER 1,000 GALLONS</b>	 \$ 0.386	 \$ 0.00
 <b>PRIVATE FIRE PROTECTION SERVICE</b>		
<b>Line Size</b>		
1-1/2"	\$ 86.96	\$ 0.33
2"	139.15	0.52
3"	278.27	1.04
4"	434.80	1.63
6"	869.61	3.25
8"	\$ 1,391.41	\$ 5.21

RECOMMENDED RATE REDUCTION SCHEDULE

SANLANDO UTILITIES CORPORATION  
 TEST YEAR ENDING DECEMBER 31, 1996

SCHEDULE NO. 4A  
 DOCKET NO. 971186-SU

CALCULATION OF RATE REDUCTION AMOUNT  
AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS

MONTHLY WASTEWATER RATES

	<u>MONTHLY RATES</u>	<u>MONTHLY RATE REDUCTION</u>
<u>RESIDENTIAL</u>		
BASE FACILITY CHARGE:		
Meter Size:		
All Sizes	\$ 10.30	\$ 0.02
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS (Maximum 10,000 gallons)	\$ 1.359	\$ 0.00
<u>MULTI-RESIDENTIAL</u>		
BASE FACILITY CHARGE:		
Meter Size:		
5/8" x 3/4"	\$ 10.30	\$ 0.02
3/4"	15.45	0.03
1"	25.75	0.06
1-1/2"	51.51	0.11
2"	82.41	0.18
3"	164.81	0.36
4"	257.52	0.56
6"	515.05	1.12
8"	824.07	1.79
MULTI-RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS (NO MAXIMUM)	\$ 1.643	\$ 0.00
<u>BULK SALES</u>		
BASE FACILITY CHARGE:		
Meter Size:		
6"	\$ 515.05	\$ 1.12
8"	\$ 824.07	\$ 1.79
BULK SALES GALLONAGE CHARGE PER 1,000 GALLONS	\$ 1.703	\$ 0.00
<u>FLAT RATE SERVICE</u>		
BASE FACILITY CHARGE:		
Meter Size:		
Residential Single Family	\$ 21.81	\$ 0.05
Multiple Dwelling Unit	\$ 21.81	\$ 0.05
General Service, Per ERC	\$ 21.81	\$ 0.05