

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for transfer  
of Certificates Nos. 592-W and  
509-S from Cypress Lakes  
Associates, Ltd. to Cypress  
Lakes Utilities, Inc. in Polk  
County.

DOCKET NO. 971220-WS  
ORDER NO. PSC-00-0264-FOF-WS  
ISSUED: February 8, 2000

The following Commissioners participated in the disposition of  
this matter:

J. TERRY DEASON  
SUSAN F. CLARK  
E. LEON JACOBS, JR.

FINAL ORDER ESTABLISHING RATE BASE FOR  
PURPOSES OF THE TRANSFER, DECLINING TO INCLUDE  
A NEGATIVE ACQUISITION ADJUSTMENT IN THE  
CALCULATION OF RATE BASE AND CLOSING DOCKET

APPEARANCES:

Ben Girtman, Esquire, 1020 East Lafayette Street #207,  
Tallahassee, Florida 32301-4552  
On behalf of Cypress Lakes Utilities, Inc.

Harold McLean, Esquire, Office of Public Counsel, c/o The  
Florida Legislature, 111 West Madison Street, Suite 812,  
Tallahassee, Florida 32399-1400  
On behalf of the Citizens of Florida.

Jennifer S. Brubaker and Stephanie A. Crossman, Esquires,  
Florida Public Service Commission, 2540 Shumard Oak  
Boulevard, Tallahassee, Florida, 32399-0850  
On behalf of the Commission Staff.

BY THE COMMISSION:

BACKGROUND

On September 19, 1997, Cypress Lakes Associates, Ltd. (CLA)  
filed an application for approval of the transfer of Certificates  
Nos. 592-W and 509-S to Cypress Lakes Utilities, Inc. (CLU or  
utility) pursuant to Section 367.071, Florida Statutes. CLU is a

DOCUMENT NUMBER-DATE

01711 FEB-88

FPSC-RECORDS/REPORTING

ORDER NO. PSC-00-0264-FOF-WS  
DOCKET NO. 971220-WS  
PAGE 2

wholly-owned subsidiary of Utilities, Inc. By Order No. PSC-98-0993-FOF-WS, issued July 20, 1998, the transfer was approved by

final agency action and rate base was established for purposes of the transfer as proposed agency action. On August 10, 1998, the Office of Public Counsel (OPC) filed a timely Petition for Section 120.57(1) Hearing and Protest of Proposed Agency Action. Accordingly, an administrative hearing for this docket was scheduled for October 20, 1999.

On August 21, 1998, CLU filed a Motion to Dismiss or Strike OPC's Petition for Section 120.57(1) Hearing and Protest of Proposed Agency Action. On August 27, 1998, OPC filed its response. By Order No. PSC-98-1566-FOF-WS, issued November 23, 1998, we denied the utility's Motion to Dismiss.

On July 12, 1999, the utility filed a second Motion to Dismiss OPC's Protest and Petition for Section 120.57(1) Hearing. On July 16, 1999, OPC timely filed its response.

On July 19, 1999, CLU filed Utility's Motion to Strike the Office of Public Counsel's Direct Testimony of Hugh Larkin, Jr. On July 26, 1999, OPC filed its response to Utility's July 19th Motion to Strike or in the Alternative Citizens' Motion to Strike Utility's Testimony. On July 30, 1999, CLU filed its response, as well as the Utility's Third Motion to Dismiss the Office of Public Counsel's Protest and Petition for Section 120.57(1) Hearing Based on Lack of Case or Controversy. On August 3, 1999, OPC filed its response.

By Order No. PSC-99-1809-PCO-WS, issued September 20, 1999, we denied the Utility's Second and Third Motions to Dismiss, denied the Utility's Motion to Strike Testimony, and denied OPC's Motion to Strike Testimony.

As a result of discussions held at the September 23, 1999 issue identification conference and October 4, 1999 Prehearing Conference, the parties stipulated that the testimony and exhibits filed to date could serve as the evidence, with all cross-examination waived by all parties and staff. Therefore, by Order No. PSC-99-2143-PHO-WS, the case was set to proceed under Section 120.57(2), Florida Statutes. The Order further required that the parties file briefs by November 3, 1999. Accordingly, the hearing

which had been scheduled for October 20, 1999, pursuant to Section 120.57(1), Florida Statutes, was canceled.

On November 3, 1999, the utility timely filed its post-hearing statement along with a motion requesting to exceed the page limitation by 37 pages. On November 4, 1999, OPC filed its post-hearing statement, along with a Motion to Accept Late Post-Hearing Statement and response to the utility's September 13, 1999, motion to exceed page limitation. By Order No. PSC-99-2232-PCO-WS, issued November 10, 1999, the Prehearing Officer granted both OPC's motion to late-file its post-hearing statement and the utility's motion to extend the post-hearing statement page limit.

Having considered the parties' written submittals and having reviewed the recommendation of the Commission staff, we now enter our findings and conclusions, as set forth below.

#### ACQUISITION ADJUSTMENT

##### Burden of Proof

In its brief, CLU argues that the burden of proving whether an acquisition adjustment should be included in the rate base was discussed in the recent Wedgefield decision, in Order No. PSC-98-1092-FOF-WS. In that Order, we stated that:

We find that in the instant case, as in rate proceedings, the ultimate burden of proof rests upon the utility. As stated previously, the utility always has the ultimate burden of proof with regard to its rates. Because the imposition of an acquisition adjustment will eventually affect the utility's rates, we find that the utility must carry the ultimate burden of proof as to why an acquisition adjustment should or should not be included in the rate base determination. As discussed in greater detail below, we find that a showing of extraordinary circumstances must be made to warrant a rate base inclusion of an acquisition adjustment. Once the utility makes an initial showing that there are no extraordinary circumstances, the burden of persuasion shifts to the opposing party to demonstrate that extraordinary circumstances are present. If the opposing party meets the burden of persuasion, the ultimate burden of

rebutting the opposing party's allegations rests upon the utility.

CLU states in its brief that the utility has met its burden, and OPC has not shown, or even alleged, that extraordinary circumstances exist in this case. Again citing to Order No. PSC-98-1092-FOF-WS, CLU argues that "because OPC did not carry its burden of persuasion and there was no subsequent shift in the burden of proof, it was not required . . . that the utility rebut OPC's allegations and carry the ultimate burden of proof."

OPC did not address this issue substantively in its brief, and stated in its post-hearing statement that it had no position on the issue.

We find that in the instant case, as in rate proceedings, the ultimate burden of proof rests upon the utility. As stated previously, the utility always has the ultimate burden of proof with regard to its rates. Because the imposition of an acquisition adjustment will eventually affect the utility's rates, we believe that the utility must carry the ultimate burden of proof as to why an acquisition adjustment should or should not be included in the rate base determination. As discussed in greater detail below, a showing of extraordinary circumstances must be made to warrant a rate base inclusion of an acquisition adjustment. Once the utility makes an initial showing that there are no extraordinary circumstances, the burden of persuasion shifts to the opposing party to demonstrate that extraordinary circumstances are present. If the opposing party meets the burden of persuasion, the ultimate burden of rebutting the opposing party's allegations rests upon the utility. Our findings herein are consistent with our decision in Order No. PSC-98-1092-FOF-WS.

#### Extraordinary Circumstances

In its brief, the utility argues that our practice regarding acquisition adjustments has been in effect at least since 1983, and provides that absent extraordinary circumstances, the purchase of a utility system at a premium or discount shall not affect rate base. CLU further contends that all of the arguments set forth by OPC with respect to this issue have been heard and rejected in a prior Commission cases.

In its brief, OPC argues that because the Commission does not have a rule regarding acquisition adjustments, we cannot have in place a policy which requires a showing of extraordinary circumstances in order to warrant the recognition of an acquisition adjustment. If we had such a policy, OPC argues that extant case law requires that the policy be supported by expert testimony, documentary opinion, or other evidence which justifies the policy's application to the facts of this case.

In our opinion, the argument as to whether the issue of extraordinary circumstances constitutes non-rule policy or should be subject to rulemaking expands beyond the scope of the issues properly before the Commission in this case. We agree with CLU's contention that the current Commission practice regarding acquisition adjustments is that, absent extraordinary circumstances, the purchase of a utility system at a premium or discount shall not affect rate base. Although what constitutes extraordinary circumstances must be determined on a case-by-case basis, extraordinary circumstances must be shown to warrant rate base inclusion of an acquisition adjustment. This is consistent with the investigation conducted as to the acquisition adjustment policy in Docket No. 891309-WS, and subsequent Commission Orders in which acquisition adjustments were at issue. See Order No. 20707, issued February 6, 1989, in Docket No. 880907-WU; Order No. 23970, issued January 1, 1991, in Docket No. 900408-WS; Order No. 25584, issued January 8, 1992, in Docket No. 910672-WS; Order No. PSC-95-0268-FOF-WS, issued February 28, 1995, in Docket No. 940091-WS; Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS; and Order No. PSC-98-1092-FOF-WS, issued August 12, 1998, in Dockets Nos. 960235-WS and 960283-WS.

We note for informational purposes that the acquisition adjustment issue has been part of an on-going Commission staff project on viability and capacity development in the water and wastewater industry. A noticed rule development workshop was held on December 2, 1999, which was attended by representatives from OPC and the utility industry. Written comments generated from the workshop were filed with the Commission on January 18, 2000.

We find that the arguments made by OPC have been made and rejected in prior cases. We also find that, consistent with previous Commission decisions, extraordinary circumstances must be shown in order to warrant rate base inclusion of an acquisition

adjustment. We believe that to do otherwise would constitute a change in policy which is unsupported by the record.

CLU contends that rate base inclusion of an acquisition adjustment is not appropriate since there are no extraordinary circumstances in this case. CLU witness Wenz stated in his prefiled testimony that the purchase price paid for the utility was lower than the book value, but that there was nothing extraordinary about the utility or the circumstances leading up to the purchase. Witness Wenz further testified that the Commission recently held hearings to determine whether to include a negative acquisition adjustment in rate base with regard to the purchase of Econ Utilities Corporation by Wedgefield Utilities, Inc., a subsidiary of Utilities, Inc., and that there are no circumstances surrounding the purchase of Cypress Lakes that were not addressed by the Commission in the Wedgefield Utilities case (Order No. PSC-98-1092-FOF-WS, issued August 12, 1998, in Dockets Nos. 960235-WS and 960283-WS), in which it was the decision of the Commission that extraordinary circumstances did not exist, that price differential alone does not constitute an extraordinary circumstance, and that in accordance with past Commission practice a negative acquisition adjustment should not be imposed. The utility further argues that the purchase price paid for the utility was 53.28% of the rate base, an amount above the middle of the range of the ratios of purchase price to rate base paid in other cases decided by the Commission.

OPC did not address this issue substantively in its brief, and stated in its post-hearing statement that it had no position on the issue.

An acquisition adjustment results when the purchase price differs from the seller's net book value. In past cases, we found support for including a positive acquisition adjustment in cases where a larger utility bought a smaller troubled utility, where a purchase price determination was supported by a competitive bid process, and lastly, where inclusion of a positive acquisition adjustment still allowed for lower rates and the promise of improved utility management. See Order No. 23111, issued June 25, 1990, in Docket No. 891110-WS; Order No. PSC-92-0895-FOF-WS, issued August 27, 1992, in Docket No. 920177-WS; and Order No. PSC-93-1819-FOF-WS, issued December 22, 1993 in Docket No. 930204-WS. The

ORDER NO. PSC-00-0264-FOF-WS  
DOCKET NO. 971220-WS  
PAGE 7

above circumstances are not applicable to the transfer in this case.

Regarding negative acquisition adjustments, we have recognized four negative acquisition adjustments since 1988, two of which were based on settlement agreements with OPC, a third based on a finding that a transfer involved a non-arms length/non-taxable transaction between related parties, and lastly, a case involving an adjustment that was used to correct "lost CIAC." See Order No. 22962, issued May 21, 1990, in Docket No. 881500-WS; Order No. PSC-93-0011-FOF-WS, issued January 5, 1993 in Docket No. 920397-WS; Order No. PSC-93-1675-FOF-WS, issued November 18, 1993, in Docket No. 920148-WS; and Order No. PSC-97-0034-FOF-WS, issued January 7, 1997, in Docket No. 960040-WS.

The current case record is devoid of any evidence that these factors are present in this transfer. As discussed below, the record evidence demonstrates that CLA's physical assets were in satisfactory condition, and that while CLA was economically "troubled," it was a functioning utility. We find that the record evidence in the instant case fails to demonstrate that extraordinary circumstances exist.

#### Condition of the Assets

In its application, the utility explains that its representative performed an investigation of the system, and found that the water plant is in satisfactory condition, but that the wastewater plant has capacity problems during peak flow periods. A warning letter was sent to the prior owner by the DEP in January, 1997. This letter pointed out deficiencies relating to reports that had not been filed with the Department of Environmental Protection (DEP), maintenance items that had not been completed, and operational problems. An internal memorandum from the DEP in October 1993 noted potential capacity deficiencies due to commitments against the plant. To resolve these problems, the seller's and buyer's engineers have discussed improvements needed, and a list of those improvements with estimated prices has been compiled and submitted with the application. The estimated cost of these improvements are \$535,000, although no time frame is stated for completion of the items.

The Purchase Agreement details how these improvements are to be made, and essentially states that the seller will make them at the seller's sole cost and expense, giving clear title to the purchaser at no cost or expense to the purchaser. This provision intimates that the plant improvements will be contributions in aid of construction (CIAC) to the purchaser.

Witness Wenz's prefiled testimony states that representatives of Utilities Inc. inspected the water and wastewater systems prior to the purchase. The condition of the system at that time appeared to be satisfactory, and there were no outstanding violations. The status of the proposed improvements referred to in the application were not addressed.

OPC witness Larkin's prefiled testimony states that the assets may have deteriorated at a rate greater than the depreciation rate, and therefore be less valuable than the books have indicated. Further, Mr. Larkin stated that the utility facilities may have deteriorated due to a lack of maintenance, or improper installation in the initial phase. He did not state which reasons, if any, caused the seller to accept less than net book value for the system, nor did he give an opinion on the condition of the assets. OPC did not address this issue substantively in its brief, and stated in its post-hearing statement that it had no position on the issue.

Based upon the evidence in the record, we find that while there were some operating problems and some capacity problems, the solutions had been addressed by the utility's engineers. We therefore find that the physical assets were in satisfactory condition.

#### Consideration as a "Troubled" Utility

Operationally, as discussed above, CLA was not found to be a "troubled" system. CLU argues that CLA was a fiscally "troubled" utility, but unlike the seller, the buyer has the financial ability and capacity to commit funds to the operation of this utility. For the past two years, the period of time that CLA has been under Commission jurisdiction, the utility has incurred cumulative losses of over \$138,000. The losses account for the negative equity position of the utility as of the end of 1998. In addition to the fiscal straits of the utility, the mobile home park has shown



losses for the period 1997-1998 of \$2.3 million dollars. OPC did not address this issue substantively in its brief, and stated in its post-hearing statement that it had no position on the issue.

Based upon the evidence in the record, we conclude that CLA is a functioning utility but was economically "troubled."

#### Negative Acquisition Adjustment

In its brief, CLU argues that because no claim of extraordinary circumstances is raised by any party, that a negative acquisition adjustment should not be included in this case. Neither OPC witness Larkin nor utility witness Wenz made any claim that this case involves extraordinary circumstances. While the record includes argument regarding whether or not an accounting entry should be made to reflect the purchase price differential, we believe the substance of this issue goes to the ratemaking effect of an acquisition adjustment.

OPC witness Larkin also raised issues that this system may have been over built, may have deteriorated at a rate greater than that reflected in booked depreciation, and that improper installation or maintenance of the plant may have caused this plant to be valued at less than book value. However, the record does not support any of these allegations. Witness Wenz testified, and we agree, that these arguments would be more properly addressed in a rate case filing.

OPC did not address this issue substantively in its brief, other than to state its position that the rate base should reflect a negative acquisition adjustment, in accordance with the arguments it made with respect to whether extraordinary circumstances must be demonstrated.

In the absence of extraordinary circumstances, one is left to examine whether a negative acquisition adjustment is warranted in this case, based solely on the fact that the purchase price is lower than the net book value at the date of transfer. However, as noted in Order No. PSC-98-1092-FOF-WS, issued August 12, 1998, we find that the acquisition adjustment issue should not depend upon the magnitude of the price differential alone.

The evidence in the record indicates that the developer is no longer interested in running the utility; that the buyer is interested in committing funds to properly run the utility and has the financial ability to do so; that the purchase will allow the ratepayers to access professional and experienced utility management; that the utility should be able to experience savings as a result of economies of scale; and lastly, that the rate payers should experience a better quality of service as a result of the transfer.

As discussed previously, we have concluded that there has not been a showing of extraordinary circumstances in this case. Therefore, no acquisition adjustment shall be applied. Further, we do not believe that the price differential, alone, constitutes an extraordinary circumstance. Based on the information in the record, we find that rate payers are being placed in a better position through the transfer of this utility. Therefore, in accordance with our practice that an acquisition adjustment will only be applied upon a showing of extraordinary circumstances, a negative acquisition adjustment shall not be imposed in this proceeding. Rather, we believe the incentive provided through our current acquisition adjustment practice should be made available to CLU. For the reasons discussed above, no negative acquisition adjustment shall be included in CLU's rate base balance.

#### NET BOOK VALUE

In its brief, CLU explains that there is no dispute regarding the net book value of the acquired assets, which was \$617,609 for the water system and \$921,439 for the wastewater system. These amounts agree with the amounts which were stated in PAA Order No. PSC-98-0993-FOF-WS. While Commission staff and the utility were in agreement as to these amounts, OPC did not address this issue substantively in its brief, and stated in its post-hearing statement that it had no position on the issue.

We note that these amounts were not protested, and that pursuant to Section 120.80(13)(b), Florida Statutes, they are therefore deemed stipulated. For informational purposes, CLA's water and wastewater rate base schedules from Order No. PSC-98-0993-FOF-WS have been attached to this Order as Attachment A, Schedules 1-4.

Based upon the foregoing, we conclude that the net book values for the acquired water and wastewater systems, at December 31, 1997, were \$617,609 and \$921,439, respectively.

RATE BASE

In its brief, CLU argues that pursuant to Section 367.081, Florida Statutes, the Commission must establish rates using the original cost of the company who dedicated that property to public service. Based on the depreciated net book value at the time of transfer, the utility believes that rate base for transfer should be \$617,609 for water and \$921,439 for wastewater. In its brief, OPC argues that rate base for this utility, at the time of transfer, should reflect a negative acquisition of \$719,048 to account for the difference of the net book value of the utility (\$1,539,048) and the purchase price (\$820,000).

As discussed previously, the rate base values at December 31, 1998, were \$617,609 and \$921,439 for the respective water and wastewater systems, based upon CLA's net plant investment in the facilities. We have also determined that the rate base determination shall not include a negative acquisition adjustment. We believe that CLA's rate base balance should match CLU's net book balance at the transfer date, which is consistent with our existing policy. We therefore approve rate base balances of \$617,609 and \$921,439 for the respective water and wastewater systems. (See Attachment A, Schedule Nos. 1-4)

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the attachment appended to this Order are by reference incorporated herein. It is further

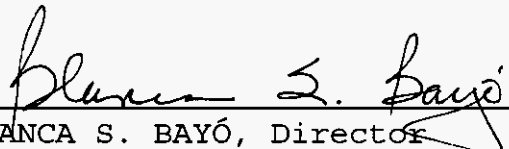
ORDERED that rate base for Cypress Lakes Associates, Ltd., which for transfer purposes reflect the net book value, is \$617,609 for the water system and \$921,439 for the wastewater system. It is further

ORDER NO. PSC-00-0264-FOF-WS  
DOCKET NO. 971220-WS  
PAGE 12

ORDERED that there shall be no rate base inclusion of an acquisition adjustment for the purposes of the transfer. It is further

ORDERED that this docket shall be closed.

By ORDER of the Florida Public Service Commission this 8th Day of February, 2000.

  
\_\_\_\_\_  
BLANCA S. BAYÓ, Director  
Division of Records and Reporting

( S E A L )

JSB

DISSENT

Commissioner J. Terry Deason dissented in the Commission's decision in this docket with respect to whether a negative acquisition adjustment should be included in the rate base determination.

ORDER NO. PSC-00-0264-FOF-WS  
DOCKET NO. 971220-WS  
PAGE 13

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of Records and reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

ATTACHMENT A

SCHEDULE NO. 1

CYPRESS LAKES ASSOCIATES, LTD.

SCHEDULE OF WATER RATE BASE

As of December 31, 1997

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>COMMISSION ADJUSTMENTS</u>	<u>BALANCE PER COMMISSION</u>
Utility Plant in Service	\$1,059,914	(\$151,339)	(1) \$908,757
Land	509	0	509
Plant Held for Future Use	0	0	0
Accumulated Depreciation	(\$189,257)	\$ 3,700	(2) (\$185,557)
Contributions-in- aid-of-Construction	(\$116,719)	0	(\$116,719)
CIAC Amortization	<u>\$ 10,801</u>	<u>0</u>	<u>10,801</u>
TOTAL	<u>\$765,248</u>	<u>\$147,639</u>	<u>\$617,609</u>

ATTACHMENT A

SCHEDULE NO. 2

CYPRESS LAKES UTILITIES, INC. WATER SERVICE

SCHEDULE OF WATER RATE BASE ADJUSTMENTS

<u>EXPLANATION</u>	<u>ADJUSTMENT</u>
Utility Plant in Service	
A. To remove franchise cost which were capitalized	(\$ 30,322)
B. To remove unaudited phase V-1 plant costs	<u>(\$121,017)</u>
TOTAL (1)	<u>(\$151,339)</u>
Accumulated Depreciation	
A. Adjustment related to removal of franchise cost	\$ 2,274
B. Adjustment related to unaudited plant costs	<u>\$ 1,426</u>
TOTAL (2)	<u>\$ 3,700</u>

ATTACHMENT A

SCHEDULE NO. 3

CYPRESS LAKES ASSOCIATES, LTD.

SCHEDULE OF WASTEWATER RATE BASE

As of December 31, 1997

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>COMMISSION ADJUSTMENTS</u>	<u>BALANCE PER COMMISSION</u>
Utility Plant in Service	\$1,728,299	(\$344,430)	(1) \$1,383,869
Land	\$2,610	0	\$2,610
Plant Held for Future Use	\$2,500	0	\$2,500
Accumulated Depreciation	(\$393,401)	\$ 7,438	(2) (\$383,963)
Contributions-in- aid-of-Construction	(\$ 96,929)	0	(\$ 96,929)
CIAC Amortization	<u>\$ 15,352</u>	<u>0</u>	<u>15,382</u>
TOTAL	<u>\$1,258,431</u>	<u>\$336,992</u>	<u>\$921,439</u>



ATTACHMENT A

SCHEDULE NO. 4

CYPRESS LAKES ASSOCIATES WASTEWATER SERVICE

SCHEDULE OF WASTEWATER RATE BASE ADJUSTMENTS

<u>EXPLANATION</u>	<u>ADJUSTMENT</u>
Utility Plant in Service	
A. To remove franchise cost which were capitalized	(\$ 30,322)
B. To remove unaudited phase V-1 plant costs	<u>(\$314,108)</u>
	TOTAL (1) <u>(\$344,430)</u>
Accumulated Depreciation	
A. Adjustment related to removal of franchise cost	\$ 2,274
B. Adjustment related to unaudited plant costs	<u>\$ 5,164</u>
	TOTAL (2) <u>\$ 7,438</u>