BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a Rate Increase in Lee County by Lehigh Utilities, Inc.

DOCKET NO. 911188-WS
ORDER NO. PSC-93-0301-FOF-WS
ISSUED: 02/25/93

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD
SUSAN F. CLARK

APPEARANCES: KENNETH A. HOFFMAN, Esquire, Messer, Vickers, Caparello, Madsen, Lewis, Goldman, & Metz, P.A., 215 South Monroe Street, First Bank Building, Suite 701, Tallahassee, Florida 32301, and BRIAN P. ARMSTRONG, Esquire, Southern States Utilities, Inc., 100 Color Place Apopka, Florida
<u>On behalf of Lehigh Utilities, Inc.</u>

PATRICK K. WIGGINS, Esquire, Wiggins & Villacorta, P.A., 501 East Tennessee Street, Tallahassee, Florida 32302
<u>On behalf of the Lehigh Acres Fire Control and Rescue District</u>

JACK SHREVE, Esquire, and HAROLD McLEAN, Esquire, Office of Public Counsel, The Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1400
<u>On behalf of the Citizens of the State of Florida</u>

CATHERINE BEDELL, Esquire, and LEEANN KNOWLES, Esquire, Florida Public Service Commission 101 East Gaines Street Tallahassee, Florida 32399-0863
<u>On behalf of Commission Staff</u>

WILLIAM WYROUGH, Esquire, Florida Public Service Commission, 101 East Gaines Street Tallahassee, Florida 32399-0861
<u>Counsel to the Commissioners</u>

FINAL ORDER SETTING RATES AND CHARGES

BY THE COMMISSION:

BACKGROUND

Lehigh Utilities, Inc. (Lehigh or utility) is a Class A utility providing water and wastewater service to approximately 10,000 residential and commercial customers in Lehigh Acres, Lee County, Florida. Lehigh is in an area which has been designated by the South Florida Water Management District as a critical water supply problem area. On March 15, 1991, the Resolution Trust Corporation (RTC) became the receiver of Security Savings and Loan Association. The property held by Security Savings and Loan Association included the stock of Land Resources Corporation (LRC) and its wholly-owned subsidiary, Lehigh. RTC transferred Lehigh to Seminole Utility Company (Seminole) on July 1, 1991. This Commission approved the transfer of majority organizational control of Lehigh from LRC to Seminole in Orders Nos. 25391 and 25391-A, issued on November 25, 1991, and February 24, 1992, respectively. Seminole is owned by Southern States Utilities, Inc., which is owned by Topeka Inc., which is owned by Minnesota Power and Light (MP&L). The Commission last established rates for the Lehigh water and wastewater systems in Order No. 10981, issued on July 8, 1982.

On December 9, 1991, Lehigh filed its application in this docket for increased water and wastewater rates. Since we found deficiencies in its filing, Lehigh was required to revise the information filed. On April 24, 1992, Lehigh filed revised information which satisfied the minimum filing requirements (MFRs). Accordingly, April 24, 1992, was established as the official date of filing for this proceeding. The approved test year for calculating final rates is the twelve months ended September 30, 1992. Lehigh agreed to waive the eight month statutory time limit to January 19, 1993.

In its application, the utility requested final rates which would generate annual revenues of $2,051,795 for water service and $2,420,658 for wastewater service. Those requested revenues exceed projected test year revenues by $430,552 (26.56 percent) and $1,215,082 (100.79 percent) for water and wastewater, respectively. According to the application, the final rates requested would be sufficient to recover a 10.06 percent rate of return on rate base. The utility also requested interim rates which would generate annual revenues of $1,684,559 for water and $1,585,358 for wastewater. The requested interim revenues exceed projected test year revenues by $109,374 (6.94 percent) for water and $407,015 (34.54 percent) for wastewater. By Order No. PSC-92-0634-FOF-WS, issued July 8, 1992, this Commission suspended the proposed rates and granted an interim increase in water and wastewater rates, subject to refund, with interest.

This Commission acknowledged the intervention of the Office of Public Counsel (OPC) by Order No. PSC-92-0300-PCO-WS, issued May 5, 1992. On May 5, 1992, this Commission issued Order No. PSC-92-0299-PCO-WS, granting the intervention of the Lehigh Acres Fire Control and Rescue District.

A prehearing conference was held on September 24, 1992, in Tallahassee, Florida. A service hearing was held on October 1, 1992, in Lehigh Acres, Florida. Approximately 250 customers attended, and 26 customers testified. A formal hearing was held on October 28, 29, and 30, 1992, in Lehigh Acres, Florida. Testimony was received from 19 customers at that time.

FINDINGS OF FACT, LAW, AND POLICY

Having heard the evidence presented at the hearings in this proceeding and having reviewed the recommendation of staff, as well as the briefs of the parties, we now enter our findings and conclusions.

STIPULATIONS

Prior to the hearing, the utility, OPC, and staff agreed upon a number of stipulations. At the hearing, we accepted the following stipulations:

1. The cost of equity should be set using the leverage formula in effect at the time of the Agenda Conference for the final order in this case.

2. The appropriate cost rate for variable rate debt should be based on benchmark (Prime, LIBOR or other) rates current at the time of hearing.

3. The escalation factor for projected expenses should be based on the price index factor in effect at the time of the Agenda Conference on the final rates.

4. The $7,500 of DER fines charged to Miscellaneous Expenses should be removed from test year expenses.

5. The utility's requested miscellaneous service charges should be approved.

6. Per Audit exception No. 4, Miscellaneous Expenses of $2,000 and $700 for water and wastewater, respectively, should be removed from test year expenses. Also, wastewater contractual services of $1,700 for the historical test year should be removed.

MOTION TO DISMISS

On October 28, 1992, at the beginning of the final hearing and on October 30, 1992, at the close of that hearing, OPC moved that this case be dismissed. OPC based its motion on the following: during the customer service hearing, 15 customers testified that they did not receive the required notice of rate case application; that failure to notify the customers resulted in the denial of the customers' rights to due process; and that the utility has the burden to show that it did provide proper notice as required.

Rule 25-22.0406(5), Florida Administrative Code, does not require the utility to verify that each customer receives the notice, but only that the utility properly delivers the notice to each customer. In order to establish that the utility complied with Rule 25-22.0406, Florida Administrative Code, regarding customer notice, the utility filed the affidavit of Steven M. Gallis, the Office Services Coordinator of the Office Services Department of the utility. Mr. Gallis' affidavit stated that 7,937 customer notices dated June 22, 1992, were mailed to Lehigh's customers. According to the utility, this number would be sufficient to send one notice to each customer of the utility. Attached to his affidavit is a copy of the customer notice mailed on June 22, 1992, and a copy of the pertinent page in the Southern States' Office Services postage meter logbook. In addition, Ms. Tammy Jackson, Lehigh's Customer Service Representative, testified that customers had requested information from her office in response to the notices they had received. Further, the record of the service hearing shows that, even though approximately 15 customers testified during the customer service hearing that they had not received the notice, other customers stated that they did receive it, and others stated that they were not sure.

Our review of the postage meter logbook provided indicated that entries were made showing the date that notices were processed, the number of pieces of mail processed, and the total postage and applicable postage rate of the mailings. Previously, we permitted the postal service's weighing and dispatch certificates to be used as evidence of mailing in the Florida Cities Water Company rate case, in Order No. 23660, issued October 24, 1990. However, since Lehigh stamped the notices with its own postage metering machine, it does not have postal return receipts or certificates to submit as proof.

Lehigh also argued that OPC failed to show any prejudice resulted from the alleged violation, since customers claiming that they had not received the notice attended both the service hearing and the technical hearing. Our records indicate that approximately 250 customers attended the service hearing, and approximately 150 customers attended the final hearing.

We find that a utility cannot be required to prove that each customer in fact received the notice mailed to said customer. Furthermore, a utility is not capable of ensuring that each customer receives the notice mailed, nor is it able to make certain that each customer who receives the notice actually reads it and can acknowledge having been noticed.

Based on the foregoing, we find that OPC failed to prove that the utility has violated the noticing requirements of any rules or orders in this proceeding. Therefore, we find that the utility has sufficiently proven that it complied with Rule 25-22.0406, Florida Administrative Code. Accordingly, OPC's motion to dismiss Lehigh's application for a rate increase is denied.

LEGAL ISSUES

Application of SFAS 106

OPC raised the issue of whether the pronouncements of the Financial Accounting Standards Board (FASB) legally compel this Commission to use any specific accounting methodology for rate making procedures under Chapter 367, Florida Statutes. Lehigh, OPC and staff agree that the Commission is not legally compelled to use the pronouncements of the FASB for ratemaking purposes. As OPC witness Montanaro testified, Statement of Financial Accounting Standards (SFAS) 106 was designed for external financial statements. However, to the extent that SFAS pronouncements provide reasonable methodologies for recognizing expenses in a regulatory framework, we find it appropriate to use those pronouncements for ratemaking purposes if we so choose.

Use of SFAS 106 as Commission Standard

Lehigh and OPC agree that this Commission cannot substitute SFAS 106 as the standard by which it judges whether utility Other Post Employment Benefits (OPEBs) expenses are incurred and are reasonable. It is the utility's position that this issue has been resolved in Orders Nos. 24178, issued February 28, 1991, and PSC-92-0708-FOF-TL, issued July 24, 1992, in which we found that SFAS 106 is an appropriate standard by which to judge whether utility expenses are incurred and, if incurred, reasonably incurred. However, it is OPC's position that this Commission must examine all expenses to determine if they are reasonably incurred by the Company. OPC further states that the Commission cannot delegate its authority to FASB.

We agree that this Commission may not delegate its authority to FASB. However, we find that it is inherent in our obligation to regulate in the public interest that we may determine a methodology, such as SFAS 106, to be appropriate for ratemaking purposes. This does not constitute delegation of authority. We may employ the basic guidelines found in SFAS 106, and still make adjustments to the OPEB expense calculated under SFAS 106 by adjusting items related to the underlying assumption, timing or benefits. Further, the burden of proof remains with the utility no matter what methodology is used. Therefore, we find that, while using a methodology under a SFAS may be acceptable to us, it remains the obligation of the utility to prove that an expense was incurred and that it was a reasonable, prudent, and utility-related expense.

QUALITY OF SERVICE

Our analysis of the overall quality of service provided by the utility is based upon evidence received regarding the utility's compliance with the rules of the Department of Environmental Regulation (DER) and other regulatory agencies, the quality of the utility's production of water and wastewater, the operational conditions of the utility's plants, and customer satisfaction. The customers were given two opportunities to present evidence regarding quality of service and their concerns are addressed below.

The water treatment plant has a capacity of 2.5 million gallons per day (GPD). Raw water is drawn from ten wells located in the utility's immediate area. The water treatment plant is served by four high service pumps with a permanently installed auxiliary generator rated at 135 kilowatts for emergency power. Finished water storage consists of three storage tanks; a one million gallon ground tank, a five hundred thousand gallon ground tank, an elevated tank with two hundred twenty-five thousand gallons of capacity, plus a thirty-five thousand gallon hydropneumatic tank. Fire flow is provided by the utility with 526 hydrants located throughout the subdivision with the 1.75 million gallons (MG) of storage capable of pumping the required 2,000 gallons per minute (GPM) for two hours.

The wastewater treatment plant has a total capacity of 3,030,000 GPD. It consists of three facilities: an older concrete plant rated at 205,000 GPD; a 20 year old steel facility manufactured by Clow, with a 1,370,000 GPD rating; and a Davco plant rated at 1,455,000 GPD.

Staff Witnesses William Allen, of the Health and Rehabilitative Services (HRS), Lee County Public Health Unit (LCPHU), and James Grob, of DER, testified that the utility currently meets all health and sanitary requirements and rules and regulations imposed by the respective agencies. However, Witness Grob testified that in November, 1991, as a result of high trihalomethane (THM) levels, the utility was required to notify its customers to boil their drinking water for six months. He further testified that the utility installed a THM control and reduction system and is now in compliance with the THM maximum contaminant level permitted by the LCPHU.

Of the 250 customers attending the service hearing on October 1, 1992, 26 testified. Two customers testified about receiving the notice to boil the water. Three spoke of their concern regarding the quality of the water, and one complained of the quality of service. Additionally, one customer complained that he was charged for repairs made to the utility's property. The utility acknowledged responsibility for that repair bill and has since reimbursed the customer for the charges.

Approximately 19 customers testified at the final hearing held on October 28, 29, and 30, 1992. Eight customers testified opposing the magnitude of the requested rate increase. One customer complained about the necessity of having to boil his water before using it. There were two customer complaints regarding the quality of water, and one customer testified concerning the quality of service.

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

RATE BASE

Our calculations of the appropriate rate bases are depicted on Schedule No. 1-A for the water system and on Schedule No. 1-B for the wastewater system. Our adjustments are itemized on Schedule No. 1-C. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Plant-in-Service

In the staff audit report, staff witness Brown recommended an audit adjustment to reduce plant-in-service by $695,285 and $385,228 for water and wastewater, respectively, based on the utility's failure to provide supporting documentation for certain plant additions from 1981 through 1991. To substantiate the plant additions from 1981 through 1985, the utility supplied secondary supporting documentation in the form of audit workpapers, tax returns, general ledgers, and a reconciliation of the secondary documentation with the audited financial statements. The utility also provided a reconciliation between the audited financial statements and the tax returns from 1981 through 1985. Supporting documentation for plant additions for the years 1986 through 1991 was also provided in the form of invoices, cancelled checks and in-house records.

Based on our review of the secondary supporting documentation, the reconciliations and other supporting documentation, we find that the utility has provided sufficient and substantial evidence to support its reported investment in plant additions for the years 1981 through 1991. Accordingly, no adjustments to utility plant-in-service have been made.

Margin Reserve

In its application, the utility requested that a margin reserve be included in the calculations of used and useful plant for the water treatment and distribution facilities and the wastewater treatment and collection facilities.

Because Chapter 367, Florida Statutes, requires each utility to provide service within a reasonable period of time, we allow a margin reserve to recognize that a utility needs to expand prudently beyond current demands to enable it to meet reasonably projected short term growth. This practice allows the company to include a reasonable cost of expansion in its rate base without placing an unreasonable burden on current customers to pay for long term growth.

It is OPC's position that margin reserve should not be allowed in used and useful calculations and that it is illogical and unfair to require existing customers to pay the carrying charges on the increment of plant which is necessitated by the likely arrival of new customers. OPC presented no testimony in support of its position regarding margin reserve.

Upon consideration, we find that the plant investment associated with margin reserve is a necessary component of used and useful plant. Therefore, we find it appropriate to include a margin reserve of 18 months for the water treatment facility and equipment and of 12 months for the water distribution and wastewater collection systems. The utility has requested, and we have approved a used and useful calculation of 100 percent for the wastewater treatment facility; therefore, no margin reserve has been included for the wastewater treatment facility.

Method for Calculation of Margin Reserve

In its application the utility used linear regression analysis to calculate margin reserve. However, the utility argued that since the company has experienced steady growth for several years, regression analysis and the five year averaging method produce the same result.

OPC presented no testimony in support of its position that use of linear regression analysis is inappropriate in this case. We have previously used linear regression analysis in the computation of margin reserve. There is no evidence in the record that application of another method for calculating margin reserve would be more appropriate. Accordingly, we find the appropriate method to use to determine margin reserve is linear regression analysis.

Used and Useful Plant

We have made adjustments to the utility's proposed used and useful percentages in the following categories: water treatment plant; water transmission and distribution plant; wastewater collection and pumping station; and finished water storage. Our adjustments are discussed below.

We have adjusted water treatment, distribution, and collection plant and wastewater collection plant to remove fill-in lots which were inappropriately included in the utility's used and useful calculations. Utility witness Hartman testified that fill-in lots are lots without an active connection that have an available existing line, and that such lots should be considered used and useful. We find it appropriate to exclude lots in the used and useful calculation which are not developed and have inactive connections. Accordingly, we find it appropriate to reduce the used and useful percentages for water treatment, distribution, and collection plant and wastewater collection plant in order to disallow the included used and useful percentage attributable to the undeveloped fill-in lots.

We have also adjusted the proposed used and useful percentage for finished water storage. In calculating the used and useful for water storage, the utility did not include an elevated storage tank with a capacity of 225,000 gallons which we find appropriate to include in determining the used and useful percentages of finished water storage.

Although we have made no adjustments to the utility's calculation for wastewater treatment plant, we included in our calculation consideration of DER requirements which result in larger capacities than historically permitted by this Commission.

Based on the foregoing, we find the appropriate percentages of used and useful plant for the utility to be as follows:

NARUC Sub-acct.	Account Name	Percent
320.3	Water treatment plant	78.26%
331.4	Transmission and distribution	70.15%
380.4	Wastewater treatment plant	100.00%
361.2	Collection and pumping station	76.81%
330.4	Finished water storage	81.76%
307.2	Raw water and water supply wells	100.00%
353.4	Effluent disposal	81.08%
339.3	High service pumping	100.00%
304.4	General plant (other facilities)	100.00%

Imputation of CIAC

In an earlier portion of this Order we found it appropriate to include a margin reserve in the used and useful calculation. The utility did not impute CIAC on the margin reserve in its application. OPC witness Gatlin testified that the imputation of CIAC associated with margin reserve properly matches plant and the contributions made by customers, and that without this matching, a utility is allowed to earn a return on investment made by customers. Witness Gatlin also testified that to calculate the amount of CIAC to be imputed, one should multiply the number of ERCs in margin reserve times the CIAC charge. Witness Gatlin further testified that lots could be used instead of equivalent residential connections (ERCs) in the calculation.

Utility witness Nixon testified that the margin reserve is a continual requirement, meaning that if a unit of capacity is sold out of that margin of reserve, it has to be immediately replaced with a unit of capacity from unsold capacity. He testified that this has to happen in order to keep the margin of reserve constant. Witness Nixon further testified that if CIAC is imputed against the margin reserve, the utility would not earn a return on that portion of plant. Mr. Nixon testified that when a new customer comes on line and pays CIAC, the utility is required to add another increment to that margin of reserve, which the customer has not paid for, in order to keep the margin reserve intact. Witness Nixon also testified that the current customers enjoy reduced rates as a result of economies of scale related to margin reserve. Mr. Nixon further testified that the utility should be entitled to a rate of return on some portion of its prudent construction practices.

We agree with witness Gatlin's testimony that the imputation of CIAC on margin reserve is appropriate and that such imputation should be limited to that amount of plant included in the margin reserve. Accordingly, we find that it is appropriate to increase the utility's CIAC by $110,585 and $187,072 for water and wastewater, respectively. The adjustment for both accumulated and test year amortization of CIAC is $3,393 and $7,236 for water and wastewater, respectively.

Allocation of General Plant

In its application the utility allocated general plant based on the number of customers served. In a later portion of this Order, we determine that the appropriate allocation method for this utility is an allocation based on the number of customers. Also, in a later portion of this Order, we determine that no adjustment for acquisition efforts is required. Accordingly, no adjustments to general plant have been made.

Working Capital

In its application the utility calculated its working capital allowance by using the formula approach method of one-eighth of the annual operation and maintenance (O & M) expenses.

It is OPC's position that working capital should be calculated using the balance sheet method. No testimony was presented disputing the utility's method of calculating working capital. Upon consideration, we find it appropriate to apply the formula method in calculating working capital. Based on our determination of test year O & M expenses discussed in a later portion of this Order, we have decreased the utility's requested amount of working capital by $5,088 for water and $4,862 for wastewater. Accordingly, we find the appropriate working capital allowances to be $125,661 and $110,148 for water and wastewater, respectively.

Unfunded Liability for Post-Retirement Benefits

In its brief, Lehigh argues that this issue is irrelevant since the Company plans to fund its SFAS 106 obligation. Utility witness Gangnon states that the utility intends to fund its SFAS 106 obligation because it does not want the liability reported on its balance sheet and because funding ensures that the funds will be used for the intended purpose. However, utility Witness Gangnon also stated that the utility has no specific plan as to the funding method for the SFAS 106 obligation and that it is in the process of finding a funding method. Mr. Gangnon further stated that funding for OPEBs lacks the tax advantages of funding for pensions. In its brief, OPC states that the unfunded liability should be treated as a zero cost source of capital.

Based on the fact that the utility has not funded this liability, we find it appropriate to reduce its rate base by being consistent with our past decisions. In both the United Telephone and Florida Power rate cases, we reduced working capital, and, therefore rate base by the amount of the unfunded SFAS 106 liability. See Orders Nos. PSC-92-0708-FOF-TL, issued July 24, 1992, pp. 39-40, and PSC-92-1197-FOF-EI, issued October 22, 1992, p. 25. Based on the foregoing, we find it appropriate to reduce rate base to reflect the unfunded liability. Accordingly, rate base is reduced by $15,104 and $11,818 for water and wastewater, respectively.

Land

In 1989, Lehigh Utilities, Inc. purchased 85 acres of land from Lehigh Building Corporation (LBC), an affiliated company, for $100,000, the tax assessed value at the time of purchase. Although it was the opinion of Utility witness Sweat that the 85 acres were first dedicated to public service when purchased in 1989, we find the land was dedicated to public service in the early 1970's when it was first used for percolation ponds. There is no record evidence of the original cost of the land. Witness Sweat testified that in 1971, the tax-assessed value of land owned by LBC in that area was $391 per acre.

Based on the foregoing, we find the appropriate value of the land to be $33,242 based on the 1971 tax assessed value of $391 per acre. Accordingly, rate base has been reduced by $66,758.

Escrow Account

According to a report from the utility's parent, MP&L, a $5,000,000 escrow account related to Lehigh exists. The escrow agreements creating the account are between Lehigh Corporation (developer) and the States of New York and Michigan for the purpose of ensuring the availability of funds for utility connections when a lot owner from New York or Michigan builds on a lot in Lehigh Acres. Utility witness Vierima testified that the utility has no access to, nor will it have any benefit from, the escrow account.

He further testified that the funds are not booked or disclosed in the utility's audited financial statements.

Based on the foregoing, and because the utility is not a party to the escrow agreements and does not receive money from the escrow account, we have made no adjustments to rate base related to the escrow account.

Acquisition Adjustment

By Order No. 25391, issued November 25, 1991, as amended by Order No. 25391-A, issued February 24, 1992, we approved a transfer of majority organizational control of this utility from IRC to Seminole. Because this was a stock transfer, there was no change in rate base. Therefore, no acquisition adjustment resulted. Based on the foregoing, we have made no acquisition adjustment to rate base.

Test Year Rate Base

Based on our decisions and adjustments discussed above, we find the appropriate test year rate base to be $3,575,306 for the water system and $5,947,368 for the wastewater system.

COST OF CAPITAL

Non-regulated Operations

In the MFRs, $6,714,337 of total equity shown on the balance sheet is net of $1,134,471 of equity in gas, garbage and recycling. Utility witness Nixon testified that in calculating the cost of capital, the net owner's equity in non-regulated investment should be removed from the equity portion of the capital structure. OPC witness Dismukes testified that gas operations may not have been properly removed from capital structure. OPC disagrees that the amount to be removed from equity should be net of liabilities.

We have previously determined in Order No. 23573, issued October 3, 1990, in Docket No. 891345-EI, the Gulf Power rate case, that non-regulated investments increase the risk of the regulated utility and, therefore, should be removed from the equity portion of the capital structure. We find that in this proceeding, any non-regulated investment should be removed from the capital structure. According to an exhibit filed by the utility, it has long-term notes of $218,733 relating to non-regulated equipment and capital leases on vehicles used for non-regulated operations. Accordingly, we have removed $218,733 from the equity in Lehigh's capital structure.

Deferred Income Taxes

In the MFRs, a credit balance of $38,404 is shown in the unreconciled capital structure. A specific adjustment of $24,000 was made by the utility to reflect the debit deferred income taxes associated with OPEBs. In a later portion of this Order, we have adjusted the utility's requested OPEB expense. Therefore, an additional adjustment to the related debit deferred taxes is required to reflect the adjusted OPEB expense. Accordingly, we have adjusted accumulated deferred income taxes by $13,936. In addition, we have reduced accumulated deferred income taxes by $6,913 to reflect our adjustments to rate base discussed in an earlier portion of this Order. Based on these adjustments, the appropriate amount of net accumulated deferred income taxes is $21,387.

New Financing of Long-Term Debt

In its MFRs, the utility included proposed new financing of long-term debt in the amount of $1,071,506. At the hearing, utility witness Vierima testified that Lehigh had not yet borrowed this amount. Because the test year ends September 30, 1992, and the proposed long-term debt has not yet been borrowed, we have removed $535,753 from the amount of long-term debt proposed by the utility.

Overall Cost of Capital

Based on the adjustments discussed above, we have calculated the appropriate overall cost of capital by using the utility's capital structure, as adjusted, and excluding the new financing as discussed above, and recalculating the pro-rata reconciliation to identify the deferred taxes as adjusted on a system by system basis. Based on the current leverage formula determined in Order No. PSC-92-0686-FOF-WS, issued July 21, 1992, the appropriate cost rate for equity is 12.44 percent. The appropriate cost of debt after excluding the new financing is 8.13 percent. Schedule 2-A shows components, amounts, and cost rates associated with the capital structure for the test year ending September 30, 1992. Based on the foregoing, we find the appropriate weighted average cost of capital to be 9.69 percent.

NET OPERATING INCOME (NOI)

Our calculations of the appropriate levels of net operating income (NOI) for this proceeding are attached as Schedule Nos. 3-A for water and 3-B for wastewater, with our adjustments shown on Schedule No. 3-C. Those adjustments which are self-explanatory, or which are essentially mechanical in nature, are depicted on those schedules without any further discussion in the body of this Order. The remaining adjustments are discussed below.

Revenues for Effluent Reuse

We have increased test year revenues by $15,549 to reflect the income the utility derives from effluent sold to a golf course. The contract between the utility and the golf course is discussed in a later portion of this Order.

Salary Increases

In its application, the utility increased salaries by 5 percent for the projected test year ending September 30, 1992. Utility witness Ludsen testified that a study conducted by the Mercer Company shows that for 100 utilities, the average increase for 1991 and 1992 was 5.2 percent for each of those years. Mr. Ludsen further testified that according to the National Association of Water Companies the projected increase for 1992 for 14 utilities was 5.2 percent.

Utility witness Ludsen also testified that the overall salary structure of the utility is below the local and national market value. Mr. Ludsen further testified that when compared with 197 other utilities, the average salary for Lehigh of $22,000 was lower than the lowest group of average salaries of $34,000. In addition, Mr. Ludsen testified that the actual salary increase for 1992 was 5.34 percent. This increase included merit and licensing increases, as well as equity adjustments and step adjustments to compensate employees whose salaries were below market value.

We find that it is reasonable and prudent for the utility to pay its employees on a competitive level through the use of selective merit increases, equity, step and licensing adjustments. In addition, we find the 5 percent increase to be reasonable in this instance. Accordingly, we have included the 5 percent increase in projected test year salaries.

Allocated A&G Expenses

Allocation Method

In its application the utility calculated the allocation of administrative and general (A & G) expenses and customer account expenses based on the relative number of customers. Utility witness Ludsen testified that this allocation methodology is consistent with previous Commission decisions for water and wastewater utilities. Witness Ludsen further testified that he was not aware of any water and wastewater utility in this state which currently allocates common costs on any other basis. In addition, he testified that the utility is unaware of any Commission order which indicates that an allocation of common costs based on the number of customers served by individual systems is unreasonable.

Mr. Ludsen further testified that this Commission has previously authorized Lehigh to allocate common costs based on customers in the past and that this is the methodology currently authorized. In addition, Mr. Ludsen testified that the rates would be more stable using the customer allocation method, that this method would be more consistent with conservation goals, and that unexpected changes in labor costs would cause less impact on rates for smaller systems using this method.

OPC witness Dismukes testified that there are numerous ways to allocate common costs and that regulatory commissions have not adopted any particular method as being universally preferable. Ms. Dismukes further testified that the administrative convenience of allocating common costs on the basis of customers might justify this method for small systems, but this method may not be appropriate for this larger utility. Ms. Dismukes testified that the utility's proposed allocation assigns less common costs to the non-regulated gas operations than allocations based on direct labor. Witness Dismukes also testified that the same concern may be true for the utility's water and wastewater operations which are not subject to this Commission's regulation.

In Docket No. 900329-WS, SSU proposed the direct labor methodology for allocating common costs. In her testimony, Witness Dismukes reviewed the supporting testimony from that docket which she believes indicates that an allocation based on direct labor would assign greater costs to labor intensive operations, such as wastewater systems and reverse osmosis water systems. Ms. Dismukes also testified that the utility had not explained why it deviated from its requested allocation method in the earlier case. Witness Dismukes further testified that using the customer allocation method may cause water customers to subsidize the cost of providing wastewater service. Ms. Dismukes also testified that a significant increase to A&G and customer service expenses will be incurred by Lehigh customers as a result of Topeka, Inc.'s purchase of Lehigh.

Based on the foregoing, we find the customer allocation method to be appropriate for the following reasons: 1) we have determined that the customer allocation method is reasonable in previous decisions; 2) the customer allocation method is easily verified; 3) we determined in Order No. 24715, issued June 26, 1991, in Docket No. 900329-WS, that the direct labor allocation method was troublesome and added to the confusion at the time; 4) the customer allocation method assigns costs fairly and reasonably among all the customers under the Topeka and Southern States umbrella; 5) the customer allocation method distributes the costs evenly to the customers and produces more stable rates than the direct labor method; 6) the rates are subject to less variation because the costs are spread over a wider base; 7) no other preferred method was recommended.

Promotional Advertising Expenses

Utility witness Ludsen testified that expenses for gas sales promotion were included in the test year A&G expenses. At hearing, the utility offered to stipulate to an adjustment for the related allocation. The utility's late-filed exhibit concerning this issue shows that $7,018 was spent during the historical test year for gas promotional advertising. Using a projection factor of 4.12 percent, the projected test year amount is $7,307. Based on the foregoing, we have removed Lehigh's allocated portion of $365 for water and $285 for wastewater from the test year A&G expenses.

Allocation of Common Costs for Acquisitions

OPC witness Dismukes testified that 2.28 percent of allocated A&G costs should be removed from Lehigh's test year expenses based on the parent company's considerable activities in both acquisitions and sales. According to witness Dismukes, the 2.28 percent ratio included direct labor costs. Witness Dismukes also testified that acquisition expenses are booked below the line or above the line depending on whether an acquisition or sale is completed. She further testified that the 2.28 ratio she recommended included some labor costs. Witness Dismukes opined that the .2 percent ratio of labor charges to possible acquisition accounts divided by total labor costs did not fully reflect the labor costs of all employees involved in the acquisition and sales activities because all of those costs were not recorded in the acquisition accounts.

We find an adjustment of 2.28 percent inappropriate because at least some of the expenses included in that ratio are booked below the line and thus are already borne by the shareholders, and because the calculation includes direct labor costs. We also find that applying the utility's .2 ratio would result in an immaterial adjustment. Accordingly, no adjustment to the allocated common costs has been made for acquisitions and sales.

Non-recurring Merger Costs

In its MFRs, the utility included test year expenses associated with the merger of SSU, United Florida Utilities Corporation, Venice Gardens Utilities, Inc. and Deltona Utilities, Inc. OPC witness Dismukes testified that these costs should be disallowed for the following reasons: the utility did not recognize any associated savings in the test year; there was a mismatch between the expenses incurred and the benefits to be derived as a result of the merger; and the costs were non-recurring. We agree with OPC that the costs were non-recurring. In so doing, we do not dispute that these costs are necessary and reasonable expenses which may provide efficiencies.

Based on the foregoing, we find that the costs associated with the merger are non-recurring and should be removed. Accordingly, we have reduced expenses by $605 and $474, for water and wastewater, respectively.

Cash Discounts

At the hearing, the parties and staff agreed that cash discounts should be considered an above the line adjustment to expenses. We find this adjustment appropriate. Accordingly, we have reduced operation and maintenance expenses by $719.

Charitable Contributions

We agree with OPC and the utility that recovery of charitable contributions allocated from SSU to Lehigh should not be allowed.

Accordingly, we have reduced test year expense by $103 and $78, for water and wastewater, respectively.

Non-recurring Studies

In its application the utility included expense for certain professional studies. OPC witness Dismukes testified that these costs were fully amortized and thus, in her opinion, non-recurring and should be removed from test year expenses. The utility argues that since this issue was raised by OPC, OPC bears the burden of proving that these expenses are non-recurring. The utility further argues that the record has no support that these expenses are non-recurring.

It is the utility, not OPC, that bears the ultimate burden of proof on this issue. The utility presented no evidence to dispute OPC witness Dismukes' testimony. Based on the foregoing, we find the studies to be non-recurring expenses. Accordingly, test year O & M expense has been reduced by $1,020 and $1,020, for water and wastewater, respectively.

Chamber of Commerce Dues

In its application, the utility included chamber of commerce membership dues in test year O&M expense. OPC witness Dismukes testified that costs related to chamber of commerce dues or functions should not be passed on to the ratepayers, but should be absorbed by the stockholders. She further testified that in past proceedings the Commission has disallowed chamber of commerce membership dues based on the premise that the dues serve to improve the image of the companies, with direct benefit to the stockholders and none to the customers.

Utility witness Kimball testified that utility participation in chamber of commerce activities benefits consumers in a number of ways, such as tax legislation, health care issues, and workers' compensation issues.

We agree with OPC that the chamber of commerce dues do not provide a direct benefit to the customers and should be disallowed. Accordingly, O&M expenses have been reduced by $140 and $140 for water and wastewater, respectively.

Relocation Expenses

In its MFRs, the utility requested relocation expenses of $5,483. According to data contained in the utility's late-filed exhibit, SSU incurred relocation expenses of $59,167 during the test year. However, the same exhibit indicates that as of July 31, 1992, SSU's actual relocation expenses were $6,795. There is no other record evidence or testimony on the reasonableness of these expenses. OPC argues that the requested expenses are excessive in view of the actual expenses incurred in 1992.

Based on the foregoing, we find that the appropriate amount of relocation expense should be based on the actual 1992 expenses. Therefore, we have annualized the actual relocation expense incurred through July 31, 1992, averaged with the annual budgeted amount to derive an appropriate amount of relocation expense. Accordingly, we have reduced test year O&M by $1,681 and $1,316 for water and wastewater, respectively.

Test Year Legal Expenses

In the MFRs, a portion of the allocated A&G expenses included non-rate case related legal expenses. OPC offered no testimony in support of its position that this amount should be reduced by the amount allocated for defense of DER and Environmental Protection Agency (EPA) fines.

Utility witness Ludsen testified that Lehigh should pay its allocated share of legal expenses incurred in defending SSU systems from the various governmental entities that levy fines. Witness Ludsen further testified that negotiations which may avoid or reduce fines, or eliminate or postpone large improvements to systems, are included in this expense. He also testified that allocation of legal expenses maintains stable cost assignments to systems on a year-to-year basis.

Based on the foregoing, we find it appropriate to allow the utility to recover its legal expenses relating to permitting and compliance. Accordingly, no adjustment to legal expenses has been made.

Test Year Allocated Expenses

In an earlier portion of this Order, we determined the appropriate allocation method for these expenses. We also determined that no adjustment to these expenses for the utility's acquisition efforts was appropriate. Based on the foregoing, we find the appropriate amount of test year allocated A&G expenses to be $368,508 and $288,336 for water and wastewater, respectively.

Gain on Sale of St. Augustine Shores

As the result of a condemnation action by St. Johns County in 1991, a net after tax gain of $4.2 million was realized by Lehigh's parent, MP&L. OPC witness Dismukes testified that the gain on the sale of St. Augustine Shores should benefit the Lehigh customers because: it is the utility's position that acquisitions of small water and wastewater systems throughout Florida is beneficial to all customers because of alleged economies of scale; customers will incur a higher level of allocated A&G, general plant and customer costs as a result of the sale; and in past proceedings the Commission has required utilities to share with ratepayers the gain on the sale of utility property.

Utility witness Phillips testified that no portion of the gain should be passed on to the customers of Lehigh for the following reasons: 1) St. Johns County regulated St. Augustine Shores at the time of condemnation; 2) the sale by United Florida Utilities Corporation was concluded by August 30, 1991, prior to the transfer of Lehigh to SSU; 3) to deny the utility investors the opportunity to offset the erosion of their investment by not receiving the capital gains would be a deterrent to the reinvestment of retained earnings and the attraction of new capital from investors; 4) Lehigh's customers did not contribute to SSU's recovery of its investment in St. Augustine Shores nor did Lehigh's customers bear the risk of any loss; 5) condemnation involves not only the sale of SSU assets but also the sale of customers to whom service had been previously dedicated and provided through those assets; 6) customers do not acquire a proprietary interest in the property; 7) both ownership of, and risk of loss in, non-utility and non-regulated property resides in the shareholders; 8) using the gain on St. Augustine Shores to reduce rate relief, to which the utility is otherwise entitled, would deprive the utility and its shareholders of "just compensation."

We agree with the utility that ratepayers do not acquire a proprietary interest in utility property that is being used for utility service. We also agree that it is the shareholders who bear the risk of loss in their investments, not the Lehigh ratepayers. Further, we find that Lehigh's ratepayers did not contribute to the utility's recovery of its investment in St.

Augustine Shores. Based on the foregoing, we find no adjustment for the gain on the sale of St. Augustine Shores to be appropriate.

Accordingly, no adjustment has been made to allocate a portion of the gain on the condemnation of the St. Augustine Shores systems to Lehigh customers.

Rate Case Expense

In its MFRs, the utility included total estimated rate case expense of $197,250. The components were $80,000 in accounting fees, $95,000 for legal fees, $20,000 in engineering fees and $2,500 for filing fees. At the time of the hearing, the utility filed an updated rate case expense exhibit indicating total rate case expense of $291,696.

OPC's Proposed Adjustments on Basis of PAA Process and Sharing of Rate Case Expense With Shareholders Denied

OPC witness Gatlin testified that some rate case expense could have been avoided if the utility had used the proposed agency action (PAA) option pursuant to Section 367.081(8), Florida Statutes, rather than proceeding straight to hearing. Utility witness Ludsen testified that the fact that a utility does not elect to request the PAA option has no bearing on this issue. On cross-examination by OPC, Mr. Ludsen admitted that the Commission could consider a utility's decision not to file a PAA case in determining the prudence of rate case expense. Mr. Ludsen also testified that SSU had filed a rate case in Duval County in 1990 using the PAA procedure and that case was protested by one customer. As a result, Mr. Ludsen stated, the protest caused the utility not to receive rate relief for another eight months in addition to the five months already spent in the PAA process.

We agree with the utility that an adjustment to rate case expense is not appropriate simply for the reason that this utility did not elect to proceed under Section 367.081(8), Florida Statutes.

OPC witness Gatlin opined that only 50 percent of those expenses determined by the Commission to be prudently incurred should be borne by the customers. Utility witness Ludsen testified that the Commission has never allocated 50 percent of prudent rate case expense to the stockholders of Southern States. Mr. Ludsen further testified that he was not aware of any precedent, and that none was cited by Mr. Gatlin, supporting the position that prudent business expenses incurred by a utility should be disallowed for ratemaking purposes, no matter what type of expense it was.

We agree with the utility that there is no precedent to support the removal of 50 percent of prudently incurred expenses. Section 367.081, Florida Statutes, requires that the Commission consider the cost of operating expenses incurred in the provision of utility service. Rate case expense is one of those expenses.

Engineering

The utility's final request for engineering fees was $50,000. The original estimate for engineering fees from Hartman & Associates was $20,000. Mr. Hartman testified that the increase in expenses included correlating plant flows and number of connections with billing units and gathering and preparing the documents required to file the rate case engineering information. Utility witness Nixon testified that increased expenses attributable to Mr. Hartman's firm were required because the utility employees had been unable to provide the necessary data for the MFRs.

We find that the additional engineering expense would not have been incurred had the former owner of the utility properly maintained its records and had those records been obtained when the utility was acquired. Therefore, based on the record evidence and our past experience in determining reasonable rate case expense, we have reduced engineering expense by $2,185 and $1,678 for water and wastewater, respectively.

Accounting

The utility's request for accounting fees was $115,685. As justification for this expense, the utility gave the following: the size of the utility; the length of time since the last rate case (ten years); the change in the chart of accounts; the change in ownership; the preparation of the billing analysis; and the necessity of determining historic allocation from former employees.

Invoices provided by the utility indicate that $9,493 of accounting expenses were incurred for the reconciliation of plant additions required because original plant documentation was not available. In addition, utility witness Nixon testified that because the utility was owned and operated by a developer for many years, he did not believe that enough resources had ever been devoted to sufficiently keep the utility's records.

We find that additional accounting expenses were incurred because of the utility's past poor record keeping, and that the burden of this expense should not be borne by the ratepayers. Therefore, we have reduced accounting expenses by $9,493 for the reconciliation expense and by an additional 5 percent for the past poor record keeping. Accordingly, accounting expenses have been reduced by $8,551 and $6,565 for water and wastewater, respectively.

Miscellaneous Expenses

We find that the utility failed to justify $9,615 of miscellaneous rate case expenses. Specifically, the unexplained expenses include: Mr. Montgomery's services, $118; Price Waterhouse services, $1,550; Rose Law Firm services, $74; American Reproduction, $88; Temporary Help from Kelly Services, $7,343, and System One Staffing, $442. Accordingly, we have reduced miscellaneous expenses by $5,439 and $4,176 for water and wastewater, respectively.

Final Rate Case Expense Exhibit

The utility shall submit a detailed statement of the actual rate case expense incurred within 60 days after the final order is issued, or if applicable, within 60 days after the issuance of an order entered in response to a motion for reconsideration of such final order. The information should be submitted in the form prescribed for Schedule B-10 of the MFRs.

Summary

Based on our findings above, the appropriate amount of rate case expense for this proceeding is $263,103.

OPEBS

In its MFRs, the utility included a request for SFAS 106 related OPEB expenses based on SSU's OPEB plan. Lehigh's share of this cost was estimated to be $71,682 and $56,087 for water and wastewater, respectively.

OPC witness Montanaro testified that the Commission should use the pay-as-you-go method, not SFAS 106, for the following reasons: 1) Lehigh may restructure its benefits plan to reduce costs in the future; 2) SFAS 106 calculations are unreliable; 3) the application of SFAS 106 reassigns the costs of prior periods to current ratepayers; 4) future ratepayers will enjoy the benefits of reliable cost estimates and cost containment measures; and 5) there is no assurance that funds collected through rates will actually go to pay benefits.

In rebuttal, utility witness Gangnon testified that the Commission should use SFAS 106 for the following reasons: 1) Lehigh has no plans to reduce OPEBs now or in the future; 2) OPEB estimates are based on carefully researched assumptions and result in a reasonable cost; 3) the accumulated OPEB obligation that exists today was incurred in providing utility service to present and previous customers; and 4) the pay-as-you-go method does not match the customer who pays the costs with the customer who incurs the cost.

We find it appropriate to use SFAS 106 for ratemaking purposes based on the following conclusions: it allows the matching of OPEB costs with the period in which the employees are working and earning the benefits; the pay-as-you-go method does not allow such matching; and the utility's estimated expenses are based on reasonable assumptions and calculations. Our finding herein is consistent with our decisions in other recent rate cases. See Orders Nos. PSC-92-0708-FOF-TL and PSC-92-1197-FOF-EI.

In determining the appropriate amount of OPEB expense, we have examined the costs of the various plans of SSU, the discount rate and capitalized amounts, and have made several adjustments which are discussed below.

First, we have substituted the lowest cost OPEB plan to be used in calculating the OPEB expense for the following reasons: witness Gangnon's testimony that SSU is considering several proposed plans contained in its actuarial study; his testimony that a plan will not be adopted until sometime in 1993; his lack of knowledge concerning several aspects of Lehigh's OPEB plan; and OPC witness Montanaro's testimony that there is a trend to reduce these costs. Accordingly, we have used the utility's Proposed Plan 2 to determine the appropriate SFAS 106 costs. The annual net periodic cost of this plan is $730,793 for SSU.

We have also adjusted the discount rate from 8 percent to 8.25 percent. OPC witness Montanaro testified that the appropriate rate should be Lehigh's cost of capital. Utility witness Gangnon testified that the use of a discount rate for ratemaking that differs from the discount rate used for financial reporting complicates a complex issue.

Regarding the selection of an appropriate discount rate, SFAS 106 states the following:

> . . . employers shall look to rates of return on high-quality fixed income investments currently available whose cash flows match the timing and amount of expected benefit payments. (SFAS 106, paragraph 31)

Based on this provision of SFAS 106 we have not used the utility's cost of capital as the discount rate. However, we find a AA-rated utility bond rate of 8.25 percent is the appropriate discount rate to use for Lehigh because AA utility bonds are high quality fixed income securities and since 8.25 percent is closely in line with the AA utility bond yield. Accordingly, we have reduced the net periodic cost from Proposed Plan 2 by 4.825 percent with a corresponding reduction in the OPEB cost from $730,793 to $697,155.

Our third adjustment concerns the capitalized portion of the SFAS 106 costs. During the test year the utility capitalized approximately 23.03 percent of its salaries. Since the OPEB expense is a pro forma expense, no actual SFAS 106 costs were incurred in the test year. In 1993, a portion of the SFAS 106 costs will be capitalized. In an earlier portion of this Order, we made adjustments to recognize the rate base effect of the capitalized portion.

Based on the foregoing, we find the appropriate OPEB expense amounts to be $30,208 and $23,637 for water and wastewater, respectively.

<u>Parent Debt Adjustment</u>

The parties and staff agreed that a parent debt adjustment would be necessary and that the amount would be subject to the resolution of other issues in this case. We agree. Based on our findings and conclusions in other portions of this Order, we find the appropriate amount of the parent debt adjustment to be $15,438 for water and $25,698 for wastewater.

Income Tax Expense

The utility's filing indicates that there are investment tax credit (ITC) carryforwards in the amount of $92,515 as of December 31, 1991. Utility witness Gangnon testified that ITC carryforwards will cancel out tax liability on a current basis. He further testified that because the utility shows a negative current tax before any rate increase that may be approved in this docket, no income tax adjustment for ITC carryforwards had been made. However, witness Gangnon also testified that if the utility were to receive a rate increase, it will experience a current tax liability and would then use the ITC carryforwards.

Based on the foregoing and our decision herein to approve an increase in rates, we find it appropriate to reduce income tax expense by $37,566 for water and $22,569 for wastewater to recognize the reduction in tax liability.

Income Tax Expense

Based on the utility's filing and our decisions made herein, we find the appropriate income tax expense is ($13,804) and $(241,678) for water and wastewater, respectively.

Test Year Operating Income

Based on the utility's application and our decisions made herein, we find the appropriate test year operating income before any provision for increased revenues to be $1,621,243 and $1,205,576 for water and wastewater, respectively.

REVENUE REQUIREMENT

Based on the utility's application and our adjustments and calculations discussed above, we find the appropriate annual revenue requirement to be $1,864,685 for the water system and $2,022,972 for the wastewater system. This represents a $243,442 (15.02 percent) increase for the water system and a $817,963 (67.80 percent) increase for the wastewater systems. These revenues will allow the utility the opportunity to recover its operating expenses and a reasonable return on its rate base.

RATES AND RATE STRUCTURE

No Refund Required

By Order No. PSC-92-0634-FOF-WS, issued July 8, 1992, we approved interim rate increases, subject to refund, of $49,182 (3.12 percent) and $351,206 (29.81 percent) for water and wastewater, respectively. These increases resulted in annual revenues of $1,624,367 for water and $1,529,549 for wastewater. Pursuant to Section 367.082, Florida Statutes, any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return found to be appropriate on a prospective basis. Adjustments made in the rate case test period that do not relate to the period during which interim rates are in effect should be removed.

The approved interim rates for the interim test year ending September 30, 1991, did not include any pro forma provisions for operating expenses or increased plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range of rate of return. Expansions to the water and wastewater treatment plants were placed in service in August of 1991. Since those additions were in service during the time interim rates were in effect, it is appropriate to include those amounts in determining whether a refund may be appropriate.

To establish the proper refund amount, we have calculated a revised interim revenue requirement using the same data used to establish final rates, except for rate case expense and SFAS 106 costs which were excluded because they were not actual expenses during the interim period. We computed the comparable revenue requirement using the newly authorized cost of capital as calculated in an earlier portion of this Order.

Based on the foregoing, we have recalculated the interim revenue requirements to be $1,797,638 for water and $1,951,049 for wastewater. For water, this revenue amount exceeds the previously approved amount by 7.76 percent. For wastewater, the recalculated interim revenue requirement exceeds the previously approved amount by 32.03 percent. Based on the test year ending September 30, 1992, interim water and wastewater rates would generate $1,670,590 and $1,563,439 in annual revenues, respectively, when applied to projected test year bills and consumption. Because these calculations show that the utility did not have excessive earnings during the interim collection period, we find no refund of interim rates to be required.

Rates

The permanent rates requested by the utility are designed to produce revenues of $2,051,795 and $2,420,658 for water and wastewater, respectively. The requested revenues represent increases of $430,552 (26.56 percent) for water and $1,215,082 (100.79 percent) for wastewater based on the test year ending September 30, 1992.

We have established the appropriate revenue requirements to be $1,864,685 and $2,002,972 for water and wastewater, respectively, on an annual basis. The rates, which we find to be fair, just and reasonable, are designed to achieve these revenue requirements, using the base facility charge rate structure.

The approved rates will be effective for meter readings on or after thirty days from the stamped approval date of the revised tariff sheets. The revised tariff sheets will be approved upon our verification that the tariffs are consistent with the Commission's decision and the proposed customer notice is adequate. The comparison of the utility's original rates, interim rates, requested rates, and our final approved rates are set forth below for comparison.

Rate Schedule
Water
Monthly Rates
Residential and General Service

Meter Size	Original	Commission Approved Interim	Utility Requested Final Rates	Commission Approved Final
5/8" x 3/4"	$ 4.19	$ 4.32	$ 7.59	$ 8.89
3/4"	N/A	N/A	N/A	13.34
1"	10.47	10.80	18.98	22.23
1 1/2"	20.93	21.58	37.95	44.45
2"	33.49	34.54	60.72	71.12
3"	66.95	69.04	121.44	142.24
4"	104.60	107.86	189.75	222.25
6"	209.21	215.74	379.50	444.50
8"	N/A	N/A	607.20	711.20
10"	N/A	N/A	872.85	1,022.35
Gal.Chrg. (per 1,000 gallons)	$ 2.96	$ 3.05	$ 3.22	$ 2.37

Rate Schedule
WasteWater
Monthly
Residential

Meter Size	Original	Commission Approved Interim	Utility Requested Final Rates	Commission Approved Final
All Sizes	$ 5.53	$ 7.18	$ 15.33	$ 14.65
Gallonage Charge (per 1,000 gallons)				
(10 MG Cap)	$ 2.69	$ 3.49	$ 4.01	
(6 MG Cap)				$ 3.48

Rate Schedule
WasteWater
Monthly
General Service

	Original	Commission Approved Interim	Utility Requested Final Rates	Commission Approved Final
Meter Size				
5/8" x 3/4"	$ 5.53	$ 7.18	$ 15.33	$ 14.65
3/4"	N/A	N/A	N/A	21.98
1"	13.85	17.98	38.33	36.63
1 1/2"	27.67	35.92	76.65	73.25
2"	44.26	57.45	122.65	117.20
3"	88.57	114.97	245.28	234.40
4"	138.38	179.63	383.25	366.25
6"	276.76	357.52	766.50	732.50
8"	N/A	N/A	1,226.40	1,172.00
10"	N/A	N/A	1,762.95	1,684.75
Gallonage Charge Per 1,000 Gallons No Maximum	$ 2.69	$ 3.49	$ 4.81	$ 4.18

Rate Case Expense Apportionment

Section 367.0816, Florida Statutes, requires that rate case expense be apportioned for recovery over a period of four years. The statute further requires that the rates of the utility be reduced immediately by the amount of rate case expense previously included in the rates. Accordingly, we find that the water rates should be reduced by $39,259 and the wastewater rates should be reduced by $29,616 after four years. The revenue reductions reflect the amortized annual rate case amounts plus the gross-up for regulatory assessment fees. The appropriate rates upon reduction after four years are shown on Schedules Nos. 5-A and 5-B attached hereto.

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

Gallonage Cap

In its application the utility requested a 10,000 gallons per month cap for residential wastewater customers. General service wastewater customers do not have a gallonage cap. Utility witness Nixon stated that the rationale for a 10,000 gallon cap is to encompass as many customers as is reasonable within the cap. Utility witness Nixon also testified that the 10,000 gallon cap covers approximately 85 percent of the customers, whereas a 6,000 gallon cap would include approximately 67 percent of the customers. However, the billing data filed by the utility shows that the 6,000 cap would include approximately 87.48 percent of the customers. Utility witness Nixon further testified that the utility would not oppose using 6,000 gallons as a cap. He also testified that reduction in the cap to 6,000 gallons would increase the gallonage rate but reduce the maximum bill.

The purpose for setting a wastewater cap is to recognize the general usage level of a utility's customers in their daily use. Water used beyond that level is water probably used for irrigation, and would not be returned to the wastewater system. Based on the utility's late-filed exhibit, we find that a 6,000 gallon wastewater cap would encompass the average usage of most of the utility's customers. In addition, it would have the beneficial effect of lowering the maximum bill, which would be an advantage for the large number of retired customers. Therefore, we find it appropriate to set the residential wastewater cap at 6,000 gallons.

Effluent Charge

The contract between Lehigh Utilities, Inc. and Lehigh Properties and Cliffside, Inc., owners of the golf course, requires the golf course to take a minimum of 400,000 gallons of effluent per day at 10.65 cents per 1,000 gallons. This reflects an annual amount of $15,549 per year. OPC witness Gatlin testified that the minimum price should be 25 cents per 1,000 gallons or $36,000 in minimum revenues annually.

Utility witness Sweat testified that the charge for effluent was based on the cost of the electric power to pump ground water (raw water) from the existing wells which they currently use for irrigation. He further testified that there is no benefit or incentive to the golf course to use anything other than its own raw water, unless another source of irrigation is provided at a lower cost and that nothing requires the golf course to use reclaimed water at this time.

Based on the foregoing, we find the appropriate charge for effluent sold to the North Golf Course to be 10.65 cents per 1,000 gallons with a 400,000 gallons per day minimum.

Allowance For Funds Prudently Invested

In its application, the utility requested an allowance for funds prudently invested (AFPI) charge for the non-used and useful portion of the gross plant. Utility witness Nixon testified that the AFPI charges were calculated on non-used and useful gross plant; however, he also acknowledged that he should have used net plant rather than gross plant in his calculations.

Accordingly, we have adjusted AFPI charges based on net non-used and useful plant. We have also adjusted AFPI to reflect the authorized rate of return and overall cost of capital which we determined in an earlier portion of this Order. Further, we have calculated the AFPI charges separately for treatment plant and lines to avoid subsidization or inaccuracies related to the different capacities of the components. The AFPI adjustments are reflected in Schedule No. 4 attached to this Order.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction to determine the water and wastewater rates and charges of Lehigh Utilities, Inc. of Florida, pursuant to Sections 367.081 and 367.101, Florida Statutes.

2. As the applicant in this case, Lehigh Utilities, Inc. of Florida has the burden of proof that its proposed rates and charges are justified.

3. The rates and charges approved herein are just, reasonable, compensatory, not unfairly discriminatory and in accordance with the requirements of Section 367.081(2), Florida Statutes, and other governing law.

4. Pursuant to Chapter 25-9.001(3), Florida Administrative Code, no rules and regulations, or schedules of rates and charges, or modifications or revisions of the same, shall be effective until filed with and approved by the Commission.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that the application of Lehigh Utilities, Inc. for an increase in its water and wastewater rates in Lee County is approved as set forth in the body of this Order. It is further

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

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

ORDERED that Lehigh Utilities, Inc. shall submit within sixty (60) days of the issuance of this Order a detailed statement of the actual rate case expense incurred. The information should be submitted in the form prescribed for Schedule B-10 of the MFRs. In the event a motion for reconsideration is filed, the rate case expense information shall be filed within sixty (60) days of the issuance of an order entered on the motion for reconsideration. It is further

ORDERED that Lehigh Utilities, Inc. is authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that the rates approved herein shall be effective for meter readings taken on or after thirty (30) days after the stamped approval date on the revised tariff pages. It is further

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

ORDERED that prior to its implementation of the rates and charges approved herein, Lehigh Utilities, Inc. shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon Staff's verification that the pages are consistent with our decision herein and that the customer notice is adequate. It is further

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

ORDERED that this docket shall be closed upon the approval of revised tariff sheets.

By ORDER of the Florida Public Service Commission this 25th day of February, 1993.

Steve Tribble

STEVE TRIBBLE, Director,
Division of Records and Reporting

(S E A L)

CB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

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 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 or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Civil Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.

LEHIGH UTILITIES, INC.
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDED SEPTEMBER 30, 1992

SCHEDULE NO. 1-A
DOCKET NO. 911188-WS

COMPONENT		TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	$	9,530,922 $	479,251 $	10,010,173 $	0 $	10,010,173
2 LAND		35,067	0	35,067	0	35,067
3 NON-USED & USEFUL COMPONENT		(693,091)	0	(693,091)	(651,283)	(1,344,374)
4 ACCUMULATED DEPRECIATION		(2,762,893)	(170,521)	(2,933,414)	0	(2,933,414)
5 ACQUISITION ADJUSTMENT-NET		0	0	0	0	0
6 CIAC		(3,069,854)	0	(3,069,854)	(110,585)	(3,180,439)
7 AMORTIZATION OF CIAC		874,343	0	874,343	3,393	877,736
8 POST RETIREMENTS BENEFITS		0	0	0	(15,104)	(15,104)
9 WORKING CAPITAL ALLOWANCE		118,302	12,447	130,749	(5,088)	125,661
RATE BASE	$	4,032,796 $	321,177 $	4,353,973 $	(778,667)$	3,575,306

LEHIGH UTILITIES, INC.
SCHEDULE OF WASTEWATER RATE BASE
TEST YEAR ENDED SEPTEMBER 30, 1992

SCHEDULE NO. 1-B
DOCKET NO. 911188-WS

COMPONENT		TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	$	11,458,294 $	340,953 $	11,799,247 $	0 $	11,799,247
2 LAND		120,300	0	120,300	(66,758)	53,542
3 NON-USED & USEFUL COMPONENT		(562,764)	0	(562,764)	(352,107)	(914,871)
4 ACCUMULATED DEPRECIATION		(2,824,843)	(33,904)	(2,858,747)	0	(2,858,747)
5 ACQUISITION ADJUSTMENT -NET		0	0	0	0	0
6 CIAC		(3,201,608)	0	(3,201,608)	(167,072)	(3,368,680)
7 AMORTIZATION OF CIAC		1,151,311	0	1,151,311	7,236	1,158,547
8 POST RETIREMENT BENEFITS		0	0	0	(11,818)	(11,818)
9 WORKING CAPITAL ALLOWANCE		105,322	9,688	115,010	(4,862)	110,148
RATE BASE	$	6,246,012 $	316,737 $	6,562,749 $	(615,381)$	5,947,368

LEHIGH UTILITIES, INC.
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED SEPTEMBER 30, 1992

SCHEDULE NO. 1-C
PAGE 1 OF 1
DOCKET NO. 911188-WS

	EXPLANATION	WATER	WASTEWATER
(1)	LAND		
A.	To adjust land to 1971 tax appraised value.	$0	($66,758)
(2)	NON-USED & USEFUL PLANT		
A.	To reflect correct used and useful amount.	($651,283)	($352,107)
(3)	CIAC		
A.	To impute CIAC on the margin reserve.	($110,585)	($187,072)
(4)	AMORTIZATION OF CIAC		
A.	To adj. amort. of CIAC for imputation of CIAC on the margin reserve.	$3,393	$7,236
(5)	POST RETIREMENT BENEFITS		
A.	To reduce rate base for FASB 106.	(15,104)	(11,818)
(6)	Working Capital		
A.	To calculate working capital allowance using 1/8 of O&M expenses.	($5,088)	($4,862)

LEHIGH UTILITIES, INC.
COST OF CAPITAL
TEST YEAR ENDED SEPTEMBER 30, 1992

SCHEDULE NO. 2-A
DOCKET NO. 911188-WS

CAPITAL COMPONENT	SYSTEM PER BOOKS	COMPANY SPECIFIC ADJUSTMENT	COMMISSION SPECIFIC ADJUSTMENTS	COMMISSION PRO-RATA ADJUSTMENT TO COMPANY RATE BASE	TOTAL COMPANY ADJUSTED	COMMISSION RATE BASE ADJUSTMENT	TOTAL ADJUSTED	RATIO	% COST RATE	% WGT. COST
COMMON EQUITY	$6,118,885	$0	($218,733)	($1,608,189)	$4,291,963	($552,897)	$3,739,066	39.29%	12.44%	4.89%
LONG-TERM DEBT	9,537,084	0	(535,753)	(2,453,470)	6,547,861	(843,505)	5,704,356	59.94%	7.98%	4.78%
SHORT-TERM DEBT	0	0	0	0	0	0	0	0.00%	0.00%	0.00%
PREFERRED STOCK	0	0	0	0	0	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	34,977	0	0	(9,534)	25,443	(3,278)	22,166	0.23%	8.00%	0.02%
ZERO COST ITC'S	0	0	30,068	0	30,068	0	30,068	0.32%	0.00%	0.00%
DEFERRED TAXES	38,404	(24,040)	7,023	0	21,387	0	21,387	0.22%	0.00%	0.00%
TOTAL	$15,729,350	($24,040)	($717,395)	($4,071,193)	$10,916,722	($1,399,679)	$9,517,043	100.00%		9.69%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	11.44%	13.44%
OVERALL RATE OF RETURN	9.33%	10.11%

LEHIGH UTILITIES, INC.
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED SEPTEMBER 30, 1992

SCHEDULE NO. 3-A
DOCKET NO. 911188-WS

DESCRIPTION		TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	$	1,621,243 $	430,552 $	2,051,795 $	(430,552)$	1,621,243 $	243,442 $	1,864,685
OPERATING EXPENSES							15.02%	
2 OPERATION AND MAINTENANCE	$	946,416 $	99,578 $	1,045,994 $	(40,703)$	1,005,291 $	0 $	1,005,291
3 DEPRECIATION		198,246	15,042	213,288	(18,791)	194,497	0	194,497
4 AMORTIZATION		0	0	0	0	0	0	0
5 TAXES OTHER THAN INCOME		228,164	7,113	235,277	(19,375)	215,902	10,955	226,857
6 INCOME TAXES		3,673	115,553	119,226	(133,030)	(13,804)	105,427	91,623
7 TOTAL OPERATING EXPENSES	$	1,376,499 $	237,286 $	1,613,785 $	(211,899)$	1,401,886 $	116,382 $	1,518,268
8 OPERATING INCOME	$	244,744 $	193,266 $	438,010 $	(218,653)$	219,357 $	127,060 $	346,416
9 RATE BASE	$	4,353,973	$	4,353,973	$	3,575,308	$	3,575,308
10 RATE OF RETURN		5.62%		10.06%		6.14%		9.69%

LEHIGH UTILITIES, INC.
STATEMENT OF WASTEWATER OPERATIONS
TEST YEAR ENDED SEPTEMBER 30, 1992

SCHEDULE NO. 3-B
DOCKET NO. 911188-WS

DESCRIPTION		TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	$	1,205,576 $	1,215,082 $	2,420,658 $	(1,215,082)$	1,205,576 $	817,396 $	2,022,972
OPERATING EXPENSES							67.80%	
2 OPERATION AND MAINTENANCE	$	842,574 $	77,504 $	920,078 $	(38,895)$	881,183 $	0 $	881,183
3 DEPRECIATION		355,628	3,730	359,358	(10,916)	348,442	0	348,442
4 AMORTIZATION		0	0	0	0	0	0	0
5 TAXES OTHER THAN INCOME		258,475	42,823	301,298	(54,679)	246,619	36,783	283,402
6 INCOME TAXES		(227,966)	407,677	179,711	(421,389)	(241,678)	175,374	(66,304)
7 TOTAL OPERATING EXPENSES	$	1,228,711 $	531,734 $	1,760,445 $	(525,878)$	1,234,567 $	212,157 $	1,446,723
8 OPERATING INCOME	$	(23,135)$	683,348 $	660,213 $	(689,204)$	(28,991)$	605,240 $	576,249
9 RATE BASE	$	6,562,749	$	6,562,749	$	5,947,368	$	5,947,368
10 RATE OF RETURN		-0.35%		10.06%		-0.49%		9.69%

LEHIGH UTILITIES, INC.
ADJUSTMENTS TO OPERATING STATEMENTS
TEST YEAR ENDED SEPTEMBER 30, 1992

SCHEDULE NO. 3-C
PAGE 1 OF 2
DOCKET NO. 911188-WS

EXPLANATION	WATER	WASTEWATER
(1) OPERATING REVENUES		
A. Reverse revenue increase utility contends is needed to achieve its revenue requirement.	($430,552)	($1,215,082)
(2) OPERATION AND MAINTENACE EXPENSES		
A. To record cash discounts above the line.	($360)	($360)
B. To adjust to index of 3.63%.	(2,268)	(1,722)
C. To remove test year DER fines.	0	(7,500)
D. To remove undocumented expenses.	(2,000)	(700)
E. To reflect adjustments to FASB 106 expense.	(41,474)	(32,450)
F. To remove gas promotional expenses.	(365)	(285)
G. To remove nonrecurring costs associated with mergers.	(605)	(474)
H. To remove charitable contributions.	(103)	(78)
I. To remove non-recurring professional study expenses.	(1,020)	(1,020)
J. To remove chamber of commerce dues & expenses.	(140)	(140)
K. To remove relocation expenses.	(1,681)	(1,316)
L. To adjust rate case expense.	9,313	7,150
Total	($40,703)	($38,895)
(3) DEPRECIATION EXPENSE		
A. To remove depreciation expense on non-used & useful plant.	($22,184)	($18,152)
B. To amortize CIAC on margin reserve.	3,393	7,236
Total	($18,791)	($10,916)
(4) TAXES OTHER THAN INCOME		
A. To remove RAFs on the requested revenue increase.	($19,375)	($54,679)
(5) PROVISION FOR INCOME TAXES		
A. To reflect income taxes on the revenue requirement.	($133,030)	($421,389)

LEHIGH UTILITIES, INC.
ADJUSTMENTS TO OPERATING STATEMENTS
TEST YEAR ENDED SEPTEMBER 30, 1992

SCHEDULE NO. 3-C
PAGE 2 of 2
DOCKET NO. 911188-WS

EXPLANATION	WATER	WASTEWATER
(6) OPERATING REVENUES		
A. Additional revenues to achieve revenue requirement.	$243,442	$817,396
	==========	==========
(7) TAXES OTHER THAN INCOME		
A. To reflect RAFs on the revenue increase.	$10,955	$36,783
	==========	==========
(8) PROVISION FOR INCOME TAXES		
A. To reflect income taxes on the revenue requirement.	$105,427	$175,374
	==========	==========

LEHIGH UTILITIES, INC.
DOCKET NO. 911188–WS
WATER TREATMENT PLANT

SCHEDULE NO. 4
PAGE 1 OF 12

Allowance for Funds Prudently Invested
Calculation of Carrying Costs for Each ERC

Information Needed

1.	Cost of Qualifying Assets	$	310,997
2.	Capacity of Qualifying Assets		0 ERC
3.	Number of Future Customers		3,520 ERC
4.	Annual Depreciation Expense	$	15,226
5.	Rate of Return		9.72%
6.	Weighted Cost of Equity		4.90%
7.	Federal Income Tax Rate		34.00%
8.	State Income Tax Rate		5.50%
9.	Annual Property Tax	$	4,592
10.	Other Costs	$	0
11.	Depreciation Rate of Assets		3.73%
12.	Test Year		1992

SCHEDULE NO. 4
PAGE 2 OF 12

LEHIGH UTILITIES, INC.
DOCKET NO. 911188-WS
WATER TREATMENT PLANT

Allowance for Funds Prudently Invested
Calculation of Carrying Cost Per ERC Per Year:

	1992	1993	1994	1995	1996
Unfunded Other Costs:	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Unfunded Annual Depreciation:	4.33	4.33	4.33	4.33	4.33
Unfunded Property Tax:	1.30	1.30	1.30	1.30	1.30
Subtotal Unfunded Annual Expense:	$ 5.63	$ 5.63	$ 5.63	$ 5.63	$ 5.63
Unfunded Expenses Prior Year:	0.00	5.63	11.26	16.89	22.52
Total Unfunded Expenses:	$ 5.63	$ 11.26	$ 16.89	$ 22.52	$ 28.15
Return on Expenses Current Year:	0.55	0.55	0.55	0.55	0.55
Return on Expenses Prior Year:	0.00	0.55	1.09	1.64	2.19
Return on Plant Current Year:	8.59	8.17	7.75	7.33	6.91
Earnings Prior Year:	0.00	8.59	16.76	24.51	31.84
Compound Earnings from Prior Year:	0.00	0.83	1.63	2.38	3.09
Total Compounded Earnings:	$ 9.14	$ 18.69	$ 27.78	$ 36.41	$ 44.58
Earnings Expansion Factor for Tax:	1.22	1.22	1.22	1.22	1.22
Revenue Required to Fund Earnings:	$ 11.15	$ 22.80	$ 33.89	$ 44.42	$ 54.39
Revenue Required to Fund Expenses:	5.63	11.26	16.89	22.52	28.15
Subtotal:	$ 16.78	$ 34.06	$ 50.78	$ 66.94	$ 82.54
Divided by Factor for Gross Receipts Tax:	0.955	0.955	0.955	0.955	0.955
ERC Carrying Cost for 1 Year:	$ 17.57	$ 35.67	$ 53.17	$ 70.09	$ 86.43

SCHEDULE NO. 4
PAGE 3 OF 12

LEHIGH UTILITIES, INC.
DOCKET NO. 911188-WS
WATER TREATMENT PLANT

Allowance for Funds Prudently Invested
Calculation of Carrying Cost Per ERC Per Month:

	1992	1993	1994	1995	1996	1997
January	1.46	19.08	37.13	54.58	71.45	86.43
February	2.93	20.58	38.59	55.99	72.81	86.43
March	4.39	22.09	40.04	57.40	74.17	86.43
April	5.86	23.60	41.50	58.81	75.54	86.43
May	7.32	25.11	42.96	60.22	76.90	86.43
June	8.78	26.62	44.42	61.63	78.26	86.43
July	10.25	28.13	45.88	63.04	79.62	86.43
August	11.71	29.64	47.34	64.45	80.98	86.43
September	13.18	31.14	48.80	65.86	82.34	86.43
October	14.64	32.65	50.26	67.27	83.71	86.43
November	16.10	34.16	51.71	68.68	85.07	86.43
December	17.57	35.67	53.17	70.09	86.43	86.43

LEHIGH UTILITIES, INC.
DOCKET NO. 911188–WS
WATER TRANSMISSION & DISTRIBUTION

SCHEDULE NO. 4
PAGE 4 OF 12

Allowance for Funds Prudently Invested
Calculation of Carrying Costs for Each ERC

Information Needed

1.	Cost of Qualifying Assets	$	1,112,066
2.	Capacity of Qualifying Assets		0 ERC
3.	Number of Future Customers		2,205 ERC
4.	Annual Depreciation Expense	$	35,985
5.	Rate of Return		9.72%
6.	Weighted Cost of Equity		4.90%
7.	Federal Income Tax Rate		34.00%
8.	State Income Tax Rate		5.50%
9.	Annual Property Tax	$	7,670
10.	Other Costs	$	0
11.	Depreciation Rate of Assets		2.31%
12.	Test Year		1992

SCHEDULE NO. 4
PAGE 5 OF 12

LEHIGH UTILITIES, INC.
DOCKET NO. 911188–WS
WATER TRANSMISSION & DISTRIBUTION

Allowance for Funds Prudently Invested
Calculation of Carrying Cost Per ERC Per Year:

	1992	1993	1994	1995	1996
Unfunded Other Costs:	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Unfunded Annual Depreciation:	16.32	16.32	16.32	16.32	16.32
Unfunded Property Tax:	3.48	3.48	3.48	3.48	3.48
Subtotal Unfunded Annual Expense:	$ 19.80	$ 19.80	$ 19.80	$ 19.80	$ 19.80
Unfunded Expenses Prior Year:	0.00	19.80	39.60	59.39	79.19
Total Unfunded Expenses:	$ 19.80	$ 39.60	$ 59.39	$ 79.19	$ 98.99
Return on Expenses Current Year:	1.92	1.92	1.92	1.92	1.92
Return on Expenses Prior Year:	0.00	1.92	3.85	5.77	7.70
Return on Plant Current Year:	49.02	47.43	45.85	44.26	42.67
Earnings Prior Year:	0.00	49.02	96.45	142.30	186.56
Compound Earnings from Prior Year:	0.00	4.76	9.38	13.83	18.13
Total Compounded Earnings:	$ 50.94	$ 105.06	$ 157.45	$ 208.09	$ 256.99
Earnings Expansion Factor for Tax:	1.22	1.22	1.22	1.22	1.22
Revenue Required to Fund Earnings:	$ 62.15	$ 128.18	$ 192.09	$ 253.86	$ 313.53
Revenue Required to Fund Expenses:	19.80	39.60	59.39	79.19	98.99
Subtotal:	$ 81.95	$ 167.78	$ 251.48	$ 333.05	$ 412.52
Divided by Factor for Gross Receipts Tax:	0.955	0.955	0.955	0.955	0.955
ERC Carrying Cost for 1 Year:	**$ 85.81**	**$ 175.68**	**$ 263.33**	**$ 348.74**	**$ 431.96**

LEHIGH UTILITIES, INC.
DOCKET NO. 911188–WS
WATER TRANSMISSION & DISTRIBUTION

SCHEDULE NO. 4
PAGE 6 OF 12

Allowance for Funds Prudently Invested
Calculation of Carrying Cost Per ERC Per Month:

	1992	1993	1994	1995	1996	1997
January	7.15	93.30	182.99	270.45	355.67	431.96
February	14.30	100.79	190.29	277.56	362.61	431.96
March	21.45	108.28	197.59	284.68	369.54	431.96
April	28.60	115.77	204.90	291.80	376.48	431.96
May	35.76	123.26	212.20	298.92	383.41	431.96
June	42.91	130.75	219.51	306.03	390.35	431.96
July	50.06	138.24	226.81	313.15	397.28	431.96
August	57.21	145.73	234.11	320.27	404.22	431.96
September	64.36	153.22	241.42	327.39	411.15	431.96
October	71.51	160.70	248.72	334.50	418.09	431.96
November	78.66	168.19	256.03	341.62	425.02	431.96
December	85.81	175.68	263.33	348.74	431.96	431.96

LEHIGH UTILITIES, INC.
DOCKET NO. 911188–WS
WASTEWATER COLLECTION AND PUMPING

SCHEDULE NO. 4
PAGE 7 OF 12

Allowance for Funds Prudently Invested
Calculation of Carrying Costs for Each ERC

Information Needed

1.	Cost of Qualifying Assets	$	741,589
2.	Capacity of Qualifying Assets		0 ERC
3.	Number of Future Customers		1,161 ERC
4.	Annual Depreciation Expense	$	39,727
5.	Rate of Return		9.72%
6.	Weighted Cost of Equity		4.90%
7.	Federal Income Tax Rate		34.00%
8.	State Income Tax Rate		5.50%
9.	Annual Property Tax	$	8,205
10.	Other Costs	$	0
11.	Depreciation Rate of Assets		3.42%
12.	Test Year		1992

LEHIGH UTILITIES, INC.
DOCKET NO. 911188–WS
WASTEWATER COLLECTION & PUMPING

Allowance for Funds Prudently Invested
Calculation of Carrying Cost Per ERC Per Year:

	1992	1993	1994	1995	1996
Unfunded Other Costs:	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Unfunded Annual Depreciation:	34.22	34.22	34.22	34.22	34.22
Unfunded Property Tax:	7.07	7.07	7.07	7.07	7.07
Subtotal Unfunded Annual Expense:	$ 41.29	$ 41.29	$ 41.29	$ 41.29	$ 41.29
Unfunded Expenses Prior Year:	0.00	41.29	82.57	123.86	165.14
Total Unfunded Expenses:	$ 41.29	$ 82.57	$ 123.86	$ 165.14	$ 206.43
Return on Expenses Current Year:	4.01	4.01	4.01	4.01	4.01
Return on Expenses Prior Year:	0.00	4.01	8.03	12.04	16.05
Return on Plant Current Year:	62.09	58.76	55.44	52.11	48.78
Earnings Prior Year:	0.00	62.09	120.85	176.29	228.40
Compound Earnings from Prior Year:	0.00	6.04	11.75	17.14	22.20
Total Compounded Earnings:	$ 66.10	$ 134.91	$ 200.08	$ 261.59	$ 319.44
Earnings Expansion Factor for Tax:	1.22	1.22	1.22	1.22	1.22
Revenue Required to Fund Earnings:	$ 80.65	$ 164.59	$ 244.10	$ 319.14	$ 389.72
Revenue Required to Fund Expenses:	41.29	82.57	123.86	165.14	206.43
Subtotal:	$ 121.94	$ 247.16	$ 367.96	$ 484.28	$ 596.15
Divided by Factor for Gross Receipts Tax:	0.955	0.955	0.955	0.955	0.955
ERC Carrying Cost for 1 Year:	$ 127.68	$ 258.81	$ 385.30	$ 507.10	$ 624.24

SCHEDULE NO. 4
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LEHIGH UTILITIES, INC.
DOCKET NO. 911188–WS
WASTEWATER COLLECTION AND PUMPING

Allowance for Funds Prudently Invested
Calculation of Carrying Cost Per ERC Per Month:

	1992	1993	1994	1995	1996	1997
January	10.64	138.61	269.35	395.45	516.86	624.24
February	21.28	149.54	279.89	405.60	526.62	624.24
March	31.92	160.46	290.43	415.75	536.39	624.24
April	42.56	171.39	300.97	425.90	546.15	624.24
May	53.20	182.32	311.51	436.05	555.91	624.24
June	63.84	193.25	322.05	446.20	565.67	624.24
July	74.48	204.17	332.59	456.35	575.43	624.24
August	85.12	215.10	343.14	466.50	585.19	624.24
September	95.76	226.03	353.68	476.65	594.96	624.24
October	106.40	236.95	364.22	486.80	604.72	624.24
November	117.04	247.88	374.76	496.95	614.48	624.24
December	127.68	258.81	385.30	507.10	624.24	624.24

LEHIGH UTILITIES, INC.
DOCKET NO. 911188–WS
WASTEWATER TREATMENT PLANT

SCHEDULE NO. 4
PAGE 10 OF 12

Allowance for Funds Prudently Invested
Calculation of Carrying Costs for Each ERC

Information Needed

1.	Cost of Qualifying Assets	$	173,282
2.	Capacity of Qualifying Assets		0 ERC
3.	Number of Future Customers		1,833 ERC
4.	Annual Depreciation Expense	$	6,755
5.	Rate of Return		9.72%
6.	Weighted Cost of Equity		4.90%
7.	Federal Income Tax Rate		34.00%
8.	State Income Tax Rate		5.50%
9.	Annual Property Tax	$	3,651
10.	Other Costs	$	0
11.	Depreciation Rate of Assets		3.80%
12.	Test Year		1992

SCHEDULE NO. 4
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LEHIGH UTILITIES, INC.
DOCKET NO. 911188–WS
WASTEWATER TREATMENT PLANT

Allowance for Funds Prudently Invested
Calculation of Carrying Cost Per ERC Per Year:

	1992	1993	1994	1995	1996
Unfunded Other Costs:	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Unfunded Annual Depreciation:	3.69	3.69	3.69	3.69	3.69
Unfunded Property Tax:	1.99	1.99	1.99	1.99	1.99
Subtotal Unfunded Annual Expense:	$ 5.68	$ 5.68	$ 5.68	$ 5.68	$ 5.68
Unfunded Expenses Prior Year:	0.00	5.68	11.35	17.03	22.71
Total Unfunded Expenses:	$ 5.68	$ 11.35	$ 17.03	$ 22.71	$ 28.39
Return on Expenses Current Year:	0.55	0.55	0.55	0.55	0.55
Return on Expenses Prior Year:	0.00	0.55	1.10	1.66	2.21
Return on Plant Current Year:	9.19	8.83	8.47	8.11	7.75
Earnings Prior Year:	0.00	9.19	18.02	26.49	34.60
Compound Earnings from Prior Year:	0.00	0.89	1.75	2.58	3.36
Total Compounded Earnings:	$ 9.74	$ 20.02	$ 29.89	$ 39.39	$ 48.48
Earnings Expansion Factor for Tax:	1.22	1.22	1.22	1.22	1.22
Revenue Required to Fund Earnings:	$ 11.89	$ 24.42	$ 36.47	$ 48.05	$ 59.14
Revenue Required to Fund Expenses:	5.68	11.35	17.03	22.71	28.39
Subtotal:	$ 17.57	$ 35.77	$ 53.50	$ 70.76	$ 87.53
Divided by Factor for Gross Receipts Tax:	0.955	0.955	0.955	0.955	0.955
ERC Carrying Cost for 1 Year:	$ 18.39	$ 37.46	$ 56.02	$ 74.09	$ 91.65

LEHIGH UTILITIES, INC.
DOCKET NO. 911188–WS
WASTEWATER TREATMENT PLANT

Allowance for Funds Prudently Invested
Calculation of Carrying Cost Per ERC Per Month:

	1992	1993	1994	1995	1996	1997
January	1.53	19.98	39.00	57.53	75.55	91.65
February	3.07	21.57	40.55	59.03	77.02	91.65
March	4.60	23.16	42.10	60.54	78.48	91.65
April	6.13	24.75	43.64	62.04	79.94	91.65
May	7.66	26.34	45.19	63.55	81.41	91.65
June	9.20	27.92	46.74	65.06	82.87	91.65
July	10.73	29.51	48.29	66.56	84.34	91.65
August	12.26	31.10	49.83	68.07	85.80	91.65
September	13.79	32.69	51.38	69.57	87.26	91.65
October	15.33	34.28	52.93	71.08	88.73	91.65
November	16.86	35.87	54.47	72.58	90.19	91.65
December	18.39	37.46	56.02	74.09	91.65	91.65

Schedule 5A

Rate Schedule

Water

Schedule of Commission Approved
Rates and Rate Decrease in
Four Years

Monthly Rates

Residential and General Service

	Commission Approved Rates	Rate Decrease
Base Facility Charge Meter Size:		
5/8" X 3/4"	$ 8.89	$ 0.19
3/4"	$ 13.34	$ 0.28
1"	$ 22.23	$ 0.47
1 1/2"	$ 44.45	$ 0.94
2"	$ 71.12	$ 1.50
3"	$ 142.24	$ 2.99
4"	$ 222.25	$ 4.68
6"	$ 444.50	$ 9.36
8"	$ 711.20	$ 14.97
10"	$1,022.35	$ 21.52
Gallonage Charge per 1,000 Gallons	$ 2.37	$ 0.05

Schedule 5B

Rate Schedule

Wastewater

Schedule of Commission Approved Rates and Rate Decrease in Four Years

Monthly Rates

	Commission Approved Rates	Rate Decrease
Residential Base Facility Charge Meter Size: All Meter Sizes	$ 14.65	$ 0.21
Gallonage Charge per 1,000 gallons (Maximum 6,000 gallons)	$ 3.48 (1)	$ 0.05
General Service Base Facility Charge Meter Size:		
5/8" x 3/4"	$ 14.65	$ 0.21
3/4"	$ 21.98	$ 0.32
1"	$ 36.63	$ 0.54
1 1/2"	$ 73.25	$ 1.07
2"	$ 117.20	$ 1.72
3"	$ 234.40	$ 3.43
4"	$ 366.25	$ 5.36
6"	$ 732.50	$10.72
8"	$1,172.00	$17.16
10"	$1,684.75	$24.66
Gallonage Charge per 1,000 Gals. (No Max.)	$ 4.18 (1)	$ 0.06

Remarks: (1) Rate adjustment for effluent charge to golf course.