

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a) DOCKET NO. 910756-SU
wastewater rate increase for) ORDER NO. PSC-92-0594-FOF-SU
the North Fort Myers division) ISSUED: 07/01/92
in Lee County by FLORIDA)
CITIES WATER COMPANY)
_____)

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK
BETTY EASLEY

APPEARANCES:

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FINAL ORDER SETTING RATES AND CHARGES AND
REQUIRING RATE CASE EXPENSE REPORT

BY THE COMMISSION:

BACKGROUND

Florida Cities Water Company (Florida Cities or utility) is a Class A utility providing wastewater service in Fort Myers, Florida. At June 30, 1991, the utility's North Ft. Myers wastewater system was serving approximately 2,400 customers. For the twelve months ended June 30, 1991, the utility recorded

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revenues of \$793,444 for the North Ft. Myers wastewater system. The corresponding income amount was \$61,291.

On October 11, 1991, Florida Cities filed an application for approval of interim and permanent rate increases pursuant to Sections 367.081 and 367.082, Florida Statutes. On October 14, 1991, the utility filed additional information to comply with the minimum filing requirements (MFRs), and that date was established as the official date of filing. The utility's application for permanent rate increases was based on projected information for the test year ending June 30, 1993. The utility's present rate structure was established by Order No. 15587, issued on January 27, 1986, in Docket No. 840420-SU. The utility filed an index application in 1990 and increased its rates accordingly.

In its application, Florida Cities requested final rates which would generate annual revenues of \$2,263,769, for wastewater service. Those requested revenues exceed the test year revenues by \$1,439,216 (174.5 percent).

Florida Cities also requested interim rates. By Order No. 25528, issued December 24, 1991, the Commission suspended Florida Cities' proposed rates and authorized an interim revenue rate increase equal to \$164,322 on an annual basis (20.09 percent), subject to refund.

On March 16, 1992, the Office of Public Counsel (CPC) filed a Notice of Intervention. The Commission acknowledged the intervention of OPC by Order No. PSC-92-0074-PCO-SU, issued March 17, 1992.

A prehearing conference was held in Tallahassee, Florida, on March 18, 1992. A formal hearing was held in Ft. Myers, Florida, on March 25, 1992. Briefs were filed on April 15, 1992.

FINDINGS OF FACT, LAW AND POLICY

Having heard the evidence presented at the formal hearing 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 parties and staff agreed upon a number of stipulations. At the hearing, we accepted, as reasonable, the first five stipulations discussed below. At the Agenda Conference held in Tallahassee, Florida, on June 2, 1992, we

accepted the last stipulation as reasonable. The stipulations are as follows:

1. The wastewater treatment plant should be reduced by \$20,357 with the corresponding adjustment to accumulated depreciation being \$37,754, and to depreciation expense a negative \$2,036.
2. The interest rate should be reduced to 9.67 percent to correct the amortization of loan issue costs. The interest rate applied to the utility's line of credit should be adjusted to reflect the current prime rate, which is 6.5 percent.
3. The appropriate cost of equity should be based on the leverage formula, in effect at the time of Agenda setting final rates, with a range of plus or minus 1 percent.
4. The weighted cost associated with investment tax credits is to be calculated using investor sources only.
5. The utility's miscellaneous service charges should be adjusted to conform with those set forth in Staff Advisory Bulletin No. 13, Second Revised.
6. The residential wastewater maximum cap should be lowered from 8,000 gallons to 6,000 gallons.

MOTION TO STRIKE

On April 30, 1992, Florida Cities filed a Motion to Strike a Portion of OPC's Brief, and a Request for Oral Argument on the Motion. The utility, in its motion, claimed that certain statements made in OPC's brief concerning the cost of capital and income tax expense are incorrect and taken out of context. Furthermore, it was the utility's belief that the statements should be struck as "scandalous and impertinent because such statements are not supported by the direct testimony on the record."

On May 7, 1992, OPC filed a Memorandum in Opposition to Florida Cities' Motion to Strike. In its Memorandum, OPC argued that the statement was relevant and was supported by the direct

testimony. Specifically, OPC cites Exhibit No. 10 and page 120 of the hearing transcript in support of its statements.

On May 8, 1992, Florida Cities filed an Amended Motion to Strike two portions of OPC's Brief and an Amended Request for Oral Argument. In its second motion, the utility sought to strike OPC's statement of position on pages 20 through 23 of OPC's Brief.

We find that, although the analysis used and the conclusion reached by OPC is not in the record, the basis for its argument in the brief may be found in Exhibit No. 10 of the record and page 120 of the transcript. Therefore, the Motion to Strike is hereby denied.

QUALITY OF SERVICE

Our analysis of the overall quality of service provided by Florida Cities is based upon evidence received regarding the utility's compliance with the Department of Environmental Regulation (DER) rules and other regulatory agencies, the quality of the utility's treatment of 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.

Mr. Grob, staff witness from DER, testified that the utility is in compliance with its temporary operating permit, the facilities are adequate to serve present customers based upon permitted capacity, and the facilities are in compliance with the Florida Administrative Code. Mr. Grob further testified that the collection facilities are in compliance with DER requirements, and that the utility has certified operators as required by the Florida Administrative Code.

Concerning effluent discharge limitations, the utility in accordance with the terms of DER Amended Consent Order No. 90-1747, dated April 3, 1991, is constructing additional plant facilities that should be completed by September 1992. By June 1993, the utility should be certified to be in compliance with its operating permit.

Customers who testified during the hearing had not experienced any wastewater service problems. They were, however, concerned about the requested rate increase and a few billing problems. Some customers reported that they had received letters from the utility informing them about proposed plant additions, increased service

availability fees, and increased wastewater rates. Some customers testified that these letters gave conflicting information and were confusing.

OPC asserts in its brief that the utility's letters to customers "mislead" or "confused" them about the true impact on their final rates. For this reason, OPC argues that the utility should be penalized 100 basis points.

In its Brief, OPC specifically cites two letters sent by the utility to its customers, one dated September 4, 1991, and the other October 10, 1991. The September 4th letter is entitled "A Utility Company Update" and paragraph by paragraph, it provides information about the utility's projects and filings with this Commission. For example, one paragraph stated that the utility was filing "an amendment to our water and wastewater franchise certificate... (which) will not adversely affect any of our existing customers." The letter further indicated that the utility had filed "with the PSC for an increase in wastewater capacity fees... (which) will not affect existing customers." Another paragraph stated the utility was "preparing a filing with the PSC for a wastewater rate case to begin the process of recovering the cost of the new facilities." The letter stated that there would be public hearings and meetings on the rate application.

Our review of the correspondence from March 1991 through March 1992 suggests that the letters were intended to inform customers about construction of the Waterway Estates Wastewater Treatment Plant. The customer notices which outlined the requested rates were approved by this Commission. The October 10th letter is a customer notice for a community meeting held by the utility on October 22, 1991. The letter stated that the purpose of the meeting was to explain the "upcoming rate case filed with the Commission." The next sentence stated that "the increase in wastewater rates will be substantial." Based on our review of these letters, we find that they are not misleading.

Based on evidence in the record, we find that the quality of service provided by Florida Cities in collecting, treating and disposing of wastewater is satisfactory.

RATE BASE

Our calculation of the appropriate wastewater rate base is attached to this Order as Schedule No. 1-A, and adjustments are reviewed on Schedule No. 1-B. Those adjustments that are self-explanatory or essentially mechanical in nature are set forth on

those schedules without further discussion in the body of this Order. The major adjustments are set forth below.

Cost of Advanced Wastewater Treatment Plant

In its application, the utility requested inclusion of \$4,786,742 for the construction of an Advanced Wastewater Treatment Plant (AWTP) to be completed by September 1992, and in operation during the test year. The utility was required to expand its wastewater treatment facilities by Environmental Protection Agency Order 89-109 and DER's Amended Consent Order No. 90-1747.

Utility witness Allen testified that the utility decided to construct the 1.0 mgd AWTP based on an engineering report and because the utility believed that the plant would be adequate until 1995. Mr. Elder, a utility witness, testified that interconnection with North Ft. Myers Utility would have been imprudent because it was not the least expensive alternative.

Based on the evidence in the record, we find that construction of the AWTP was prudent. Accordingly, since the plant is projected to be in service by September 1992, we find it appropriate to include the \$4,786,742 construction cost in rate base.

Calculation of Used and Useful Plant

The utility requested that its treatment plant should be considered 100 percent used and useful based upon demand associated with existing customers and prepaid residential connections. Utility witness Harrison testified that the plant's permitted capacity is based on average annual daily flows, and it has sufficient capacity to serve 5,413 equivalent residential connections (ERCs). Utility witness Allen testified that average daily plant flows for the last month of the historic test year exceeded the capacity of the new plant and that engineering proposals are being solicited to expand the plant.

In its Brief, OPC argued that plant should be considered 67.7 percent used and useful because of excessive infiltration. OPC argued that because the utility included the cost of an infiltration and inflow study in its filing, any reduction in infiltration should accrue to the benefit of customers. We are not persuaded by OPC's argument to reduce used and useful plant; however, excessive infiltration is discussed in a later portion of this Order.

Therefore, based on evidence in the record, we find that the treatment plant is 100 percent used and useful.

In the MFRs, the utility requested that its collection system be considered 100 percent used and useful, in part, because it was fully contributed. Utility witness Allen testified that Commission Order No. 15587 found that the utility's collection system was constructed by developers and given to the utility and, based on that finding, the Commission made no used and useful adjustments. Mr. Allen further testified that the utility's extension policy since the last rate proceeding has not changed and that on-site collection facilities continue to be contributed.

Based upon the evidence in the record, we find that the collection system is 100 percent used and useful.

Margin Reserve

Since Chapter 367, Florida Statutes, requires each utility to provide service in its territory within a reasonable period of time, we allow a margin reserve in the calculation of used and useful to recognize an appropriate and fair amount of "readiness to serve capacity." Margin reserve has been included in calculating used and useful plant by the Commission in previous cases such as in the Florida Cities Water Company, Golden Gate, rate case in Order No. 23660, issued October 24, 1990.

In its application, the utility did not request any margin reserve based on its contention that the plant was already 100 percent used and useful. OPC argues that no margin reserve should be included since it would cause current customers to pay for future expansion of facilities, which OPC contends is contrary to ratemaking philosophy.

Based on our previous finding that utility plant is considered 100 percent used and useful, we find it appropriate to make no allowance for margin reserve.

Inclusion of Prepaid Contributions-in-Aid-of-Construction in Rate Base

Although a margin reserve has not been included in the calculation of rate base, we find that all prepaid contributions-in-aid-of-construction (CIAC) should be included in rate base. Typically, when the used and useful plant determination includes a margin reserve, that incremental provision for plant balance is reduced to the extent the utility has received prepaid CIAC from

the number of ERCs considered in the margin reserve. In its MFRs, the utility reduced rate base to show collection of CIAC, which included prepaid CIAC for about 51 ERCs. Since we determined in an earlier portion of this Order that the utility's plant is considered 100 percent used and useful regardless of margin reserve considerations, removal of prepaid CIAC is not necessary. Based on the foregoing, we find it appropriate to include all prepaid CIAC in calculating the appropriate rate base balance.

Power Operated Equipment

In 1987, the utility transferred some of its power operated equipment from the North Ft. Myers wastewater division to the water division but failed to complete the accounting entry. This recordkeeping error was disclosed in the staff audit report. The corresponding adjustments reduce plant-in-service by \$20,357, accumulated depreciation by \$37,754, and depreciation expense by \$2,036. These adjustments are the subject of Stipulation No. 1, which was approved at hearing.

DER Payment - Amended Consent Order No. 90-1747

In 1987, while an application for renewal of the utility's operating plant was pending, a major plant upset occurred that allowed insufficiently treated wastewater to be discharged. DER classified this event and various attending problems as technical violations. In the Consent Order citing these alleged violations, the utility agreed to adhere to a specific time table from September 1988 until November 1990, to effect corrections. That Consent Order included a clause calling for a \$20,180 payment in settlement of the cited violations or, alternatively, an acceptable "in kind service".

In Amended Consent Order No. 90-1747, DER determined that the utility did not comply with the schedule for completion of the required plant modifications by November 1, 1990. That Order set forth an extended completion schedule, whereby the required facilities would be certified in compliance by June 1, 1993. That Order states that the utility would pay \$15,000 to settle the issues raised in the Consent Order. The issues in the Consent Order were not limited to a schedule for completion of plant improvements but also the occurrence of a major upset at the treatment plant, failure to timely notify DER about this spill, and various attending problems.

A portion of the reported construction cost of the AWTP corresponds to capitalization of the \$15,000 payment in 1991 to DER

in accordance with Amended Consent Order No. 90-1747. Pursuant to the Uniform System of Accounts, penalties or fines for violations of regulatory statutes are assigned to Account 426 - Miscellaneous Expenses, a below-the-line operating expense. However, utility witness Harrison testified that the utility did not classify this payment as a penalty. He testified that this payment was part of a stipulation in recognition of the utility's inability to comply with certain rules as quickly as DER desired. Mr. Bradtmiller, another utility witness, testified that he believed the purpose of the \$15,000 payment was largely to secure additional time to take corrective actions concerning the wastewater treatment plant.

If this payment was solely to obtain more time to complete improvements at the wastewater plant, its classification as a construction cost would have merit. However, we find that the \$15,000 payment was the consequence of a prohibited discharge of wastewater in 1987 and failure to satisfy the previously scheduled construction program according to plan. Therefore, since it appears to be a fine or penalty for violation of a regulatory statute or ruling, we find that it is misclassified as a construction cost. Accordingly, we have removed \$15,000 from the rate base determination.

Accumulated Depreciation

Per Stipulation No. 1, accumulated depreciation is reduced by \$37,754 to show proper accounting for power operated equipment.

Accumulated Amortization of CIAC

The staff audit report disclosed errors in the utility's calculation of the average balance for accumulated amortization of CIAC, including a \$6,000 understatement of the actual expense for the six months ended June 30, 1991. The total amount of the understatement of the reserve account was \$7,624. Utility witness Harrison testified that the balance in this account was incorrectly reflected by this amount. Accordingly, we find it appropriate to increase accumulated amortization of CIAC by \$7,624.

Use of Formula Method for Calculation of Working Capital

In its application, the utility used the formula approach, or one-eighth of operation and maintenance expenses, to calculate working capital. This method of calculating working capital complies with Rule 25-30.437, Florida Administrative Code, which prescribes use of Minimum Filing Requirement Form PSC/WAS 17 for Class A and B Utilities. Per the instructions for completion of

the MFRs, if the utility proposes another method of computing working capital, the cost of presenting that other calculation shall not be considered in the allowed rate case expense. Also, these instructions specify that the working capital provision shall not include a separate allowance for deferred debits except for those deferred accounts relating to taxes paid on CIAC.

In its brief, OPC argues that the balance sheet approach should be employed to determine working capital. OPC argues that this method provides a "more accurate picture of the true working capital needs" of this utility. OPC contends that the record shows that this calculation is neither time consuming nor expensive to apply. OPC argues that utility witness Harrison testified that about an hour was needed to compute the balance sheet provision for working capital for the interim rate request, and that excluding deferred debits would yield a working capital amount of about \$6,000 for this system. According to OPC, a balance sheet calculation of working capital would yield a negative working capital amount, and working capital should therefore be omitted in the rate base calculation. In OPC's brief, working capital is calculated on a schedule (Schedule 6) that shows a negative working capital condition; however, OPC's proposed calculation counts a \$897,139 tax liability twice, thereby converting a positive amount to an inaccurate negative sum. Further, this calculation uses year-end amounts rather than average balances.

Utility witness Harrison testified that the balance sheet approach yielded a \$550,000 working capital provision in the interim rate application. He further testified that deferred allowance for funds prudently invested (AFPI) charges, which are excluded in OPC's proposed calculation, should not be omitted in a balance sheet provision for working capital.

Upon consideration, we find it appropriate to calculate working capital using the formula method. Based on our decisions and adjustments discussed in later portions of this Order, we find the appropriate working capital balance to be \$108,876.

Rate Base

Based on our decisions and adjustments discussed above, we find that the appropriate rate base value is \$6,343,868. A schedule which depicts the wastewater rate base balance is attached as Schedule No. 1-A. Our adjustments are reviewed on Schedule No. 1-B.

COST OF CAPITAL

Debt Capital

In the MFRs, the utility estimated its outstanding debt capital, on average for the projected test year, to be \$33,266,875 before any reconciliation measures. The staff audit review disclosed that the utility's reported \$11,200,000 "Credit Line" at June 30, 1992 was overstated and should be reduced by \$5,000,000 because funds obtained from an equivalent bond offering (Series K) were used to reduce the line of credit. Utility witness Harrison testified that the utility uses its short-term line of credit to finance new construction. He further testified that long-term bonds are issued when such financing is economical and feasible, the proceeds are used to pay down the short-term credit line. Based on the foregoing, we find it appropriate to reduce the average debt balance by \$2,500,000, before adjustments that reconcile rate base and the capital structure, to correct the overstatement of the short-term credit line.

Interest Rate for Debt Capital

Per Stipulation No. 2, the interest rate for the utility's outstanding line of credit is reduced to 6.5 percent, and loan amortization costs are reduced an additional .01 percent. Based on these adjustments and the reduced line of credit discussed above, we find the appropriate weighted cost of debt capital is 9.51 percent.

Accumulated Deferred Income Taxes

The utility's application reflects an accumulated deferred income tax balance of \$5,994,825 in the test year capital structure. This balance excludes deferred taxes related to AFPI in the amount of \$3,948,000. The staff audit report disclosed errors in the utility's deferred tax balance and stated that deferred taxes should be decreased by \$109,282. At hearing, the utility accepted the audit adjustments and agreed that the appropriate provision for accumulated deferred income taxes is \$5,855,543, before reconciliation to rate base. However, an additional adjustment related to carrying charges (deferred taxes) on the accrual of an AFPI is also appropriate.

Utility witness Harrison testified that the deferred taxes associated with AFPI will be collected from future customers and no cash funding of the carrying charges has taken place. Further,

witness Harrison indicated that only part of the adjustment to remove AFPI from the utility's capital structure was completed.

Based on Mr. Harrison's testimony, we find that the utility removed the cost-free capital from the capital structure, but failed to remove all effects of accruing AFPI from the capital structure. Accordingly, we find it appropriate to include deferred taxes in the amount of \$3,948,000, related to AFPI, in the provision for deferred incomes taxes. Therefore, the appropriate amount of accumulated deferred income taxes to be included in the capital structure is \$9,803,543, before reconciliation. The appropriate balance after reconciliation to rate base is \$818,624.

Investment Tax Credits (ITCs)

In its MFR filing, the utility reflects a beginning ITC balance of \$1,991,481. After reconciliation to rate base, the utility's adjusted ITC balance is \$169,011, with an associated cost of 9.72 percent. However, the utility incorrectly calculated the cost rate associated with the ITCs. In its MFRs, the utility showed the cost of the ITCs as the overall rate of return. The utility did not take a position on the appropriate balance of ITCs to be included in the capital structure; however, per Stipulation No. 4, accepted by this Commission at hearing, the associated cost of ITCs is to be calculated using investor sources of capital. Based on the utility's rate base amount and capital structure, we find the appropriate amount of ITCs to be included in the capital structure is \$166,294, with an associated cost rate of 10.50 percent.

Return on Equity

Per Stipulation No. 3 and the leverage formula approved in Order No. 24246, issued March 18, 1991, the appropriate return on equity for this utility is 13.11 percent. The authorized range for equity earnings is, therefore, 12.11 percent to 14.11 percent.

Overall Cost of Capital

Based on the return on equity and other adjustments discussed above, and the cost rates for other capital components, we find the appropriate overall cost of capital to be 9.14 percent with the corresponding range of return for the overall cost of capital of 8.89 percent to 9.39 percent. Schedule No. 2-A shows the components, amounts, cost rates, and weighted average cost of capital. The adjustments to the capital structure are shown on Schedule No. 2-B.

NET OPERATING INCOME (NOI)

Our calculations of the appropriate levels of NOI for this proceeding are attached as Schedule No. 3-A, with our adjustments on Schedule No. 3-B. 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.

Infiltration

It is the utility's position that its infiltration and inflow (I&I) program is adequate and that no adjustment to pumping and treating expenses is necessary. Utility witness Griggs testified that the utility has an ongoing program to reduce I&I, and that based on this program, testing and repair, if necessary, are conducted on a routine basis. According to Mr Grigg's testimony, the utility's goal is to maintain a volume of I&I at the low end of the acceptable allowable limits set forth by the Water Pollution Control Federation (WPCF), which is 10,000 gpd per mile of pipe. The utility has 29 miles of pipe, or 290,000 gpd of allowable infiltration. The high end of the range would be 30,000 gpd per mile of pipe, or 870,000 gpd, where the majority of pipe exists in the water table. Mr. Griggs further testified that using 290,000 gpd as the low end of acceptable limits for infiltration, the amount of infiltration is a little less than 22 percent of the water sold. Considerable testimony was offered addressing the amount of infiltration experienced by this system, a range of acceptable limits set forth by the WPCF, and the program the utility has in place to monitor the amount of infiltration it has. Upon consideration of the testimony and based on the foregoing, we find that the infiltration experienced by this system is not excessive. Accordingly, no adjustment for infiltration has been made to pumping and treatment expenses.

Chemical, Electrical, and Sludge Hauling Expenses

The utility requested increases in treatment plant chemical expense and purchased power expense of \$147,962 and \$125,796, respectively. Utility witness Harrison testified that the utility would incur increased expenses as a result of the new treatment plant going on line. Utility witness Bailey testified that the chemical expense requested reasonably reflects the cost of chemicals to operate the new plant effectively. His review was based upon published design manuals and the costs for specific chemicals from the utility's historical records. Witness Bailey also testified that chemical costs should not be reduced as a result of

infiltration because the amount of chemicals required for effective treatment are dependent upon loading of pollutants and not volume of flow. Utility witness Griggs also testified that no additional chemical cost was incurred as a result of infiltration. Upon consideration of the foregoing, we find that no adjustments to the requested amount of treatment plant chemical expense are appropriate.

Utility witness Bailey also testified that the requested purchased power costs include costs associated with equipment installed or to be installed at the new wastewater treatment facility. These costs included average electrical load based upon equipment run times, and the utility's historical cost for electric power. However, we find and witness Bailey concurred, that the costs of the old plant would no longer be incurred. We have calculated the appropriate adjustment based on the base year power cost of the old plant reflected in Schedule B-3 of the MFRs, plus a growth factor increase to that cost, and removing the power cost for the old plant. Accordingly, we find the appropriate amount by which purchased power is to be reduced to be \$80,246.

Operating Expenses

In the MFRs, the utility projects an increase in the provision for general liability insurance. OPC argues that the provision for general liability insurance should be reduced by \$5,000 to exclude what OPC characterizes as an "estimated increase" in test year expenses. OPC contends that it is unable to reconcile seemingly contradictory statements by Mr. Harrison that while reductions in general liability insurance premiums have reportedly been realized through self-insurance, general liability insurance is nonetheless \$5,000 more expensive than the corresponding expense in the utility's last rate case.

Utility witness Harrison testified that the utility adopted a program of partial self-insurance to confront increased costs in "the mid 1980's when general liability insurance premiums began to skyrocket." He further testified that substantial savings have been realized from this self-insurance program and that other measures were also adopted to reduce insurance costs. According to Mr. Harrison's testimony, the utility's parent company, Avatar Utilities, Inc., is very proactive in the area of claims management, aggressively pursuing all available defense and subrogation avenues to mitigate liability and reduce the cost of claims. This, he testified, has resulted in improved loss experience, which directly impacts the overall cost of insurance.

Mr. Harrison opined that these management efforts have reduced the utility's general liability insurance costs.

Based upon our review of the evidence in the record, we find the utility's provision for general liability insurance appropriate and no adjustment has been made.

Depreciation Expense

The adjustments to depreciation expense are the consequence of reductions to power equipment and the removal of the \$15,000 payment to DER, discussed in earlier parts of this Order. The combined adjustments reduce test year depreciation expense by \$2,623.

Rate Case Expense

In its MFRs, the utility included total estimated rate case expense of \$65,000. At hearing, Mr. Harrison sponsored a schedule showing a \$104,664 revised estimate for this expense. Following the hearing, the utility filed a late-filed exhibit showing a final estimate of \$93,989.

We find it appropriate to reduce the final estimate by \$14,327, which yields a \$79,662 provision for rate case expense. The \$14,327 reduction excludes \$6,687 in misclassified legal costs, removes a \$3,170 contingent cost relating to a petition for reconsideration, and further reduces legal expenses by \$4,470 to reflect a reduction in the number of hours estimated to complete the case.

Legal Services - Some payments for legal services relate to amendment of the utility's certificate and are incorrectly assigned to the rate case cost. Utility witness Harrison agreed that these costs were misclassified and should be removed. Removal of those charges reduces the allowance for rate case expense by \$6,687.

In addition, we find it appropriate to remove the projected cost for completion of this case, which cost includes \$3,170 in the event motions for reconsideration are filed. Finally, we have reduced the number of projected hours for the completion of legal services in this proceeding. The utility's estimated legal costs to completion, after removal of \$3,150 for reconsideration charges, is equivalent to about 14 additional 8-hour days. We find the utility overestimated a reasonable period of time to complete the case and have made a substitute ten day allowance. This adjustment results in a corresponding \$4,470 reduction to rate case expense.

In its brief, OPC contends that substantial legal costs should be disallowed since the explanation offered by the supporting invoices is too brief to adequately explain what specific services were provided. Contending that the basic term "research" is too cryptic an explanation, OPC proposed disallowing each bill if that term appeared in the description of services, even if other more descriptive services were also quoted. We disagree with this proposal for wholesale disallowance of legal charges. To some extent, cryptic notes regarding legal research would not be uncommon when the time devoted to research is minor, which appears to be true for most charges challenged by OPC in this proceeding.

OPC also argues in its brief that the Commission should reduce legal charges from the \$135 hourly rate charged after July 1991 to the \$125 hourly rate in effect before that date. OPC argues that the utility did not justify this "hefty" increase and, therefore, it should be removed. We disagree. There is no evidence in the record that the increased hourly rate compares unfavorably with fees collected by other attorneys. Further, this issue was not raised before the hearing and, therefore, the utility had no opportunity to present comparable data to support the hourly rate increase by its attorneys.

Accounting Services - The original \$65,000 estimate of accounting services included \$20,000 (at \$50 per hour) to reflect rate department services provided by Consolidated Water Services, Inc. Consolidated Water Services, Inc., is a related company that provides various support services for affiliated companies, including assistance in rate case matters. OPC argues that services provided by Consolidated Water Services from May, 1991, to February, 1992, should be disallowed since these charges were only supported by journal entries and computer printouts that do not describe what services were provided.

We find that substantial effort was involved in preparing the MFRs, responding to the various interrogatories, and preparing testimony for this proceeding. The largest billings occurred in September and October, which periods would coincide with preparation and submission of the MFRs. Based on our review, we find that the monthly billings indicate concern with precision in assigning rate case charges among the various systems with pending rate applications.

OPC also argued that a \$1,201.56 charge by Avatar Utility Services be removed because the supporting invoice was not filed. Review of the supporting documents for other charges by this utility indicates that the missing invoice corresponds to notifying

customers about the hearing that occurred in March. Such notification is required by Commission rule.

Based on the foregoing, we find that no reduction for accounting services is necessary.

Rate Case Expense Report - In order to verify the final, actual rate case expenses, we find it appropriate to require the utility to file, within 60 days of the issuance of this final Order, a breakdown of actual rate case expense incurred. The information is to be submitted in the manner required for Schedule B-10 of the MFRs.

Taxes Other Than Income Taxes

The utility's calculation of its revenue requirement included a \$77,216 pro forma provision for increased property taxes that relates to plant construction activities in 1992 and 1993. According to testimony of utility witness Harrison, the utility receives a property tax bill each November based on its net plant investment for the previous year. Mr. Harrison also testified that in Lee County, property taxes are not billed if the plant is not used and useful. In addition, the contributed portion of plant is not taxed.

On cross-examination, utility witness Harrison agreed that the utility may employ a pass-through application pursuant to Section 367.081(4)(b), Florida Statutes, to recover increased property taxes. Mr. Harrison testified that this mechanism allows recovery of the actual rather than the estimated increase. He also testified that the estimated tax will differ from the actual charge to the same extent the estimated and actual construction costs differ and that plant additions in 1992 will not be subject to taxation until 1993.

Pursuant to Section 367.081(4)(b), Florida Statutes, a utility may increase its rates to recover greater property taxes 30 days after it notifies the Commission that its ad valorem taxes have changed. A filing fee is not required; any added expenses would relate to notifying the Commission and the customers that a rate increase is imminent. Finally, a pass-through rate increase is subject to refund if the utility's return on investment exceeds its last authorized return. Therefore, based on the foregoing, we find it appropriate to remove the requested \$77,216 provision for increased property taxes.

Parent Debt Adjustment

Rule 25-14.004, Florida Administrative Code, requires that the income tax expense of a regulated company be adjusted to reflect the interest expense of the parent debt that may be invested in the equity of the subsidiary. Although North Fort Myers is a subsidiary of Consolidated Water Company (CWC) who, in turn, is a subsidiary of Avatar Utilities, Inc., only a single parent debt adjustment is necessary because the capital structure of CWC is being used in this case. Based on our determination of rate base and capital structure, we find the appropriate parent debt adjustment to be \$3,995.

Income Tax Expense

The utility requested \$167,237 of income tax expense to be included in the test year. OPC argues in its brief, however, that the appropriate amount of income tax expense to be included in the test year is zero. OPC asserts that the record reflects that the ultimate parent of North Fort Myers, Avatar Utilities, Inc., has large net operating loss (NOL) carryforwards and will not pay income taxes in the test year and many years to come. OPC believes that because there are large NOL carryforwards on Avatar's books, the taxes paid by North Fort Myers to Florida Cities are phantom taxes and the customers should not be required to pay for nonexistent costs.

A review of OPC's brief reflects that its entire basis for its position on income taxes is a very limited portion of Mr. Harrison's response to a Commissioner's inquiry in which he mentions eliminating the income tax obligation. We find that witness Harrison's testimony was taken out of context and the question along with Mr. Harrison's response should have been reflected or addressed in OPC's brief. Further reading of the transcript reflects that, although North Fort Myers participates in a consolidated tax return, it calculates its income taxes on a stand-alone basis and is liable for those taxes. Utility witness Harrison also opined that the operations generating losses should not be subsidized by a tax paying operation and the operation that is in a taxable situation should not have to bear the costs that resulted in the other's losses. We agree. We find it inappropriate to consider the losses generated from non-utility operations. Further, we find that the income tax expense of the utility should continue to be calculated as if the utility were a stand-alone company. Based on the level of revenues and expenses in this case, we find that the appropriate amount of income tax expense to be included in the test year is \$156,569.

Test Year Operating Income

The adjusted income level, or the difference between the utility's test year revenues and operating expenses, shows the expected earnings amount (or loss condition) if current rates were retained. Based on previously discussed adjustments, an operating loss of \$143,304 would be projected for the test year. This loss represents incomplete recovery of operating expenses and interest charges and the tax consequence related to such incomplete recovery. An operating statement for the test year is attached as Schedule No. 3-A. The adjustments are reviewed on Schedule No. 3-B.

REVENUE REQUIREMENT

Based on the utility's application and our adjustments and calculations discussed above, we find the appropriate annual revenue requirement to be \$2,056,639 for the wastewater system. This represents a \$1,214,104 (144.10 percent) annual increase for the wastewater system.

REFUND OF INTERIM RATES

By Order No. 25528, issued December 24, 1991, we approved an interim rate increase of \$164,322 or 20.09 percent for resulting annual revenues of \$982,387. We approved this increase subject to refund. Generally, a refund of interim rates will be required if final rates are less than the approved interim rates. However, in some cases, the approved test year for setting final rates will include conditions that are substantially different from actual conditions during the interim collection period. In those cases, another test of excessive earnings may be appropriate.

In this proceeding, the test period for establishing interim rates was the twelve month period ended August 31, 1991. The test year for final rate considerations is the projected twelve month period ending June 30, 1993. Significantly, this later test year includes the approximate \$4.8 million construction cost for the AWTP and the outfall line for effluent discharge. Only the outfall discharge line was in service for entire interim test year. The rate base used to establish interim rates included 50 percent of the \$575,868 cost of constructing the outfall line, since an average test year was employed for that calculation. The approved interim rates did not include any provisions for pro forma consideration of increased operating expenses or increased plant. The interim increase was designed to allow recovery of actual

interest costs, the specified dividend rate for preferred stock, and the floor of the last authorized range for equity earnings.

The approved final rates for this proceeding substantially exceed the approved interim rates. Much of this increase, however, is the result of the greater cost of owning and operating the AWTP. Therefore, we examined whether overearnings were likely from a somewhat different perspective. This test for overearnings was based on an average rate base for the twelve month period ended August 31, 1991, but with allowance for the entire cost of the outfall line. We find this to be appropriate because the outfall line was in service throughout the interim collection period, it is a non-revenue producing asset, and it was required by regulatory orders. We also increased operating expenses to reflect expected inflation. Finally, we computed a comparable revenue requirement using the cost of capital, determined in an earlier portion of this Order, since this overall cost of capital includes the return on equity that is used to check for excessive earnings.

Based on our calculations, we find the corresponding revenue requirement for the interim period to be \$1,036,983, or an increase of about 26.76 percent relative to rates in effect when the application was filed. This comparable revenue requirement exceeds the 20.09 percent interim increase approved by the Commission. Therefore, we have determined that excessive earnings did not result from collection of interim rates. Accordingly, we find no refund is required of the interim wastewater revenues.

RATES AND RATE STRUCTURE

Rates

The permanent rates requested by the utility are designed to produce annual revenues of \$2,263,769 for its North Fort Myers wastewater operations. The requested revenues represent an increase of \$1,439,216 (174.5 percent) for wastewater revenues based on the test year ending June 30, 1993.

We have established the appropriate revenue requirement to be \$2,056,639 on an annual basis. The rates, which we find to be fair, just and reasonable, are designed to achieve this revenue requirement continuing the use of the base facility charge rate structure. The base facility charge rate structure gives the utility the ability to track costs and gives the customers some control over their wastewater bills. Each customer pays his pro rata share of the related costs necessary to provide service

through the base facility charge and only the actual usage is paid through the gallonage charge.

The utility's current and requested residential wastewater gallonage cap is 8,000 gallons. Analysis of the residential billing data reflects that 89.57 percent of the residential gallons fall within the frame of the 6,000 gallons consolidated factor as opposed to the 8,000 gallons consolidated factor. We approved Stipulation No. 6 which provided that the residential wastewater maximum gallonage cap should be lowered from 8,000 gallons to 6,000 gallons to more accurately reflect the usage pattern of the bulk of the residential customers. Accordingly, we find that the appropriate wastewater maximum gallonage cap is 6,000 gallons.

The approved rates will be effective for meter readings on or after thirty days from the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon Staff's verification that the tariffs are consistent with this Commission's decision, and that the proposed customer notice is adequate.

The utility's present rates, interim rates, requested rates and our final approved rates are set forth below for comparison.

FLORIDA CITIES WATER COMPANY
 North Fort Myers Wastewater Division

Schedule of Monthly Rates
Wastewater

Residential

| <u>Meter Size</u> | <u>Utility Present Rates</u> | <u>Commission Approved Interim Rates</u> | <u>Utility Requested Final Rates</u> | <u>Commission Approved Final Rates</u> |
|-------------------|------------------------------|--|--------------------------------------|--|
| All Sizes | \$ 9.95 | \$11.95 | \$12.46 | \$23.99 |
| Gallonage Charge | \$ 1.75 | \$ 2.10 | \$ 6.55 | \$ 4.55 |
| Maximum Gallons | 8M | 8M | 8M | 6M |
| Minimum Bill | \$ 9.95 | \$11.95 | \$12.46 | \$23.99 |
| Maximum Bill | \$23.95 | \$28.75 | \$64.86 | \$50.99 |

General Service
 (Includes Commercial, Multi-Family and Public Authority)

| Meter Size | Utility Present Rates | Commission Approved Interim Rates | Utility Requested Final Rates | Commission Approved Final Rates |
|----------------------------------|-----------------------|-----------------------------------|-------------------------------|---------------------------------|
| 5/8" X 3/4" | \$ 9.95 | \$ 11.95 | \$ 12.46 | \$ 23.99 |
| 1" | 24.46 | 29.37 | 31.15 | 59.98 |
| 1-1/2" | 48.63 | 58.40 | 62.30 | 119.95 |
| 2" | 77.65 | 93.25 | 99.68 | 191.92 |
| 3" | 155.01 | 186.15 | 199.36 | 383.84 |
| 4" | 242.04 | 290.67 | 311.50 | 599.75 |
| 6" | 483.80 | 581.00 | 623.00 | 1,199.50 |
| Gallagege Charge (No Maximum) | \$ 2.11 | \$ 2.53 | \$ 7.88 | \$ 5.46 |

Service Availability Charges

In its application, the utility did not request a change in its current service availability charges. Utility witness Harrison testified that it would not make any material difference in the level of CIAC to change the service availability charges at this point in time, as the plant is designed to accommodate 5,400 ERCs and 5,125 ERCs have already been collected as of June 30, 1991. We agree with witness Harrison that it would not make any material difference to change the service availability charges at this point. Late-filed Exhibit No. 12 reflects that the utility collected CIAC charges of \$2,938,957 as of June 30, 1991. The remaining 275 ERCs (5,400 ERCs capacity - 5,125 ERCs collected) would produce only \$96,250 for total CIAC of \$3,035,277, as of June 30, 1993. Applying the guidelines for designing service availability policies in Rule 25-30.580, Florida Administrative Code, the minimum level of CIAC is 26.88 percent. Based on the calculations above, the projected CIAC level will be 29.19 percent, as of June 30, 1993. Therefore, we find that the CIAC level falls within the guidelines of Rule 25-30.580, Florida Administrative Code. Accordingly, we find it appropriate to make no change to the existing service availability charges.

Miscellaneous Service Charges

By Stipulation No. 5, entered into by the parties and approved by this Commission, the utility's miscellaneous service charges are to be adjusted to conform with those set forth in Staff Advisory Bulletin No. 13, Second Revised. Miscellaneous service charges will be effective for service provided on after the stamped approval date of the revised tariff sheets. The tariff sheets will be approved upon Staff's verification that the tariffs are consistent with Staff Advisory Bulletin No. 13, Second Revised. The customer notice shall contain a description of the new charges.

Statutory Reduction

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. This statute applies to all rate cases filed on or after October 1, 1989. Florida Cities' rates should be reduced by \$20,854 after four years. The revenue reduction reflects the annual rate case amount amortized plus the gross-up for regulatory assessment fees.

The utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility shall also 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.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction to determine the water and wastewater rates and charges of Florida Cities Water Company, pursuant to Section 367.081 and 367.101, Florida Statutes.
2. As the applicant in this case, Florida Cities Water Company 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 that the application by Florida Cities Water Company for increased rates and charges for wastewater service is hereby approved to the extent set forth in the body of this Order. It is further

ORDERED that each of the findings contained 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 the increased rates approved herein shall be effective for meter readings taken 30 days on or after the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon Staff's verification that they accurately reflect our decision herein and upon approval of the proposed customer notice. It is further

ORDERED by the Florida Public Service Commission that the Motion to Strike filed by the Office of Public Counsel is hereby denied. It is further

ORDERED that the miscellaneous service charges approved herein shall be effective for service provided on after the stamped approval date of the revised tariff sheets. The tariff sheets will be approved upon staff's verification that the tariffs are consistent with Staff Advisory Bulletin No. 13, Second Revised, and that the customer notice contains a description of the new charges. It is further

ORDERED that, prior to the implementation of the rates and charges approved herein, Florida Cities Water Company shall submit

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a proposed customer notice explaining the increased rates and charges and the reasons therefor. It is further

ORDERED that Florida Cities Water Company shall submit, within 60 days of the issuance of this Order, a breakdown of actual rate case expense incurred. This information shall be submitted in the manner required for Schedule B-10 of the MFRs. It is further

ORDERED that the rates approved herein shall be reduced at the end of the four-year rate case expense amortization period. The utility shall file revised tariff sheets no later than one month prior to the actual date of the reduction. It is further

ORDERED that this docket may be closed upon approval of the utility's revised tariff sheets and proposed customer notice.

By ORDER of the Florida Public Service Commission, this 1st day of July, 1992.



STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

LAJ/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

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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.

| FLORIDA CITIES WATER CO. -- NORTH FT. MYERS DIVISION | | | | SCHEDULE NO. 1-A | | |
|--|-----------------------------|------------------------|--------------------------------------|---------------------------|-------------------------------------|--|
| SCHEDULE OF WASTEWATER RATE BASE | | | | DOCKET NO. 910756-SU | | |
| TEST YEAR ENDED JUNE 30, 1993 | | | | | | |
| COMPONENT | TEST YEAR PER UTILITY | UTILITY ADJUSTMENTS | ADJUSTED TEST YEAR PER UTILITY | COMMISSION ADJUSTMENTS | COMMISSION ADJUSTED TEST YEAR | |
| 1 UTILITY PLANT IN SERVICE | \$ 10,216,778 | \$ 0 | \$ 10,216,778 | (\$35,357) | 10,181,421 | |
| 2 LAND | 5,000 | 0 | 5,000 | | 5,000 | |
| 3 NON-USED & USEFUL COMPONENTS | 0 | 0 | 0 | | 0 | |
| 4 ACCUMULATED DEPRECIATION | (1,843,615) | 0 | (1,843,615) | 37,754 | (1,805,861) | |
| 5 ACQUISITION ADJUSTMENT -NET | 0 | 0 | 0 | | 0 | |
| 6 CIAC | (3,014,557) | 0 | (3,014,557) | | (3,014,557) | |
| 7 AMORTIZATION OF CIAC | 861,365 | 0 | 861,365 | 7,624 | 868,989 | |
| 8 DEBIT DEFERRED INCOME TAXES | 0 | 0 | 0 | | 0 | |
| 9 WORKING CAPITAL ALLOWANCE | 118,449 | 0 | 118,449 | (9,573) | 108,876 | |
| RATE BASE | \$ 6,343,420 | \$ 0 | \$ 6,343,420 | 448 | \$ 6,343,868 | |

FLORIDA CITIES WATER CO. - NORTH FT. MYERS DIVISION
 ADJUSTMENTS TO RATE BASE
 TEST YEAR ENDED JUNE 30, 1993

SCHEDULE NO. 1-B
 PAGE 1 OF 1
 DOCKET NO. 910756-SU

| EXPLANATION | WATER | WASTEWATER |
|---|-------|-------------|
| <hr/> | | |
| UTILITY PLANT IN SERVICE | | |
| <hr/> | | |
| 1. Adjustment to correct provision for power operated equipment | | \$ (20,357) |
| 2. Adjustment to remove \$15,000 payment to DER (Consent Order 90-1747) in determining cost of constructing treatment plant | | (15,000) |
| | | <hr/> |
| | | \$ (35,357) |
| | | ===== |
| ACCUMULATED DEPRECIATION | | |
| <hr/> | | |
| Adjustment to correct provision for power operated equipment | | \$ 37,754 |
| | | ===== |
| ACCUMULATED AMORTIZATION OF CIAC | | |
| <hr/> | | |
| Correction to reported provision for amortization of CIAC | | \$ 7,624 |
| | | ===== |
| WORKING CAPITAL | | |
| <hr/> | | |
| Working capital computed using formula approach and adjusted test year operating expenses | | \$ (9,573) |
| | | ===== |

| FLORIDA CITIES WATER CO. - NORTH FT. MYERS DIVISION CAPITAL STRUCTURE TEST YEAR ENDED JUNE 30, 1993 | | | | | | SCHEDULE NO. 2-A DOCKET NO. 910756-SU | | | | |
|---|--------------------------------------|---------|--------|-----------------------------|---|--|---------|--------|-------------------------------|--|
| DESCRIPTION | ADJUSTED TEST YEAR PER UTILITY | WEIGHT | COST | UTILITY WEIGHTED COST | COMMISSION RECONC. ADJ. TO UTILITY EXHIBIT | BALANCE PER COMMISSION | WEIGHT | COST | WEIGHTED COST PER COMM. | |
| 1 LONG TERM DEBT | \$ 3,296,078 | 52.17% | 9.68% | 5.05% | \$ (261,739) | \$ 3,034,339 | 47.83% | 9.51% | 4.55% | |
| 2 SHORT TERM DEBT | 0 | 0.00% | 0.00% | 0.00% | 0 | 0 | 0.00% | 0.00% | 0.00% | |
| 3 CUSTOMER DEPOSITS | 0 | 0.00% | 0.00% | 0.00% | 0 | 0 | 0.00% | 0.00% | 0.00% | |
| 4 PREFERRED STOCK | 763,804 | 12.09% | 9.00% | 1.09% | (12,278) | 751,526 | 11.85% | 9.00% | 1.07% | |
| 5 COMMON EQUITY | 1,598,764 | 25.31% | 13.11% | 3.32% | (25,699) | 1,573,085 | 24.80% | 13.11% | 3.25% | |
| 6 INVESTMENT TAX CREDITS | 169,011 | 2.68% | 9.72% | 0.26% | (2,717) | 166,294 | 2.62% | 10.50% | 0.28% | |
| 7 DEFERRED TAXES | 489,798 | 7.75% | 0.00% | 0.00% | 326,826 | 816,624 | 12.90% | 0.00% | 0.00% | |
| 8 TOTAL CAPITAL | \$ 6,317,475 | 100.00% | | 9.72% | \$ 26,393 | \$ 6,343,668 | 100.00% | | 9.14% | |
| RANGE OF REASONABLENESS | | | | | | | LOW | HIGH | | |
| | | | | | | | ----- | ----- | | |
| RETURN ON EQUITY | | | | | | | 12.11% | 14.11% | | |
| | | | | | | | ----- | ----- | | |
| OVERALL RATE OF RETURN | | | | | | | 8.89% | 9.39% | | |
| | | | | | | | ----- | ----- | | |

| FLORIDA CITIES WATER CO. - NORTH FT. MYERS DIVISION | | | | SCHEDULE NO. 2-B | |
|---|-------------------------------------|-------------------------------------|-----------------------|----------------------|--|
| ADJUSTMENTS TO CAPITAL STRUCTURE | | | | DOCKET NO. 910756-SU | |
| TEST YEAR ENDED JUNE 30, 1993 | | | | | |
| DESCRIPTION | SPECIFIC ADJUSTMENT (EXPLAIN) | SPECIFIC ADJUSTMENT (EXPLAIN) | PRO RATA RECONCILE | NET ADJUSTMENT | |
| 1 LONG TERM DEBT | \$ 35,542,047 | \$ (2,500,000) | (33,303,786) | \$(261,739) | |
| 2 SHORT TERM DEBT | 0 | 0 | 0 | 0 | |
| 3 CUSTOMER DEPOSITS | 0 | 0 | 0 | 0 | |
| 4 PREFERRED STOCK | 8,236,196 | 0 | (8,248,474) | (12,278) | |
| 5 COMMON EQUITY | 17,239,897 | 0 | (17,265,596) | (25,699) | |
| 6 INVESTMENT TAX CREDITS | 1,822,470 | | (1,825,187) | (2,717) | |
| 7 DEFERRED INCOME TAXES | 5,505,027 | 3,808,718 | (8,984,919) | 328,826 | |
| 8 TOTAL CAPITAL | \$ 68,345,637 | \$ 1,308,718 | (69,627,962) | \$ 26,393 | |

FLORIDA CITIES WATER CO. - NORTH FT. MYERS DIVISION
 STATEMENT OF WASTEWATER OPERATIONS
 TEST YEAR ENDED JUNE 30, 1993

SCHEDULE NO. 3-A
 DOCKET NO. 910756-SU

| DESCRIPTION | TEST YEAR PER UTILITY | UTILITY ADJUSTMENTS | UTILITY ADJUSTED TEST YEAR | COMMISSION ADJUSTMENTS | COMMISSION ADJUSTED TEST YEAR | REVENUE INCREASE | REVENUE REQUIRED |
|-----------------------------|--------------------------|------------------------|----------------------------------|---------------------------|-------------------------------------|---------------------|---------------------|
| 1 OPERATING REVENUES | \$ 824,553 | \$ 1,439,216 | \$ 2,263,769 | \$ (1,421,234) | \$ 842,535 | \$ 1,214,104 | \$ 2,056,639 |
| <u>OPERATING EXPENSES</u> | | | | | | 144.10% | |
| 2 OPERATION AND MAINTENANCE | \$ 947,588 | \$ 0 | \$ 947,588 | \$ (76,581) | \$ 871,008 | \$ | \$ 871,008 |
| 3 DEPRECIATION | 284,367 | 0 | 284,367 | (2,623) | 281,745 | | 281,745 |
| 4 AMORTIZATION | 949 | 0 | 949 | 0 | 949 | | 949 |
| 5 TAXES OTHER THAN INCOME | 188,283 | 64,765 | 253,048 | (141,172) | 111,876 | 54,635 | 166,511 |
| 6 INCOME TAXES | (355,969) | 517,206 | 161,237 | (440,976) | (279,739) | 436,308 | 156,569 |
| 7 TOTAL OPERATING EXPENSES | \$ 1,065,218 | \$ 581,971 | \$ 1,647,189 | \$ (661,350) | \$ 985,839 | \$ 490,943 | \$ 1,476,782 |
| 8 OPERATING INCOME | \$ (240,665) | \$ 857,245 | \$ 616,580 | \$ (759,684) | \$ (143,304) | \$ 723,161 | \$ 579,857 |
| 9 RATE BASE | \$ 6,343,420 | | \$ 6,343,470 | | \$ 6,343,868 | | \$ 6,343,868 |
| RATE OF RETURN | -3.79% | | 9.72% | | -2.26% | | 9.14% |

| FLORIDA CITIES WATER CO. -- NORTH FT. MYERS DIVISION | | SCHEDULE NO. 3-B | |
|--|-------|----------------------|-------------|
| ADJUSTMENTS TO OPERATING STATEMENTS | | PAGE 1 OF 1 | |
| TEST YEAR ENDED JUNE 30, 1993 | | DOCKET NO. 910756-SU | |
| EXPLANATION | WATER | WASTEWATER | |
| OPERATING REVENUES | | | |
| 1) Adjustment to reverse requested rate increase | | \$ | (1,439,216) |
| 2) Adjustment to reflect annualized revenues per billing analysis | | | 17,982 |
| | | \$ | (1,421,234) |
| OPERATING EXPENSES | | | |
| 1) Adjustment to show reduced provision for purchased power expenses | | \$ | (80,246) |
| 2) Adjust provision for rate case expense | | | 3,666 |
| | | \$ | (76,581) |
| DEPRECIATION | | | |
| 1. Adjustment due to reduced provision for power operated equipment | | | (2,036) |
| 2. Adjustment relating to \$15,000 payment to DER | | | (587) |
| | | \$ | (2,623) |
| TAXES OTHER THAN INCOME TAXES | | | |
| 1. Adjustment to reduce provision for regulatory assessment fees | | | (63,956) |
| 2. Adjustment to remove provision for pro forma property taxes | | | (77,216) |
| | | \$ | (141,172) |
| INCOME TAXES | | | |
| Provision for income taxes corresponding to adjusted income | | \$ | (440,976) |
| OPERATING REVENUES | | | |
| Adjustment to reflect annual revenue requirement | | \$ | 1,214,104 |
| TAXES OTHER THAN INCOME TAXES | | | |
| Adjustment to reflect added RAF due to increased revenues | | \$ | 54,635 |
| INCOME TAXES | | | |
| Provision for income taxes due to increased revenues | | \$ | 436,308 |