

**ORIGINAL
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FLORIDA CITIES WATER COMPANY

LEE COUNTY DIVISION

DOCKET NO. 950387-SU

TESTIMONY OF JAMES A. MCPHERSON

ON BEHALF OF THE STAFF OF THE FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND FINANCIAL ANALYSIS

FILED: MARCH 22, 1996

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FPSC-RECORDS/REPORTING

1 DIRECT TESTIMONY OF JAMES A. MCPHERSON

2 Q. Please state your name and business address.

3 A. My name is James A. McPherson and my business address is 9950 Princess
4 Palm Avenue, Suite 310, Tampa, Florida, 33619.

5 Q. By whom are you presently employed and in what capacity?

6 A. I am employed by the Florida Public Service Commission as a Regulatory
7 Analyst III in the Division of Auditing and Financial Analysis.

8 Q. How long have you been employed by the Commission?

9 A. I have been employed by the Florida Public Service Commission for
10 approximately three years and six months.

11 Q. Briefly review your educational and professional background.

12 A. In 1975, I received a Degree in Forestry from the University of Florida
13 and in 1978 I received an Accounting Degree from the University of South
14 Florida. I worked as a staff accountant for a CPA firm for three years.
15 Before joining the Commission Staff I was employed at Lykes Brothers, Inc.
16 for nine years, the last three years as the Manager of Internal Audit

17 I am a Certified Public Accountant licensed in the State of Florida.
18 I also am a member of the Florida Institute of Certified Public Accountants
19 and the American Institute of Certified Public Accountants.

20 Q. Please describe your current responsibilities.

21 A. Currently, I am a Regulatory Analyst III with the responsibilities of
22 planning and directing audits of regulated companies, and assisting in audits
23 of affiliated transactions. I also am responsible for creating audit work
24 programs to meet a specific audit purpose and I direct and control assigned
25 staff work as well as participate as a staff auditor and audit manager.

1 Q. What is the purpose of your testimony today?

2 A. The purpose of my testimony is to sponsor the staff audit report of
3 Florida Cities Water Company - Lee County Division, Docket No. 950387-SU. The
4 audit report is filed with my testimony and is identified as JAM-1.

5 Q. Was this audit report prepared by you?

6 A. Yes, I was the audit manager in charge of this audit.

7 Q. Please review the audit disclosures in the audit report.

8 A. Audit Disclosure No. 1 states that \$7,987 in 1994 water guaranteed
9 revenues were posted to the Sewer division. Therefore, for ratemaking
10 purposes, the 1994 sewer revenues should be reduced by \$7,987 with a resulting
11 \$359 reduction to Taxes Other Than Income.

12 Audit Disclosure No. 2 states that Utility Plant in Service should be
13 reduced by \$223,175. This includes \$210,734 for legal fees relating to the
14 utility's lawsuit with the Department of Justice and \$12,441 for engineering
15 fees that should have been charged to the water system.

16 Audit Disclosure No. 3 discusses several adjustments to utility plant
17 in service (UPIS) and accumulated depreciation (A.D.). These adjustments are
18 as follows: 1) adjust the cost of removal for work order 4214 and 4197 (reduce
19 UPIS and A.D. by \$9,057); 2) record prior Commission order adjustments (reduce
20 UPIS by \$35,357 and A.D. by \$37,754); 3) adjust depreciation recorded on power
21 operated equipment (increase A.D. by \$9,127); 4) correct double posting of
22 retirement (increase A.D. by \$118); 5) capitalize laboratory equipment
23 (increase UPIS by \$1,352); and 6) reduce A.D. by \$16,912 for reduction in
24 Disclosure No. 2.

25 Audit Disclosure No. 4 discusses an adjustment to increase Accumulated

1 Amortization of CIAC by \$1,659 in order to reflect the prior Commission order.

2 Audit Disclosure No. 5 discusses my calculation of the Working Capital
3 Allowance. I recommend that the \$2,000,000 intercompany note should be
4 removed from the current liabilities. The utility also adjusted the working
5 capital allowance for the base year for accrued preferred stock dividends
6 payable. However, the utility amount the utility adjusted included an amount
7 of \$221,791 for "income tax refund receivable from parent". Therefore I
8 recommend a correction to the adjustment for this amount.

9 Audit Disclosure No. 6 discusses the utility's method for reporting
10 customer deposits in the rate case. In this case, the utility allocates a
11 portion of the total company customer deposits to the North Ft. Myers division
12 using the same allocation factor used to allocate corporate debt and equity.

13 Audit Disclosure No. 7 discusses the utility's projection to issue new
14 bonds in June 1995. As of July 19, 1995, no bonds had been issued.

15 Audit Disclosure No. 8 lists several deferred assets and liabilities
16 that were not included in the utility's MFR schedules for capital structure.
17 These items are mostly for CIAC gross-up but also include Deferred Pension
18 Liability, Deferred Gross Receipts Tax, and Accrued Post Retirement Benefits.

19 Q. Does this conclude your testimony?

20 A. Yes, it does.

21

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FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

12 MONTHS ENDED DECEMBER 31, 1994

Field Work Completed

July 20, 1995

**FLORIDA CITIES WATER COMPANY
NORTH FT. MYERS WASTEWATER**

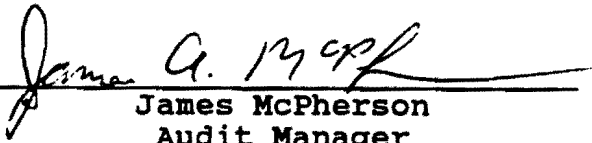
North Ft. Myers, Florida

Lee County

Rate Case Audit

Docket Number 950387-SU

Audit Control Number 95-137-2-1



James McPherson
Audit Manager

Audit Staff

Anne Lawler

Minority Opinion

Yes _____ No AL/gcm


Glenn Clepper
Regulatory Analyst Supervisor
Tampa

DOCUMENT NUMBER-DATE

07411 AUG-3 95

FPSC-RECORDS/REPORTING

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I. EXECUTIVE SUMMARY

AUDIT PURPOSE: We have applied the procedures described in Section II of this report to audit the schedules of Rate Base, Net Operating Income, and Capital Structure for the historical twelve month period ending December 31, 1994 and the projected twelve month period ending December 31, 1995 prepared by Florida Cities Water Company - North Ft. Myers Wastewater Division for their Petition for rate relief, FPSC Docket No. 950387-SU.

SCOPE LIMITATION: The Utility determined that an audit exit conference was not necessary. There are no confidential workpapers in this audit.

DISCLAIM PUBLIC USE: This is an internal accounting report prepared after performing a limited scope audit; accordingly, this document must not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

OPINION: The schedules of Rate Base, Net Operating Income, and Capital Structure for the historical twelve month period ending December 31, 1994 and the projected twelve month period ending December 31, 1995 represent Florida Cities Water Company - North Ft. Myers Wastewater Division books and records maintained in substantial compliance with Commission Directives. The expressed opinions extend only to the scope of work described in Section II of this report.

SUMMARY FINDINGS:

The Utility overstated Guaranteed Revenue \$7,987 in 1994. This overstatement was due to a misposting between divisions.

The Utility did not reduce their Plant in Service account \$35,357 as required by a previous FPSC Order. Legal expenses of \$210,734 and engineering fees of \$12,441 were also incorrectly included in the plant accounts. Because of these, and other small errors, adjustments were made to reduce Accumulated Depreciation \$54,478 at December 31, 1994.

The Utility should increase their Accumulated Amortization of CIAC \$1,659 because a prior rate order adjustment was not made.

Liabilities included in the MFR Working Capital Allowance at December 31, 1994 were overstated \$2,221,791. The projected amount at December 31, 1995 was properly computed.

II. AUDIT SCOPE

The opinions contained in this report are based on the audit work described below. When used in this report COMPILED and EXAMINED means that audit work includes:

COMPILED - Means that the audit staff reconciled exhibit amounts with the general ledger; visually scanned accounts for error or inconsistency; disclosed any unresolved error, irregularity, or inconsistency; and, except as otherwise noted performed no other audit work.

EXAMINED - Means that the audit staff reconciled exhibit amounts with the general ledger account balances to subsidiary ledgers; applied selective analytical review procedures; tested account balances to the extent further described; and disclosed any error, irregularity, or inconsistency observed.

RATE BASE: Compiled Utility Plant in Service and Contributions in Aid of Construction (CIAC) from the prior audit to December 31, 1994. Analyzed the year end balance in Construction Work in Progress (CWIP). Recomputed Accumulated Depreciation and Accumulated Amortization of CIAC through the end of the projected test year using FPSC approved rates. Judgementally selected all annual plant account additions in excess of \$25,000 and annual retirements in excess of \$5,000 and traced to supporting cost documentation. Traced selected annual CIAC additions to FPSC approved tariff amounts and to Company schedules. Recomputed Working Capital.

Obtained and reviewed cost documentation for projected 1995 plant additions. Traced plant additions and retirements through April 1, 1995 to the General Ledger.

NET OPERATING INCOME: Examined utility revenue accounts for the historical test year ended December 31, 1994. Recomputed judgementally selected customer bills using FPSC approved rates. Examined operating and maintenance (O&M) accounts for the year ended December 31, 1994. Judgementally selected expenditures to verify by tracing to supporting invoices and/or cancelled checks. Recalculated Depreciation Expense per F.A.C. 25-30.140. Taxes Other Than Income were traced to supporting documentation.

Analyzed adjustments to NOI for the projected test year ended December 31, 1995.

CAPITAL STRUCTURE: Compiled Capital Structure components as of December 31, 1994. Agreed terms of new bond issue to bond indenture agreement. Confirmed loan balances at December 31, 1994 with bank.

AUDIT DISCLOSURE No. 1

SUBJECT: OVERSTATED GUARANTEED REVENUES

STATEMENT OF FACTS:

The Guaranteed Revenue and associated Gross Receipts Tax relating to the South Ft. Myers - Water division was posted to the North Ft. Myers - Sewer division in February and October 1994. Similarly, the North Ft. Myers Sewer division Guaranteed Revenue and tax for these two months was posted to the South Ft. Myers - Water division.

STATEMENT OF OPINION:

The net effect of these mispostings is that the 1994 North Ft. Myers - Sewer division revenues are overstated \$7,987 and the gross receipts tax expense is overstated \$359.

Since these are prior year revenue adjustments between operating divisions, no adjustment needs to be made on the books of the Company. However, for rate making purposes, 1994 actual revenues earned should be reduced \$7,987 and Taxes Other than Income should be reduced \$359.

COMPANY COMMENTS - VERBATIM:

The Company may respond at a later date.

AUDIT DISCLOSURE NO. 2**SUBJECT: REDUCTIONS TO PLANT IN SERVICE****STATEMENT OF FACTS:**

Florida Cities Water Co. - North Ft. Myers division completed work on an expansion to their wastewater treatment plant in July, 1992. On October 1, 1993, the United States Department of Justice, on behalf of the U.S. Environmental Protection Agency, filed a civil action against the Company. Legal expenses of \$210,734 relating to this lawsuit that were incurred during 1992, 1993, and part of 1994, were capitalized as part of this expansion project. During 1994 the Company began expensing legal fees pertaining to the lawsuit and reporting them below the line.

The Utility had a project to relocate wastewater force mains and water mains along Pondella Road. Engineering costs for the water and wastewater sections were billed together. The Utility elected to allocate the engineering costs based upon each section's percentage of total contractor's cost. Initially, the Utility correctly allocated engineering costs 20% to the wastewater section and 80% to the water section. However, the final five payments, totaling \$34,887 in 1993 and \$6,584 in 1994 were allocated 50% to water and 50% to wastewater. These payments were allocated \$17,443 in 1993 and \$3,292 in 1994 to wastewater.

STATEMENT OF OPINION:

Legal fees totaling \$210,734 that were capitalized should be removed from plant in service and be consistently treated as a below the line expense item. Plant in service should also be reduced \$12,441 for engineering costs that belong in the N. Ft. Myers Water plant. Therefore plant in service should be reduced a total of \$223,175 for rate making purposes and on the books of the Utility.

Capitalized legal fees from 1992	\$ 16,643	
Capitalized legal fees from 1993	91,628	
Capitalized legal fees from 1994	<u>102,463</u>	
Subtotal		\$210,734
Reduction of engineering fees		
1993 - (17,443 - correct		
allocation of 34,887 x .2)	10,466	
1994 - (3,292 - correct		
allocation of 6,583 x .2)	<u>1,975</u>	
Subtotal		<u>12,441</u>
TOTAL		<u>\$223,175</u>

COMPANY COMMENTS - VERBATIM:

The Company may respond at a later date.

AUDIT DISCLOSURE NO. 3

SUBJECT: PLANT IN SERVICE, ACCUMULATED DEPRECIATION & DEPRECIATION EXPENSE

STATEMENT OF FACTS:

When assigning costs associated with Work Order No. 11-4214, \$1,368 of plant addition costs were charged to cost of removal. On Work Order No. 11-4197 the cost of removal was understated by \$10,425; it was charged to a plant account.

FPSC Order No. PSC-92-0594-FOF-SU reduced plant in service by \$35,357 and accumulated depreciation by \$37,754. The books of the Utility were not adjusted to reflect these adjustments. The MFR shows adjustments in 1995 that are per the PSC Order.

FAC 25-30.140 provides that power operated equipment will be depreciated using an average service life of 12 years. The Utility has been using 10 years. However, the Utility has not been recognizing enough depreciation expense because they were only depreciating certain specifically identified assets instead of the asset class.

In 1991 the Utility double posted a \$118 adjustment to the retirement cost of an item of power operated equipment.

The Utility expensed a piece of lab equipment costing \$1,352 that should have been capitalized per capitalization policy.

The Utility did not include the cost of plant retirements in their projections for 1995. The work orders used to project plant additions for 1995 include retirements of \$26,130.

STATEMENT OF OPINION:

The net effect of the two misclassifications is that the December 31, 1994 plant in service and accumulated depreciation accounts are overstated \$9,057 (\$10,425 - \$1,368).

Accumulated depreciation should be reduced \$37,754 and plant in service should be reduced \$35,357 so that the records of the Utility comply with FPSC Order No. PSC-92-0594-FOF-SU.

Adjustments to accumulated depreciation should also be made to reflect an additional \$9,127 of depreciation expense on the power operated equipment.

Accumulated depreciation should be increased \$118 to adjust for an asset retirement that was booked twice.

Audit Disclosure No. 3
Page 2

A net reduction of depreciation expense for the period of 1991 through 1994 totaling \$16,912 resulted from a reclassification of legal fees and all other plant adjustments as noted in Audit Disclosure No. 2. Accumulated depreciation should be decreased by this same amount. Of this total, \$7,440 is attributable to 1994 and depreciation expense for 1994 should be decreased accordingly.

Plant in service should be increased \$1,352 to reflect the reclassification of laboratory equipment that was originally expensed.

The above adjustments result in a total reduction to accumulated depreciation of \$54,478, as of December 31, 1994 and an additional reduction in plant of \$43,062. Additionally, for rate making purposes only, accumulated depreciation and plant should be reduced an additional \$26,130, so that depreciation expense can be properly projected for the test year ended December 31, 1995.

	Plant In Service -----	Accumulated Depreciation -----
W.O. 4214, Plant Cost Included in Cost of Removal	\$ 1,368	\$ 1,368
W.O. 4197 Cost of Removal Included in Plant	(10,425)	(10,425)
Adjustments per FPSC Order No. PSC-92-0594-FOF-SU	(35,357)	(37,754)
Additional depreciation on Power Operated Equip		9,127
Correct double posting of retirement		118
Reduction due to reclassifi- cations of legal fees and other plant adjustments (See Audit Disclosure #2)		(16,912)
Capitalize laboratory equip.	1,352	
Sub-total	(43,062)	(54,478)
Projected retirements	(26,130)	(26,130)
Total Adjustment including Projections	<u>(\$69,192)</u>	<u>(\$ 80,608)</u>

COMPANY COMMENT - VERBATIM:

The Company may respond at a later date.

AUDIT DISCLOSURE NO. 4

SUBJECT: ACCUMULATED AMORTIZATION OF CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)

STATEMENT OF FACTS:

FPSC Order No. PSC-92-0594-FOF-SU issued July 1, 1992, increased accumulated amortization of CIAC by \$7,624. Of this total, \$5,965 represents an adjustment to the estimated amortization of a projected period. The remaining adjustment of \$1,659 is a result of recalculations for 1986 and 1988.

STATEMENT OF OPINION:

The prior period adjustments increasing accumulated amortization of CIAC by \$1,659 were not made on the Utility's books. Therefore, both the Utility's books and their MFR Schedule A-13 should be increased \$1,659 in order to comply with FPSC Order No. PSC-92-0594-FOF-SU.

COMPANY COMMENTS - VERBATIM:

The Company did not have the prior audit workpapers to calculate this adjustment in the MFR's. The Company may respond at a later date.

AUDIT DISCLOSURE NO. 5**SUBJECT: WORKING CAPITAL ALLOWANCE****STATEMENT OF FACTS:**

Florida Cities Water Company has a \$2,000,000 intercompany note payable to Consolidated Water Company. This note payable was included in both the Cost of Long-Term Debt (MFR Schedule D-5) and the Calculation of Working Capital Allowance (MFR Schedule A-17) for the 12/31/94 base year. When computing their working capital allowance for the projected 12/31/95 test year, the Utility did remove this note from the intercompany payables.

On MFR Schedule A-17 the Utility references in Note "b" that an adjustment is being made to the base year balance for accrued preferred stock dividends payable. The amount of the adjustment was for the entire year end debit balance of \$154,291 in the referenced general ledger account 233.18. The actual portion of the account that reflects accrued preferred stock dividends was a credit of (\$67,500). An income tax refund receivable of \$221,791 due from the parent company, FCWC Holdings, Inc. was also posted to this intercompany payable account.

STATEMENT OF OPINION:

The \$2,000,000 intercompany note should be treated consistently and therefore, removed from the base year working capital calculations.

Only the accrued preferred stock dividends of \$67,500 remaining in account 233.18 should be removed from working capital, not the entire balance of the account.

As shown below, the working capital allowance for the base year ended 12/31/94 should be recalculated to equal \$74,486. The projected test year allowance at 12/31/95 would remain the same as reported on MFR Schedule A-17.

Current Assets		\$5,026,111
Current Liabilities per MFR	\$6,119,328	
Remove note payable	(2,000,000)	
Correct adjustment of dividends (154,291 + 67,500)	(221,791)	
Current Liabilities per Audit		<u>3,897,537</u>
Net Working Capital		1,128,574
Allocation %		<u>.066</u>
Working Capital - N. Ft. Myers Wastewater Division		<u>\$ 74,486</u>

COMPANY COMMENTS - VERBATIM:

The Company may respond at a later date.

DISCLOSURE NO. 6**SUBJECT: CUSTOMER DEPOSITS****STATEMENT OF FACTS:**

Florida Cities Water Company does not use actual customer deposits relating to the North Ft. Myers division when computing capital structure in their MFR schedules. Instead they combine deposits from all their divisions and then allocate a portion of this total to the North Ft. Myers division based on the same allocation factor used to allocate corporate debt and equity.

STATEMENT OF OPINION:

As of December 31, 1994 actual deposits associated with the North Ft. Myers Water and Sewer divisions were \$107,366. The Sewer division would be allocated \$53,683 (50%) of this amount. Total company deposits are projected to increase 51.5% during 1995. If deposits in the North Ft. Myers division increase this same amount then deposits at 12/31/95 would be \$81,344. This is \$30,834 less than the projected balance of \$112,178 used in the Utility's MFR Schedule D-1.

Using this method, in this rate filing, overstates deposits. Therefore, the Cost of Capital percentage is understated because deposit interest of 6% is less than the average 9.08% Cost of Capital calculated on MFR Schedule D-1.

RECOMMENDATION:

The Utility should be consistent in the method they use in calculating customer deposits. If this method has been used consistently in prior rate cases then it should be used in this case as well.

COMPANY COMMENTS - VERBATIM:

The Company may respond at a later date.

DISCLOSURE NO. 7

SUBJECT: NEW BOND ISSUE

STATEMENT OF FACTS:

The Utility's MFR Schedule D-5 (pg 2 of 3) shows that they projected a new \$5,000,000 Series L bond would be issued in June 1995. As of July 19, 1995 no new bonds had been issued.

STATEMENT OF OPINION:

Utility representatives have explained that they are still unsure of the amount of new bonds that will be issued. It is possible that they will issue a larger amount of bonds and use the proceeds to retire higher interest debt.

COMPANY COMMENTS - VERBATIM:

The Company may respond at a later date.

AUDIT DISCLOSURE NO. 8**SUBJECT: DEFERRED LIABILITIES NOT INCLUDED IN COST OF CAPITAL****STATEMENT OF FACTS:**

Certain deferred assets and liabilities were not included in the Utility's MFR Year End Capital Structure Schedule (Schd D-2, pg 2 of 4). Many of these accounts arise from the "gross up" of Contributions In Aid of Construction (CIAC) for income tax purposes. The Utility has set up both asset and liability accounts for the amount that CIAC was grossed up. The Utility then amortizes the asset over 20 years and the liability over 35 years. Since the asset is amortized faster than the liability, a net unamortized deferred credit remains on the books until the amortization is completed. At 12-31-94 this net deferred liability, not included in the Capital Structure was \$904,795.

Other deferred credits not included in the Capital Structure were Deferred Pension Liability of \$143,898, Deferred Gross Receipts Tax of \$400,058 and Accrued Post Retirement Benefits of \$976,226.

The Utility did include in their Capital Structure a deferred debit of \$337,382. This deferred debit relates to timing differences on the income tax deductibility of Post Retirement Benefits. It was used to reduce the amount of Accumulated Deferred Income Taxes which is listed as "zero cost debt" in the Utility's MFR Schedule D-1.

STATEMENT OF OPINION:

The greater the amount of "zero cost debt" included in the Utility's Capital Structure the lower the required Cost of Capital will be. Therefore it is to the Utility's advantage not to include items of debt that will increase this amount and to include debit balances that will decrease this amount.

Past practices in other rate cases should indicate whether the above items should or should not be included in the Utility's Cost of Capital calculations.

COMPANY COMMENTS - VERBATIM:

The Company's prior rate cases and PSC Orders did not include these accounts. Refer to our response to Document Request No. 18 for further clarification by Joe Schifano, Comptroller of FCWC.

Schedule of Sewer Rate Base

File: NFRA.wk1

Company: Florida Cities Water Co. - N Ft Myers Div.

Docket No.: 950387-SU

Test Year Ended: 12/31/95

Florida Public Service Commission

Schedule: A-2

Page 1 of 1

Preparer: Coel

Interim [] or Final [x]

Historic [] or Projected [x]

Explanation: Provide the calculation of 13-month average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use. Use the balance sheet method approach to determine working capital.

Line No.	(1) Description	(2) Balance Per Books 12/31/94	(3) Utility Adjustments	(4) Projected Test Year Balance 12/31/95	(5) Supporting Schedule(s)
1	Utility Plant in Service (Excl. Land)	\$11,649,007	\$1,728,332	\$13,377,339	
2	Utility Land & Land Rights	5,000	0	5,000	
3	Total Utility Plant in Service	11,654,007	1,728,332	13,382,339	A-4,A-6
4	Less: Non-Used & Useful Plant	0	0	0	A-7
5	Construction Work in Progress	91,345	(91,345)	0	-
6	Less: Accumulated Depreciation	2,558,856	584,542	3,143,398	A-8,A-10
7	Less: CIAC	3,183,270	136,760	3,320,030	A-11,A-12
8	Accumulated Amortization of CIAC	1,159,806	172,988	1,332,794	A-13,A-14
9	Acquisition Adjustments	0	0	0	-
10	Accum. Amort. of Acq. Adjustments	0	0	0	-
11	Less: Advances For Construction	0	0	0	A-16
12	Working Capital Allowance	0	124,774	124,774	A-17
13	Other: Allocation of General Office	0	27,799	27,799	A-3
14	Total Rate Base	<u>\$7,163,032</u>	<u>\$1,241,246</u>	<u>\$8,404,278</u>	

Schedule of Sewer Net Operating Income
 File: NFMS.wk1
 Company: Florida Cities Water Co. - N Ft Myers Div.
 Docket No.: 950387-SJ
 Test Year Ended: 12/31/95
 Historic [] or Projected [X]

 WASTEWATER

Florida Public Service Commission

Schedule: B-2
 Page 1 of 4
 Preparer: Coel

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 10) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) BASE YEAR Per Books 12/31/94	(3) TEST YEAR Adjustments	(4) PROJECTED TEST YEAR 12/31/95	(5) TEST YEAR Requested Revenue Adjustments	(6) TEST YEAR REQUESTED REVENUES 12/31/95	(7) Supporting Schedule(s)
1	OPERATING REVENUES	\$2,085,157	\$26,755	\$2,111,912	\$480,078	\$2,591,990	B-3, B-4
	Operation & Maintenance:				22.73%		% Increase
2	Source of Supply/Sewage Coll. Exp.	35,615	1,315	36,930	0	36,930	B-3
3	Pumping Expenses	81,218	2,970	84,188	0	84,188	"
4	Treatment Expenses	430,646	23,341	453,987	0	453,987	"
5	Transmission & Distribution Exp.	0	0	0	0	0	"
6	Customer Accounting Expenses	57,245	6,428	63,673	0	63,673	"
7	General & Administrative Expenses	315,080	6,294	321,374	0	321,374	"
8	Total Operation & Maintenance Exp.	919,804	40,349	960,153	0	960,153	"
9	Depreciation, net of CIAC Amort.	379,659	73,908	453,567	0	453,567	B-14
10	Amortization(Leasehold Improvements)	949	0	949	0	949	B-3, Pg 4 of 6
11	ALLOW. FOR FUNDS PRUDENTLY INVESTED	0	0	0	0	0	
12	Taxes Other Than Income	205,132	16,186	221,318	21,604	242,922	B-15
13	Provision for Income Taxes	105,294	(106,526)	(1,232)	172,524 #	171,292	B-2, Pg 2
14	OPERATING EXPENSES	1,610,838	23,916	1,634,754	194,128	1,828,882	
15	NET OPERATING INCOME	\$474,319	\$2,839	\$477,158	\$285,951	\$763,108	
16	RATE BASE	\$7,163,032	\$1,241,246	\$8,404,278	\$0	\$8,404,278	A-2
17	RATE OF RETURN	6.62%		5.68%		9.08%	

	PROJECTED TEST YEAR
* Revenue requirements:	
(1) Rate Base	\$8,404,278
(2) Operating Income - Present Rates	477,158
(3) Rate of Return Recommended	9.08%
(4) Required Operating Income(1)x(3)	763,108
(5) Income Deficiency (4)-(2)	285,951
(6) Gross Conversion Factor	1.6789
(7) Revenue Deficiency (5)x(6)	480,078
(8) Test Year Revenues	2,111,912
(9) Revenue Requirement (7)+(8)	\$2,591,990
(1) Marginal Income Tax Factor	37.63%
(2) Regulatory Assessment Fee	4.50%

Gross Conversion Factor Calculation:	
Gross Revenue	100,000
Plus: Reg Assess Fee Rate	4.5000
Net Revenue	95,5000
State Inc Tax	5.50%
Income Before I.T.	90,2475
Federal Inc Tax	34.00%
	30,6842
Net Operating Income	59,5634
Revenue Conversion	1.6789

Schedule of Requested Cost of Capital
 13-Month Average
 File: NFMd.wk1
 Company: Florida Cities Water Co. - N Ft Myers Div.
 Docket No.: 950387-SU
 Test Year Ended: 12/31/95
 Historic [] or Projected [X]
 Subsidiary [X] or Consolidated []

Florida Public Service Commission

Schedule: D-1
 Page 1 of 2
 Preparer: Coel

Explanation: Provide a schedule which calculates the requested Cost of Capital on a 13-Month Average Basis.
 If a year-end basis is used, submit an additional schedule reflecting year-end calculations.

Line No.	Class of Capital	(1) Reconciled To Requested Rate Base	(2) Ratio %	(3) Cost Rate %	(4) Weighted Cost %	(5) Support Schedules
TEST YEAR		Test Year				
12/31/95 YEAR END CAPITAL STRUCTURE		12/31/95				
1	Long-Term Debt	\$4,059,521	48.30%	9.53%	4.60%	D-5, 2 of 2
2	Short-Term Debt	0	0.00%	9.00%	0.00%	D-4
3	Preferred Stock	996,609	11.86%	9.00%	1.07%	
4	Common Equity	2,301,341	27.38%	11.34% a	3.11%	
5	Customer Deposits	112,178	1.33%	6.00%	0.08%	
6	Tax Credits - Zero Cost	0	0.00%	0.00%	0.00%	
7	Tax Credits - Wtd. Cost	185,843	2.21%	9.96% b	0.22%	
8	Accum. Deferred Income Taxes	748,786	8.91%	0.00%	0.00%	
9	Other (Explain)	0	0.00%	0.00%	0.00%	
10	Total	\$8,404,278	100.00%		9.08%	

(a) Per PSC Leverage Graph.....
 See Section G, Miscellaneous

- PSC Order #PSC-94-1051-FOF-WS (8/29/94)(Dkt No. 940006-WS)

Test Year Return on equity = 8.80% + 1.014 / Maximum = 11.34%
 0.3128 = 11.34%

(b) Calculation of Tax Credit Cost

	Test Year	Ratio %	Cost Rate %	Weighted Cost %
Long-Term Debt	\$4,059,521	54.35%	9.53%	5.18%
Short-Term Debt	0	0.00%	9.00%	0.00%
Preferred Stock	996,609	13.34%	9.00%	1.20%
Common Equity	2,301,341	30.81%	11.34%	3.49%
Customer Deposits	112,178	1.50%	6.00%	0.09%
	\$7,469,648	100.00%		9.96%

Supporting Schedules: D-2
 Recap Schedules: A-1,A-2

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a rate) DOCKET NO. 950387-SU
increase for North Ft. Myers)
Division in Lee County by) FILED: March 22, 1996
Florida Cities Water Company -)
Lee County Division.)
)

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of **TESTIMONIES OF JAMES A. MCPHERSON, BENNIE T. SHOEMAKER, ANDREW BARIENBROCK** has been furnished to the following by U.S. Mail this 22nd day of March, 1996:

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Page Two

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