

5077-100 RAR

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DIVISION OF LEGAL SERVICES
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Public Service Commission

November 5, 1996

Mr. Richard D. Melson
Hopping Green Sams & Smith, P.A.
P.O. Box 6526
Tallahassee, FL 32314

Re: Docket No. 960144-WU - Application for Increased Water Rates and Increase in Service Availability Charges By Lake Utility Services, Inc. in Lake County

Dear Mr. Melson:

Staff's further review of utility's MFRs and response to staff data request dated October 18, 1996 indicates that more detailed information supporting the utility's income and deferred income taxes calculation is needed before staff can proceed with our analysis. The specific information staff needs is as follows:

- The utility includes positive accumulated deferred income taxes of \$250,916 in its requested rate base, which is the net amount of the balance of Account No. 190 - Accumulated Deferred Income Taxes, Account No. 282 - Accumulated Deferred Income Taxes - Liberalized Depreciation and Account No. 283 - Accumulated Deferred Income Taxes - Other. Schedule C-6 of the MFRs only provides the balances of Accounts 282 and 283 and the net deferred income taxes.

- If the utility has maintained Account 190 at the subsidiary level, please provide the ending balances for the following accounts required by the Uniform System of Accounts for each year beginning in 1987:

Account 190 - Accumulated Deferred Federal Income Taxes
 Account 282 - Accumulated Deferred Federal Income Taxes
 Account 283 - Accumulated Deferred State Income Taxes

- If the utility has not maintained Accounts 190 at the subsidiary level, but at the parent level, please indicate whether or not the balances of the accounts referenced in (1) are the results of allocation from the parent. If so, please also indicate on what basis the allocation is made.

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FPSC-RECORDS/REPORTING

- (C). If the utility has not maintained Accounts 190 at either the subsidiary or the parent level, please prepare a proforma schedule showing the balances of accounts referenced in (1) on a "pay as you go" basis for each year beginning in 1987.
 - (D). Please indicate what kind of cost recovery/depreciation method the utility has been using to calculate its federal and state income tax liability. If accelerated depreciation is not used, please explain why.
2. The utility's response to staff's data request No. 19 dated October 18, 1996 includes a schedule showing CIAC taxes the utility paid for the tax year of 1995. According to this schedule, CIAC revenues are shown for 1988, 1990, 1992 and 1993.
- (A). If \$768,600 is not the total CIAC the utility has collected and paid federal income taxes for as of 12/31/95, then please indicate the total amount of CIAC by year the utility had collected which was subject to federal income tax from 1/1/87 to 12/31/95.
 - (B). Please indicate how the utility has treated the amortization of the debit deferred income taxes for the purposes of income tax calculation.
3. Schedule C-7 of the MFRs states that the utility's election to reduce investment tax credits was made at the parent level (Utilities, Inc.) and no separate elections were made for each of the subsidiaries. Please provide an explanation as to why the investment tax credits obtained at parent level were not allocated to the utility.
4. In its MFRs, the utility uses a federal income tax rate of 34% to calculate its federal income tax liability.
- (A). Please provide justification for use of a federal income tax rate LUSI's parent is subject to as opposed to a rate LUSI is subject to on a stand-alone basis.

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- (B). In line 10 of Schedule C-2 of the MFRs, the utility's state income taxes are calculated by taking the full state exemption of \$5,000. Also, a flat rate of 34% is applied to calculate LUSI's federal income tax. Please provide an explanation as to why a flat rate of 34% is used as opposed to progressive rates associated with each tax brackets.

To allow a reasonable amount of time for staff to review and analyze all information in this case, please submit the requested information by December 6, 1996. If you have any questions, please call Clay Zhang at (904) 413-6942.

Sincerely,



Tim Vaccaro
Senior Attorney

TV,CZ/mw

cc: Division of Records and Reporting ✓
Division of Auditing and Financial Analysis (Causseaux)
Division of Water and Wastewater (Willis, Merchant, Crouch, Rendell, Munroe,
Austin, Zhang)