



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: October 23, 1997
TO: Records and Reporting
FROM: Jackie Gilchrist *JG*
RE: Docket No. 971179-SU - Disposition of Gross-up Funds Collected by North Fort Myers Utility, Inc., in Lee County

Please place the attached letters dated December 10, 1996, and May 14, 1997, to Mr. Deterding, into the utility's docket file. These letters were inadvertently omitted from the Memo sent to you on October 22, 1997.

cc: Jaeger

- ACK _____
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- APP _____
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State of Florida

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DIVISION OF WATER &
WASTEWATER
CHARLES HILL
DIRECTOR
(904) 413-6900

Public Service Commission

May 14, 1997

Mr. F. Marshall Deterding
Rose, Sundstrom and Bentley
Post Office Box 1567
Tallahassee, FL 32302-1567

Re: North Fort Myers Utility, Inc. (NFMU)

Dear Mr. Deterding:

Pursuant to Order No. PSC-96-0686-FOF-WS, all pending CIAC gross-up refund cases are being processed pursuant to Order Nos. 16971 and 23541. The preliminary refund calculation sent to you on December 10, 1996, has been updated to include the revisions stated in Mr. Nixon's response dated January 9, 1997. Staff's revised preliminary refund calculation for 1994 for the fiscal year ended May 31, 1995 is being submitted accordingly. However, it should be noted that the information being requested below has not been included in staff's preliminary calculation. We believe the information requested below will impact our preliminary calculation, therefore, it is likely that the refund calculation for 1994 will be revised and resubmitted accordingly.

154,308

According to the schedule attached to Mr. Nixon's letter dated April 7, 1997, Carriage Village had 434 residential customers. Three hundred thirty four (334) of those customers paid in full, for a total of ~~\$120,652~~ of CIAC being collected and \$92,852 of gross-up collected from those customers who paid in full. Of the remaining 100 who paid in installments, how much CIAC and gross-up was collected from those customers as of May 31, 1995. Also, as of February 23, 1994, the schedule shows that 425 residential and 1 commercial customer of Lake Arrowhead/LE paid in installment, how much CIAC and gross-up was collected from those customers as of May 31, 1995. Further, as of July 15, 1992, the schedule shows that 80 residential customers of Forest Park paid in installment, how much CIAC and gross-up was collected from those customers as of May 31, 1995.

According to the schedule, Tamiami Village had 717 residential customers and 20 commercial customers. Four hundred fifty nine (459) residential and twenty (20) commercial customers paid in full, for a total of \$212,058 and \$44,764 of CIAC being collected and \$127,602 and \$26,939 of gross-up collected from those customers who paid in full. Of the remaining 258 who paid in installment, how much CIAC and gross-up was collected from those customers as of May 31, 1996? Also, how much CIAC and gross-up

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was collected as of May 31, 1996 from the installment contracts entered into in 1992 from Forest Park? How much CIAC and gross-up was collected as of May 31, 1996 from the installment contracts entered into in 1994 from Lake Arrowhead? How much CIAC and gross-up was collected as of May 31, 1996 from the installment contracts entered into in 1994 from Carriage Village?

According to the schedule, Lazy Days had 420 customers. Two hundred eighty nine (289) customers paid in full, for a total of \$133,518 of CIAC being collected and \$80,342 of gross-up collected from those customers who paid in full. Of the remaining 131 who paid in installment, how much CIAC and gross-up was collected from those customers as of May 31, 1996?

According to the information provided by NFMU, the utility collected CIAC of \$590,150 and gross-up of \$338,017 in 1994/95 and it collected CIAC of \$1,068,861 and gross-up of \$402,730 in 1995/96. It appears that the utility may have customers other than those shown on the schedule attached to Mr. Nixon's letter of April 7, 1997. Therefore, for those customers not represented on the schedule, for 1994/95, and for 1995/96, please provide: (1) the number of customers and the amount of CIAC paid (2) the number of customers and the amount of gross-up paid.

In its letter of February 28, 1997, it is stated that the installment contracts were not booked as income in the year entered into, but instead have been treated for the most part as income in the year in which the payments themselves were received. Staff believes that CIAC is income in the year received and "Receipt" occurs when the entity knows it has a legal right to the money and the amount of money is known. The amount to which NFMU is entitled to is established by tariff and by the installment contract agreements it made with the customers of NFMU. CIAC is a "condition precedent" to the receipt of service, which means CIAC must be paid before a customer will be served. The payment may be a lump sum or by installments. Staff believes NFMU must have been certain that it had a right to the CIAC or it would not have provided service to those who are paying by installment. Based on the reasoning above, staff plans to treat the installment contracts as "income" in the year the contracts were entered into. Therefore, the disposition of CIAC Gross-up for NFMU will be processed in the same manner as Hudson Utility (Docket No. 961270-SU).

Based on our preliminary analysis, it appears the utility will be required to make refunds for 1994 for the fiscal year ended May 31, 1995. Also, it is possible that the installment payments may be lower than what they are currently. In order to avoid having to modify its installment contracts, staff would like to know if NFMU would be interested in making the refunds up front to all its customers (the ones who paid in full and the ones who are paying on installment) whereby, NFMU could continue collecting from the customers the amount currently specified in the installment contract.

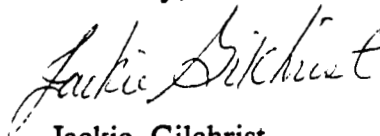
Letter to Mr. Deterding
May 14, 1997
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Mr. Nixon's letter of January 9, 1997, states that NFMU believes that the legal and accounting expenses incurred to file and process the 1995 (although I think he meant 1994) gross-up refund report should offset the revised excess gross-up collections of \$7,771. The total expense for legal and accounting fees total \$9,351. Of this amount, staff believes that \$8,952.14 of these expenses are prudent and should be offset against the 1994, not 1995 refund amount.

Finally, we have reviewed the special reports of NFMU, consisting of Schedule Nos. 1 through 6. A copy of staff's preliminary analysis of the refund calculation for 1995 for the fiscal year ended May 31, 1996, is being submitted also. Based upon our preliminary analysis, we agree with the utility that no refunds are required for 1995 for the fiscal year ended May 31, 1996. However, we believe the information requested above will impact our preliminary calculation, therefore, it is likely that the refund calculation for 1995 will be revised and resubmitted accordingly.

The information requested above should be filed by June 13, 1997. If you should have any questions, please do not hesitate to call.

Sincerely,



Jackie Gilchrist
Regulatory Analyst

enclosure

cc: Division of Legal Services (O'Sullivan)
Division of AFAD (Causseaux)
Office of Public Counsel (Riley)
Mr. Robert Nixon

STAFF CALCULATED GROSS-UP REFUND

North Fort Myers Utility

SOURCE: (Line references are from CIAC Reports)

	*REVISED *1994	1995
	-----	-----
1 Form 1120, Line 30 (Line 15)	\$ 865,768	\$ 1,429,893
2 Less CIAC (Line 7)	(590,150)	(1,068,861)
3 Less Gross-up collected (Line 19)	(338,017)	(402,730)
4 Add First Year's Depr on CIAC (Line 8)	21,090	15,966
5 Add/Less Other Effects (Lines 20 & 21)	(1,462)	(2,296)
6	-----	-----
7 Adjusted Income Before CIAC and Gross-up	\$ (42,771)	\$ (28,028)
8		
9 Taxable CIAC (Line 7)	\$ 590,150	\$ 1,068,861
10 Less first years depr. (Line 8)	\$ (21,090)	\$ (21,863)
11 Less CIAC associated with purchase of existing systems not grossed-up		(296,184)
	\$ -----	-----
12 Adjusted Income After CIAC	\$ 526,289	\$ 722,786
13 Less: NOL Carry Forward	0	0
14	\$ -----	-----
15 Net Taxable CIAC	526,289	\$ 722,786
16 Combined Marginal state & federal tax rates	37.63%	37.63%
17	\$ -----	-----
18 Net Income tax on CIAC	198,043	\$ 271,984
19 Less ITC Realized	0	0
20	\$ -----	-----
21 Net Income Tax	198,043	\$ 271,984
22 Expansion Factor for gross-up taxes	1.6033349	1.6033349
23	\$ -----	-----
24 Gross-up Required to pay tax effect	317,529	\$ 436,081
25 Less CIAC Gross-up collected (Line 19)	(338,017)	(402,730)
26	\$ -----	-----
27 (OVER) OR UNDER COLLECTION	(20,488)	\$ 33,351
28	=====	=====
29	\$	
30 TOTAL YEARLY REFUND	(20,488)	\$ 0
31	=====	=====
32		
33 PROPOSED REFUND (excluding interest)	(20,488)	0
34	=====	=====

State of Florida

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DIVISION OF WATER &
WASTEWATER
CHARLES HILL
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(904) 413-6900

Public Service Commission

December 10, 1996

Mr. F. Marshall Deterding
Rose, Sundstrom & Bentley
2548 Blairstone Pines Drive
Tallahassee, Florida 32301

Re: 1994 CIAC Report for North Fort Myers Utility, Inc.

Dear Mr. Deterding:

We have reviewed the CIAC report filed for 1994 and pursuant to Order No. PSC-96-0686-FOF-WS, all current Contributions-in-aid-of-Construction (CIAC) gross-up cases shall be processed under the provisions of Order Nos. 16791 and 23541. A copy of our preliminary analysis of the refund calculation is attached. This calculation is consistent with the calculation adopted by the Commission in Order No. PSC-92-0961-FOF-WS.

1994 - For the Fiscal Year ended May 31, 1995

On Schedule No. 1, note (1), it is stated, "that the company did not receive any contributions of physical property during the fiscal year. Increases in contributed property resulted entirely from the acquisition of existing systems and their historic cost basis. Therefore, no adjustment for first year depreciation is made. Plant additions were funded through increases in company debt". Staff agrees that no adjustment for first year's depreciation should be made on contributed property resulting from the acquisitions of existing systems. Therefore, please provide the amount of contributed property received from the acquisition of existing systems. Staff believes that cash CIAC collected has been used or should be used to pay off the company's debt, which in turn is being used to pay for plant additions. Therefore, staff's refund calculation for 1994 includes an estimated amount of \$33,331 for first year's depreciation on CIAC. If this amount appears to be unreasonable, please provide the first year's depreciation on CIAC.

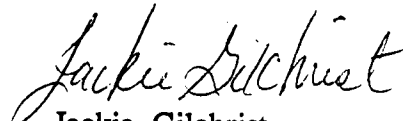
Schedule No. 3 shows a net of \$2,356 interest on customer deposits, plus amortization of loan costs. What is the gross amount of interest for customer deposits? What is the amount of amortization for loan costs? How much interest was earned in 1994 and 1995 on the gross-up escrow account?

Letter to Mr. Deterding
December 10, 1996
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The information requested above should be filed by January 10, 1997, so that staff can finalize its refund calculation. If the information requested above should impact our preliminary analysis, the refund calculation will be recalculated and resubmitted to you accordingly. If the utility disagrees with staff's calculations, alternative or corrected amounts along with supporting documentation should be provided no later than January 10, 1997, as well.

Should you have any questions, please do not hesitate to contact me.

Sincerely,


Jackie Gilchrist
Regulatory Analyst

Enclosure

cc: Division of Water and Wastewater (Hill)
Division of Auditing and Financial Analysis (Causseaux)
Mr. Robert C. Nixon

STAFF CALCULATED GROSS-UP REFUND

North Fort Myers Utility

SOURCE: (Line references are from CIAC Reports)

	1994
1 Form 1120, Line 30 (Line 15)	\$ 842,890
2 Less CIAC (Line 7)	(590,150)
3 Less Gross-up collected (Line 19)	(338,017)
4 Add First Year's Depr on CIAC (Line 8)	33,331
5 Add/Less Other Effects (Lines 20 & 21)	0
6	-----
7 Adjusted Income Before CIAC and Gross-up	\$ (51,946)
8	
9 Taxable CIAC (Line 7)	\$ 590,150
10 Less first years depr. (Line 8)	\$ (33,331)
11	-----
12 Adjusted Income After CIAC	\$ 504,873
13 Less: NOL Carry Forward	\$ 0
14	-----
15 Net Taxable CIAC	\$ 504,873
16 Combined Marginal state & federal tax rates	37.63%
17	-----
18 Net Income tax on CIAC	\$ 189,984
19 Less ITC Realized	0
20	-----
21 Net Income Tax	\$ 189,984
22 Expansion Factor for gross-up taxes	1.6033349
23	-----
24 Gross-up Required to pay tax effect	\$ 304,608
25 Less CIAC Gross-up collected (Line 19)	(338,017)
26	-----
27 (OVER) OR UNDER COLLECTION	\$ (33,409)
28	=====
29	
30 TOTAL YEARLY REFUND	\$ (33,409)
31	=====
32	
33 PROPOSED REFUND (excluding interest)	(33,409)
34	=====