

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a wastewater)	DOCKET NO. 910756-SU
rate increase for the North Fort Myers)	
division in Lee County by FLORIDA)	ORDER NO. 25528
CITIES WATER COMPANY)	
_____)	ISSUED: 12/24/91

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman
 SUSAN F. CLARK
 J. TERRY DEASON
 BETTY EASLEY

ORDER SUSPENDING PROPOSED RATES
AND GRANTING INTERIM RATES

BY THE COMMISSION:

BACKGROUND

Florida Cities Water Company (Florida Cities or utility) is a Class A utility providing wastewater service for two separate service areas in Fort Myers, Florida. The North Fort Myers wastewater system, which is the subject of this rate application, was serving approximately 2,400 customers as of June 30, 1991. The utility serves a substantial number of multi-family units that receive service through a master meter. For the twelve months ended June 30, 1991, revenues of \$793,444 were recorded for the utility's North Fort Myers wastewater system. The corresponding income amount was \$61,291.

On October 11, 1991, Florida Cities filed its application for approval of interim and permanent rate increases pursuant to Sections 367.081 and 367.082, Florida Statutes. The utility filed additional information to comply with the minimum filing requirements (MFRs) on October 14, 1991, and that date was established as the official date of filing. The utility's present rate structure was established by Order No. 15587, issued January 27, 1986. In 1990, the utility increased its rates through a price index increase pursuant to Section 367.081(4)(a), Florida Statutes.

The test year for final rate determination is the projected twelve-month period ended June 30, 1993. The interim test period is the twelve-month period ended August 31, 1991. The utility has

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requested that this case be set for a formal hearing which has been scheduled for March 25 and 26, 1992.

Florida Cities has requested interim wastewater rates designed to generate \$1,151,003 in annual revenues. These revenues exceed test year revenues by \$332,938 for an increase of 40.7 percent.

The utility has requested final wastewater rates designed to generate \$2,263,769 of annual revenues for an increase of \$1,439,216 (174.5 percent). According to the utility, a 174.5 percent permanent rate increase is needed to permit recovery of greater expenses and cost of capital charges that principally relate to building and operating an Advanced Wastewater Treatment (AWT) plant. This plant is being installed pursuant to orders issued by the Florida Department of Environmental Regulation and the U.S. Environmental Protection Agency. The projected construction cost for this plant and related facilities is \$4,786,742. The utility also estimates that improvements to its collection facilities will cost about \$354,000.

SUSPENSION

Section 367.081(6), Florida Statutes, provides that the rate schedules proposed by the utility shall become effective within sixty days after filing unless the Commission votes to withhold consent to implementation of the requested rates. In addition, the above-referenced statute allows the proposed rates to go into effect, under bond, eight months after filing unless final action has been taken by the Commission.

We have reviewed the filing and have considered the proposed rates, the amount of the additional revenues sought thereunder, and the information filed in support of the rate application. We find that it is reasonable and necessary to require further amplification, explanation and cross-examination of this data, as well as additional and/or corroborative data. In consideration of the above, we find it appropriate to suspend the utility's proposed rate schedules.

TEST YEAR

The utility requested that the Commission establish interim rates using end-of-year rate base and cost of capital measurements. Although the proposed rate base and capital accounts are year-end

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values, neither operating expenses nor operating revenues were annualized. Thus, the utility's interim rate request includes both average and end-of-year cost components.

The utility proposed this treatment to procure full rate base inclusion of the \$575,868 cost of building additional outfall facilities for discharge of treated effluent. The project was completed in July, 1991, pursuant to orders issued by the U.S. Environmental Protection Agency, for the purpose of discharging effluent in a different location in the Caloosahatchee River. This project is the first phase of a substantial building program to install advanced waste treatment and disposal facilities. The utility contends that a year-end rate base is appropriate because of the magnitude of this initial investment and because the project is required by a governmental agency.

Pursuant to Section 367.082(5)(a), Florida Statutes, the Commission shall determine the interim revenue deficiency (or excess) by comparing a utility's achieved return and its required rate of return using either an average investment rate base or an end-of-period investment rate base. Thus, the Commission has the authority and the discretion to decide when interim rates are to be established under year-end conditions rather than under average test year conditions.

It is standard practice to require a showing of extraordinary growth in order to use a year-end basis for rate purposes. In the instant case, Florida Cities contends that the \$575,868 cost of the outfall line is a substantial sum qualifying for extraordinary treatment. However, our analysis indicates that the revenue requirement on an interim basis is not materially larger when a year-end rather than an average test year is used. Although the year-end rate base is about \$266,000 larger, the corresponding cost of capital is smaller. The revenue differential is about \$38,000 overall, which is about 11 percent of the utility's requested interim rate increase. Thus, we find that this difference in revenue requirements is not sufficient to justify use of the requested year-end rate base and cost of capital determinations. The end-of-year conditions do not rise to the level of extraordinary circumstances, which standard has been the foundation for such allowance in setting final rates. Accordingly, we hereby deny the utility's request to determine its revenue requirement on a year-end basis for interim purposes.

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INTERIM RATES

Upon review of the information filed in the application, we find that, pursuant to Section 367.082, Florida Statutes, it is appropriate, on an interim basis, to increase annual wastewater revenues by \$164,322, subject to refund with interest.

RATE BASE

Used and Useful Adjustments

The utility's proposed rate base for interim purposes does not reflect any used and useful adjustments. In the utility's last rate case, a used and useful adjustment was made on the basis of average daily flow and an additional provision for margin of reserve compared to available treatment plant capacity. The allowance for margin of reserve, however, was fully offset by a corresponding imputation of CIAC. Therefore, the allowance for used and useful treatment plant was effectively limited to actual flow of 678,000 gallons per day (gpd) relative to available capacity of 1,080,000 gpd.

The utility's supporting schedules for its proposed interim rates do not show the actual month by month flows during the interim test year ended August 31, 1991. However, the MFRs for the proposed final rates disclose flows during the historical test year ended June 30, 1991. This supporting detail reveals that usage peaked in June of 1991, with average daily flow equal to 1,014,700 gpd (30,441,000 gallons divided by 30 days), or flow equivalent to 94 percent of available capacity. Therefore, consistent with treatment employed in the utility's last rate case, 6 percent of the net investment in treatment plant facilities has been removed from the rate base calculation.

The net plant balance for treatment facilities is likewise not shown in the supporting schedules for the interim test year. Again, the MFRs show similar information for the historical year ended June 30, 1991. This detail shows that approximately 24 percent of the utility's net plant investment relates to treatment and disposal facilities. Multiplying this portion by a 6 percent used and useful reduction yields a \$53,323 used and useful adjustment for the interim test year. A corresponding \$761 reduction to depreciation expense is also required.

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Working Capital

In the utility's last rate case, the provision for working capital was determined using the balance sheet approach. Per the utility's calculation, that approach yields its requested \$550,144 working capital provision for the interim test year. However, we find that the utility's calculation of working capital is incorrect.

The utility's proposed 5.58 percent relative portion for its North Fort Myers wastewater system was computed based on relative investments in 1992 (on average), which would include substantial additional funds for construction of an Advanced Wastewater Treatment plant. Based on average investment (excluding working capital) for the interim test year, the allocation percentage for this wastewater system would be about 2.6 percent. Using this allocation, the associated working capital provision would be \$249,289 for the North Fort Myers wastewater system. We find this amount to be the maximum amount to be included in the rate base calculation if the balance sheet approach is used to compute working capital.

However, information about the accounts included in the utility's balance sheet calculation of working capital was incomplete. For example, the account titled "Other deferred debits" had an average test year balance of \$9,666,337. A financial statement in the MFRs reveals that this deferred sum mostly corresponds to Allowance for Funds Prudently Invested (AFPI) fees, which fees permit recovery of carrying costs for plant capacity that exceeds current customer demand. This account may be an inappropriate provision in a balance sheet determination of working capital. Likewise, intercompany accounts and debt issue costs in the utility's calculation may be improperly included. Since a balance sheet did not accompany the utility's working capital calculation, proper inclusion of appropriate accounts cannot be assured. Absent more information, we find that a reasonable provision for working capital cannot be computed using the balance sheet approach. Accordingly, we have calculated working capital for interim purposes using the formula approach, or a provision equal to one-eighth of test year operating and maintenance expenses and have determined the appropriate allowance for working capital to be \$72,738.

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Rate Base Total

Based on the above, we have determined that the appropriate rate base for the wastewater system for interim purposes is \$1,595,540. The calculation of this figure is shown on Schedule No. 1-A, attached to this Order. The adjustments to this schedule are itemized as Schedule 1-B.

COST OF CAPITAL

In its application, the utility requested approval of a 10.46 percent cost of capital for interim purposes, but it used the capital outstanding at August 31, 1991. The utility's requested return on equity of 14.01 percent conforms with the lower limit of the authorized range for equity earnings per Order No. 15587, issued January 27, 1986. Based on the average capital structure, rather than the utility's proposed year-end amount, the overall rate of return for interim purposes is 10.78 percent. The capital structure schedule is shown on Schedule 2-A, attached to this Order. Our adjustments are shown in Schedule 2-B.

NET OPERATING INCOME

Pursuant to Section 367.082, Florida Statutes, an interim rate increase shall be authorized based upon the utility's failure to achieve its "required rate of return" during the most recent twelve month period. The utility's achieved rate of return is measured consistent with adjustments used in its most recent rate case. Adjustments which tend to reflect post-test year expenses (pro forma adjustments) or which annualize conditions in the test year are excluded, since those adjustments did not affect the "achieved rate of return."

Removal of AFPI Charges

The utility's operating statement for the interim test year includes a separate \$13,083 provision (a revenue account or a contra-expense account) for collection or accrual of AFPI charges. This fee is collected when a customer actually connects to the system, and it allows recovery of previously incurred carrying costs for non-used plant. Because the \$13,083 amount for accrual of AFPI charges is a non-operating account, we have removed \$13,083 from operating revenues for purposes of establishing interim rates.

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Incorrect Provision for Income Taxes

The utility's proposed interim rate increase includes a provision for payment of greater income taxes resulting from the additional income generated from the interim rate increase. The actual calculation employs an expansion factor to calculate increased income taxes. This incremental approach presumes that the reported level of income taxes before increasing rates is correctly stated.

The utility's reported tax provision before an interim increase does not correspond to its taxable income amount, which would include a deduction for interest expense, and it disregards amortization of deferred tax measures. The utility's calculation of income taxes for final rate purposes does include a check of the accuracy of reported income taxes before application of the expansion factor. Therefore, we have adjusted income taxes to include deductions for operating expenses, interest charges corresponding to the adjusted rate base amount, and amortization of deferred tax items.

REVENUE REQUIREMENT

Based upon recovery of actual operating expenses for the year ended August 31, 1991, and receipt of a 10.78 percent return on rate base, we find that it is appropriate, on an interim basis, to increase the utility's annual revenue requirement by \$164,322 for wastewater service. Schedule 3-A, attached to this Order shows our calculation of these figures. Our adjustments, are itemized on Schedule 3-B.

INTERIM RATES

The interim wastewater rates are designed to allow the utility the opportunity to generate additional revenues of \$164,322. This results in an increase of 20.09 percent over existing rates. We find these rates to be fair, just and reasonable. The existing rates and the approved interim rates are set forth below for comparison.

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SCHEDULE OF RATES

WASTEWATER

Residential

<u>Meter Size</u>	<u>Utility Present Rates</u>	<u>Commission Approved Interim Rates</u>
All Sizes	\$ 9.95	\$ 11.95
Gallonage Charge	\$ 1.75	\$ 2.10
Maximum Gallons	8 M	8 M
Minimum Bill	\$ 9.95	\$ 11.95
Maximum Bill	\$ 23.95	\$ 28.75

GENERAL SERVICE

(Includes Commercial, Multi-Family and Public Authority)

<u>Meter Size</u>	<u>Utility Present Rates</u>	<u>Commission Approved Interim Rates</u>
5/8"x3/4"	\$ 9.95	\$ 11.95
1"	24.46	29.37
1 1/2"	48.63	58.40
2"	77.65	93.25
3"	155.01	186.15
4"	242.04	290.67
6"	483.80	581.00
Gallonage Charge (No Maximum)	\$ 2.11	\$ 2.53

The interim rates will become effective for meter readings on or after thirty (30) days from the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved

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upon our verification that the tariffs are consistent with the Commission's decision, the appropriate security has been filed with the Commission to guarantee that the funds are available in the event a refund is required, and the proposed customer notice is adequate.

SECURITY FOR REFUND

Pursuant to Section 367.082, Florida Statutes, the excess of interim rates over previously authorized rates shall be collected under guarantee subject to refund with interest. Therefore, we hereby require the utility to provide a corporate undertaking, guaranteed by the parent company, Florida Cities Water Company, in the amount of \$135,000 as guarantee of any potential refund of wastewater revenues collected under interim conditions. Also, pursuant to Rule 25.30-360(6), Florida Administrative Code, the utility shall provide a report by the 20th of each month indicating the monthly and total revenues collected subject to refund.

Based on the foregoing, it is therefore,

ORDERED by the Florida Public Service Commission that the proposed final rate schedules filed by Florida Cities Water Company, North Fort Myers Division are hereby suspended. It is further

ORDERED that the request of Florida Cities Water Company, North Fort Myers Division for an interim increase in wastewater rates is hereby approved as set forth in the body of this Order. It is further

ORDERED that the increased wastewater rates approved herein are subject to refund with interest pending the outcome of this proceeding. It is further

ORDERED that Florida Cities Water Company, North Fort Myers Division shall submit, pursuant to Rule 25-30.360(6), Florida Administrative Code, a report by the 20th day of each month indicating the monthly and total revenues collected subject to refund. It is further

ORDERED that Florida Cities Water Company, North Fort Myers Division shall file revised tariff pages in accordance with the provisions of this Order, as well as a proposed notice to

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customers, detailing the increased wastewater rates and the reasons therefor. The notices shall be submitted to the Commission for prior approval. It is further

ORDERED that Florida Cities Water Company, North Fort Myers Division's request to determine its revenue requirement on a year-end basis is hereby denied. It is further

ORDERED that Florida Cities Water Company, North Fort Myers Division's interim rates shall become effective for meter readings on or after thirty (30) days from the stamped approval date on the revised tariff sheets. It is further

ORDERED that Florida Cities Water Company, North Fort Myers Division's revised tariff sheets shall be approved upon the Commission staff's verification that the tariffs are consistent with the Commission's decision, the appropriate security has been filed to guarantee any potential refund and the proposed customer notices are adequate.

By ORDER of the Florida Public Service Commission, this 24th
day of DECEMBER, 1991.



STEVE TRIBBLE Director
Division of Records and Reporting

(S E A L)

CB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

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hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: 1) reconsideration within 10 days pursuant to Rule 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; 2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or 3) 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 wastewater utility. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

FLORIDA CITIES WATER CO. – NORTH FT. MYERS DIVISION
 SCHEDULE OF WASTEWATER RATE BASE
 TEST YEAR ENDED AUGUST 31, 1991

SCHEDULE NO. 1-A
 DOCKET NO. 910756-SU

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 5,589,545 \$	0 \$	5,589,545 \$	(412,382)\$	5,177,164
2 LAND	5,000	0	5,000	0	5,000
3 NON-USED & USEFUL COMPONEI	0	0	0	(53,323)	(53,323)
4 ACCUMULATED DEPRECIATION	(1,525,455)	0	(1,525,455)	78,669	(1,446,787)
5 ACQUISITION ADJUSTMENT –NET	0	0	0	0	0
6 CIAC	(2,227,369)	0	(2,227,369)	68,118	(2,159,252)
7 AMORTIZATION OF CIAC	0	0	0	0	0
8 DEBIT DEFERRED INCOME TAXES	0	0	0	0	0
9 WORKING CAPITAL ALLOWANCE	550,144	0	550,144	(477,406)	72,738
RATE BASE	\$ 2,391,865 \$	0 \$	2,391,865 \$	(796,325)\$	1,595,540

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FLORIDA CITIES WATER CO. - NORTH FT. MYERS DIVISION
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED AUGUST 31, 1991

SCHEDULE NO. 1-B
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EXPLANATION	WATER	WASTEWATER
UTILITY PLANT IN SERVICE		
Adjustment to reflect average account balance		\$ (412,382)
NON-USED AND USEFUL COMPONENTS		
Used and useful adjustment for treatment plant facilities		\$ (53,323)
ACCUMULATED DEPRECIATION		
Adjustment to reflect average account balance		\$ 78,660
CIAC		
Adjustment to reflect average account balance		\$ 68,118
WORKING CAPITAL		
Adjustment to reflect use of formula approach to compute working capital provision		\$ (477,406)

FLORIDA CITIES WATER CO. - NORTH FT. MYERS DIVISION
 CAPITAL STRUCTURE
 TEST YEAR ENDED AUGUST 31, 1991

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	\$ 25,586,846	41.18%	10.56%	4.35%	\$ (24,980,363)	\$ 606,483	38.01%	10.56%	4.01%
2 SHORT TERM DEBT	1,850,000	2.98%	8.50%	0.25%	(1,767,862)	82,138	5.15%	8.50%	0.44%
3 CUSTOMER DEPOSITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
4 PREFERRED STOCK	9,000,000	14.48%	9.00%	1.30%	(8,881,721)	118,279	7.41%	9.00%	0.67%
5 COMMON EQUITY	18,672,409	30.05%	14.01%	4.21%	(18,070,313)	602,096	37.74%	14.01%	5.29%
6 INVESTMENT TAX CREDITS	2,087,481	3.36%	10.46%	0.35%	(2,031,428)	56,053	3.51%	10.78%	0.38%
7 DEFERRED TAXES	4,938,996	7.95%	0.00%	0.00%	(4,808,506)	130,490	8.18%	0.00%	0.00%
8 TOTAL CAPITAL	\$ 62,135,732	100.00%		10.47%	\$ (60,540,192)	\$ 1,595,540	100.00%		10.78%

RANGE OF REASONABLENESS		LOW	HIGH
RETURN ON EQUITY		13.01%	15.01%
OVERALL RATE OF RETURN		10.41%	11.16%

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FLORIDA CITIES WATER CO. - NORTH FT. MYERS DIVISION			SCHEDULE NO. 2-B	
ADJUSTMENTS TO CAPITAL STRUCTURE			DOCKET NO. 910756-SU	
TEST YEAR ENDED AUGUST 31, 1991				
DESCRIPTION	SPECIFIC ADJUSTMENT (EXPLAIN)	SPECIFIC ADJUSTMENT (EXPLAIN)	PRO RATA RECONCILE	NET ADJUSTMENT
1 LONG TERM DEBT	\$ (2,512,798)	\$ 0	(22,467,565)	(24,980,363)
2 SHORT TERM DEBT	1,275,000		(3,042,862)	(1,767,862)
3 CUSTOMER DEPOSITS	0		0	0
4 PREFERRED STOCK	(4,500,000)		(4,381,721)	(8,881,721)
5 COMMON EQUITY	4,234,730	0	(22,305,043)	(18,070,313)
6 INVESTMENT TAX CREDITS	45,100		(2,076,528)	(2,031,428)
7 DEFERRED INCOME TAXES	25,592		(4,834,098)	(4,808,506)
8 TOTAL CAPITAL	\$ (1,432,376)	\$ 0	(59,107,816)	(60,540,192)

NOTE - Adjustments in Column 1 (specific adjustments) all relate to use of average capital structure

FLORIDA CITIES WATER CO. - NORTH FT. MYERS DIVISION
 STATEMENT OF WASTEWATER OPERATIONS
 TEST YEAR ENDED AUGUST 31, 1991

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	\$ 818,266	\$ 345,820	\$ 1,164,086	\$(346,021)	\$ 818,065	164,322	982,387
<u>OPERATING EXPENSES</u>						20.09%	
2 OPERATION AND MAINTENANCE	\$ 581,903	0	\$ 581,903	0	\$ 581,903		\$ 581,903
3 DEPRECIATION	53,325	0	53,325	(761)	52,564		52,564
4 AMORTIZATION	1,116	0	1,116	0	1,116		1,116
5 TAXES OTHER THAN INCOME	113,025	15,563	128,588	(15,572)	113,016	7,395	120,411
6 INCOME TAXES	24,688	124,276	148,964	(153,686)	(4,722)	59,052	54,330
7 TOTAL OPERATING EXPENSES	\$ 774,057	\$ 139,839	\$ 913,896	\$(170,019)	\$ 743,877	66,446	810,324
8 OPERATING INCOME	\$ 44,209	\$ 205,981	\$ 250,190	\$(176,002)	\$ 74,188	97,876	172,064
9 RATE BASE	\$ 2,391,865		\$ 2,391,865		\$ 1,595,540		\$ 1,595,540
RATE OF RETURN	1.85%		10.46%		4.65%		10.78%

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FLORIDA CITIES WATER CO. - NORTH FT. MYERS DIVISION
 ADJUSTMENTS TO OPERATING STATEMENTS
 TEST YEAR ENDED AUGUST 31, 1991

SCHEDULE NO. 3-B
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EXPLANATION	WATER	WASTEWATER
OPERATING REVENUES		
1) Adjustment to reflect removal of AFPI charges		\$ (13,083)
2) Adjustment to remove requested rate increase		(332,938)

		\$ (346,021)
		=====
DEPRECIATION		
Used and useful adjustment		\$ (761)
		=====
TAXES OTHER THAN INCOME TAXES		
Remove provision for added RAF taxes		\$ (15,570)
		=====
INCOME TAXES		
Remove provision for increased income taxes		\$ (153,686)
		=====
OPERATING REVENUES		
Additional revenues to achieve revenue requirement		\$ 164,322
		=====
TAXES OTHER THAN INCOME TAXES		
Adjustment for RAF taxes		\$ 7,395
		=====
INCOME TAXES		
Adjustment to reflect increased income		\$ 59,052
		=====