

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Investigation into rates) DOCKET NO. 951029-WU
and charges of Florida Cities) ORDER NO. PSC-96-0859-FOF-WU
Water Company - Lee County) ISSUED: July 2, 1996
Division for potential)
overearnings in Lee County.)
_____)

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman
J. TERRY DEASON
JOE GARCIA
JULIA L. JOHNSON
DIANE K. KIESLING

NOTICE OF PROPOSED AGENCY ACTION ORDER
REDUCING RATES
AND
REQUIRING REFUNDS

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Florida Cities Water Company, Lee County Division (FCWC or utility), provides water service for about 17,000 customers in Fort Myers, Florida. In 1994, FCWC's reported revenues for water service were \$8,852,776, and the corresponding income amount was \$3,102,703. The utility's service area has been designated a critical use area by the South Florida Water Management District (SFWMD).

Our review of the utility's 1994 annual report indicated that the utility's water division in Fort Myers was exceeding its last authorized return on equity investment. As such, our staff performed an audit of the utility's books for 1994. The results of that audit and our further review indicated that the revenue surplus, measured with respect to the utility's last authorized return on equity capital, was about 5% on an annual basis.

DOCUMENT NUMBER-DATE
07075 JUL-29
FPSC-RECORDS/REPORTING

In 1994, the utility implemented a price index rate adjustment for service rendered after July 1, 1994. The utility's service rates were thereby increased by about 1% on an annual basis. This increase appears to have contributed to the overearnings condition. A price index rate adjustment is subject to refund under certain conditions.

Pursuant to Order No. PSC-95-1211-FOF-WU, issued October 2, 1995, we initiated an investigation of the rates and charges for FCWC's Lee County water system. We also declared that 4.99% of utility's subsequent rates would be subject to refund if an overearnings condition was confirmed.

On February 6, 1996, we first considered our staff's recommendation on this overearnings investigation. However, we raised questions on the used and useful percentages and we allowed our staff additional time to consider information presented by the utility. On April 16, 1996, we considered our staff's recommendation regarding proposed rate reductions and refunds for this proceeding. Utility personnel were present and argued that an increased used and useful factor was appropriate. Utility personnel also supported the alternate staff recommendation that a 3¢ per thousand gallons royalty fee for water extracted from the Green Meadows wellfield was reasonable. After hearing those arguments, we decided that a 93% used and useful factor was appropriate for the water treatment facilities. We also directed our staff to submit further information on the allowance of the royalties paid to FCWC's parent company. By its recommendation dated May 30, 1996, our staff submitted additional information on the royalty payments.

This Order addresses the following four areas: (1) because FCWC exceeded the cap of its last authorized equity return, the revenues collected in 1994 pursuant to a price index implemented in that year must be refunded; (2) because FCWC exceeded the cap of its last authorized equity return, the revenues collected in 1995 pursuant to the price index implemented in 1994 must be refunded; (3) because FCWC exceeded the cap of its last authorized equity return by more than 4.99%, the full amount made subject to refund by Order No. PSC-95-1211-FOF-WU must be refunded; and (4) based upon this continued overearnings position, rates in 1996 should be reduced on a going-forward basis.

RATE BASE

Our calculations of the appropriate rate bases for the purposes of this proceeding are depicted on Schedules Nos. 1-A, 2-A, 3-A, and 4-A, and our adjustments are itemized on Schedules Nos.

1-B, 2-B, 3-B, and 4-B. Separate statements are attached for each test period. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Used and Useful Adjustments

In the last rate case, booked costs were not available for each of the four plants (Waterway Estates, North Cape Coral, College Parkway, and Green Meadows), and we approved an overall used and useful percentage. Waterway Estates and North Cape Coral provide the supply to the northern system, and College Parkway and Green Meadows supply the southern system.

Since FCWC did not initiate this proceeding, it did not have to submit minimum filing requirements (MFRs). However, FCWC did provide operating statistics for 1995 showing plant production, sales, customers, maximum day pumping, and revenues. Based on this data, and using fire flow of 1500 gallons per minute (gpm), projected growth of 2%, and a margin reserve of 3% (18 months growth at 2% per year), we calculated the used and useful percentages using a single day.

In the last rate case, we decided that the utility's lines were 100% used and useful. Typically, for cases involving FCWC, the lines are built by developers and contributed to FCWC. See, Order No. PSC-92-0594-FOF-SU. This main extension policy has not changed and on-site facilities continue to be contributed. Therefore, the transmission and distribution lines are considered to be 100% used and useful.

In the last case, based mainly on the limitations placed upon pumping from the shallow and deep aquifers by the water management district during the wet and dry seasons, we determined that the source of supply was 100% used and useful. These same restrictions still apply.

Two new wells (16 and 16A) and accompanying raw water mains are planned for 1996. Because the raw water main crosses a wetland, installation is costly, and the cost constitutes about one-third of the capital projects budget for the year. Capacities of these wells match production of other wells in the Green Meadows wellfield, and additional wells are expected in 1998. Because of fluctuations in pumping during the year, and the restrictions imposed by SFWMD, the source of supply is considered 100% used and useful.

At the agenda on February 6, 1996, Mr. Mike Acosta, a utility representative, informed us that the SFWMD permit only allowed withdrawal of .75 million gallons per day (mgd) from the mid-Hawthorn aquifer, which is the water source for the College Parkway water treatment plant (WTP). This limits the production of this plant to .75 mgd instead of the hydraulic capacity of 1.5 mgd. Mr. Acosta also explained how FCWC increased the capacity of the Green Meadows WTP by 1 mgd at a total cost of \$200,000. This cost appears to be a prudent expenditure by the company to obtain additional plant capacity. In consideration of the restrictions placed on water withdrawal by SFWMD, the capacity of the College Parkway WTP is only .75 mgd.

Mr. Acosta and Mr. Michael Murphy, who are vice-presidents of FCWC, alleged that, because of watering restrictions and conservation efforts by SFWMD and the media, average day use per customer decreased from 453 gpd in 1988, to 360 gpd in 1995. Because FCWC could not foresee this "reduction", Mr. Acosta and Mr. Murphy argued that FCWC should not be "penalized" in the used and useful calculation for the water system.

However, the annual reports submitted by FCWC show average daily flows per meter equivalent of 237 to 251 gpd. Further, FCWC's calculations showing a reduction are based on the active number of meters read, without consideration of the number of equivalent connections that may be located behind a large or master meter. Apparently, in the later years, FCWC had fewer master-metered customers (condos and other multi-family living units) and more individually metered units. Using the methodology of FCWC, the average daily usage would appear to decline. However, monthly consumptions have remained very stable since 1986, and have in fact increased by 2.34% over the 1986-1994 period. Therefore, despite FCWC's arguments to the contrary, there has been no decrease in usage, and an adjustment in the methodology of calculating the appropriate used and useful percentages for the water system is not warranted.

Our analysis shows that FCWC has sufficient capacity to serve its customers, and that there is some additional capacity to serve new customers coming on line. Also, documents provided by FCWC in November, 1995, show capital additions planned and underway by the utility, but no treatment plant additions are listed. Therefore, it appears that FCWC has adequate capacity to serve new customers for some period in the future.

Used and useful calculations for the water treatment plants are as follows:

	<u>N. Ft. Myers</u>	<u>S. Ft. Myers</u>
1995 MAXIMUM DAY	1.114 mgd	7.645 mgd
2% GROWTH	.022 mgd	.153 mgd
1996 MAXIMUM DAY	1.136 mgd	7.798 mgd
FIRE FLOW	.360 mgd	.360 mgd
MARGIN RESERVE (18 MO.)	.033 mgd	.230 mgd
TOTAL DEMAND	<u>1.529 mgd</u>	<u>8.388 mgd</u>
PLANT CAPACITY	1.58 mgd	9.0 mgd (1) <u>.75 mgd (2)</u>
TOTAL CAPACITY	<u>1.58 mgd</u>	<u>9.75 mgd</u>
USED & USEFUL	100%	86%
COMPOSITE USED & USEFUL OF PLANTS		<u>93%</u>

- (1) Green Meadows
- (2) College Parkway

Based on the above, we find that the water treatment plants are 93% used and useful; the source of supply facilities are 100% used and useful; and the transmission and distribution systems are 100% used and useful.

Rate Base Adjustments

By Order No. 16768, issued October 24, 1986, we established a rate base balance for the test year ended September 30, 1985. However, an adjustment to reflect retirement of certain plant facilities was only partially booked by the utility. Therefore, a retirement entry to show the unrecorded reductions is necessary. This entry reduces plant in service and accumulated depreciation by \$138,308 each. The corresponding adjustment to depreciation expense is a \$4,070 reduction. Because the asset was not retired in 1985, the accumulated depreciation account was improperly credited each year for those assets. Reversal of that excess depreciation reduces accumulated depreciation by an additional \$36,626. Thus, in total, plant shall be reduced by \$138,308, accumulated depreciation by \$174,924, and depreciation expense by \$4,070. These corrections apply to all test years.

A further adjustment in Order No. 16768 increased CIAC by \$99,618 and accumulated amortization by \$19,748. The utility also failed to record that entry. Because the CIAC account was not booked, accumulated amortization relative to that account must be increased by \$25,682 to reflect added amortization. Further, this addition to CIAC reduces net depreciation expense by \$2,584. Thus, in total, CIAC shall be increased by \$99,618, accumulated amortization by \$45,430, and depreciation expense shall be reduced by \$2,548. These corrections apply to all test years. The utility shall record these adjustments on its books.

Imputation of CIAC for the Margin Reserve

When the used and useful calculation includes an allowance for additional customer growth, also described as a margin reserve, we have offset that growth factor with the added CIAC that will be collected when those customers are connected. The utility's current plant capacity charge is \$625 per equivalent residential connection. When this charge is multiplied by the customer growth feature for margin reserve, the potential CIAC exceeds the rate base provision relating to margin reserve. Accordingly, the provision for imputed CIAC shall only offset the rate base component associated with margin reserve. The adjustments for 1994, 1995, and 1996 are shown below.

	<u>1994</u>	<u>1995</u>	<u>1996</u>
Imputed CIAC (Net)	\$186,568	\$187,895	\$189,795
Amortization of CIAC	\$5,336	\$5,374	\$5,428
<u>Adjustment to Plant in Service</u>			

As noted in Audit Disclosure No. 6, the utility incorrectly allocated engineering costs for a water project to its wastewater division in 1993 and 1994. Initially, the utility allocated 20% of the engineering costs to its wastewater division and 80% to the water division. However, subsequent payments were evenly divided. Since the 80% allocation factor is more appropriate, a \$12,441 addition to plant for the water division shall be made. Corresponding adjustments to accumulated depreciation (\$549 increase) and depreciation expense (\$366 increase) shall also be made. These adjustments apply to all test years.

Adjustment to Reflect Average Test Year Balances

The utility's reported rate base amount for 1994 is a thirteen-month average balance, which is the method required for Class A utilities by Rule 25-30.433(4), Florida Administrative

Code. The utility presented this information at staff's request. However, the utility adopted year-end rate base presentations for 1995 and 1996, but that treatment seems inadvertent since unusual conditions were not alleged. In the absence of the most extraordinary conditions or circumstances, we apply average investment during the test year in determining rate base. Citizens of Florida v. Hawkins, 356 So. 2d 254, 257 (Fla. 1978). Accordingly, all 1995 and 1996 rate base accounts have been adjusted to reflect average test year provisions.

This is an overearnings docket that, for forecasting purposes, involved accumulation of general information regarding projected additions to plant in service, CIAC, and other rate base components. If this were a rate case, MFRs would be filed on a thirteen-month average basis. However, such information was not available, and, thus, we have used 1995 and 1996 year-end amounts to calculate sample average balances.

Inclusion of Unfunded Post-retirement Benefits

The utility's operating statement includes a provision for recovery of post-retirement benefits (SFAS 106). SFAS 106 refers to the accounting standard that describes the practice of recognizing post-retirement benefits other than pensions (OPEBs). We have approved recovery of these expenses for FCWC's other operating divisions in all recent rate proceedings, and shall allow it in this proceeding.

This part of the order addresses the rate base treatment that is associated with the unfunded OPEB liability. FCWC does not currently fund its SFAS 106 obligation. According to Rule 25-14.012(3), Florida Administrative Code:

Each utility's unfunded accumulated postretirement benefit obligation shall be treated as a reduction to rate base in rate proceedings. The amount that reduces rate base is limited to that portion of the liability associated with the cost methodology for post retirement benefits other than pensions.

Since FCWC does not presently fund its OPEB obligation, the unfunded liability account is properly included in the rate base determination. Referring to the utility's balance sheet for the projected test year ending December 31, 1994, the liability account titled "Post-Retirement Benefits" shows an average balance of \$564,156. The utility's water division for the Fort Myers service area is assigned 30.9% of the common investment in working capital (based upon its relative portion of FCWC's total expenses). We

believe the same allocation treatment is reasonable for the purpose of dividing the OPEB obligation among the various systems. Therefore, rate base shall be reduced by \$174,324 for 1994. In 1995, a \$1,240,226 average balance is projected, thus yielding a \$383,230 allocated share for the water system. A similar adjustment shall be made for 1996, since we believe the average working capital amount in 1995 serves as a reasonable model when projecting 1996 conditions.

Working Capital Allowance

FCWC's Fort Myers water division is a Class A Utility system. Therefore, the utility's working capital balance for rate making purposes should be derived using the balance sheet approach according to Rule 25-30.433(2), Florida Administrative Code. The amounts shown in the utility's annual report and its projected 1995 and 1996 schedules were derived using the formula approach to expedite preparation of those reports. Therefore, adjustments are needed to reflect balance sheet determinations for this proceeding.

Using the balance sheet approach, working capital shall be reduced by \$69,276 for 1994. For 1995 and 1996, the working capital is based upon the forecasted average balance for 1995, based upon the 13-month detail presented in Docket No. 950387-SU (a rate case proceeding for FCWC's wastewater division in North Ft. Myers). Allocating this sum among FCWC's various operating systems based upon comparative operation and maintenance expenses, the working capital allowance for each of the years 1995 and 1996 is calculated to be \$371,769 for the Fort Myers water system.

Based upon average rate base determinations, and our adjustments, the rate base amounts are \$22,530,642 for 1994, \$22,932,175 for 1995, and \$23,978,031 for 1996.

COST OF CAPITAL

Our calculation of the appropriate cost of capital, including our adjustments, is depicted on Schedules Nos. 1-C, 2-C, 3-C, and 4-C. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Return on Equity

A 15.23% return on equity is used to evaluate the refund feature for the index adjustment. See Schedules 1-C and 2-C.

Pursuant to Order No. 16768, issued October 24, 1986, this is the upper limit of the last authorized return on equity investment.

An 11.88% return on equity is used to evaluate the refund for the interim collection period. See Schedule 3-C. This is the midpoint of the range for return on equity investment per the current leverage formula.

Based upon the components of the adjusted capital structure for 1996, as shown on Schedule No. 4-C, the equity ratio for FCWC is 30.62%. Using the current leverage formula approved in Order No. PSC-95-0982-FOF-WS, issued on August 10, 1995, the appropriate return on equity should be 11.88%. The appropriate range for the return on equity should be 10.88% to 12.88%.

Cost of Capital for 1994 Index, 1995 Index, Interim Refund, and Rate Reduction

The capital structure for 1994 is a thirteen-month average balance for that period. Using the upper limit of the authorized return on equity, or 15.23%, the weighted cost of capital would be 10.03% (Schedule 1-C).

The capital structure used to establish the cost of capital for 1995 is the projected average balance for 1995. We believe this balance provides a reasonable basis for determining the appropriate refund for interim rates and the price index in 1995. The weighted cost of capital for 1995 for indexing purposes would be 10.14% using the 15.23% return on equity capital, as shown on Schedule 2-C. The weighted cost of capital for 1995 for the interim refund would be 9.17% using the appropriate 11.88% return on equity capital, as shown on Schedule 3-C.

In Docket No. 951258-WS, FCWC submitted information that showed that its most recent bond was larger than previously projected and the corresponding interest rate was smaller. Instead of a \$5,000,000 issue with a 9.5% interest as projected, the actual issuance was for \$18,000,000 with a 7.27% interest rate. A portion of this bond was used to retire other, more costly debt obligations. Therefore, with these known changes, the June 30, 1996, capital structure shall be used to determine the rate reduction and refund requirements for 1996.

The overall rate of return for the 1996 test year is shown on Schedule No. 4-C. The capital structure used to compute the overall cost of capital for 1996 is the June 30, 1996, balance, the midpoint for the average test year used for this proceeding. Based upon the adjustments in previous issues, the overall cost of

capital for 1996 is calculated to be 8.75%, with a range of 8.44% to 9.05%. This midpoint is used to calculate the appropriate rate reduction in 1996.

The overall cost of capital and the related ranges are shown below:

	<u>Wtd. Cost</u>	<u>Range</u>
1994 - For Index Purposes	10.03%	9.44%-10.03%
1995 - For Index Purposes	10.14%	9.57%-10.14%
1995 - For the Interim Refund	9.17%	8.89%-9.45%
1996 - For the Rate Reduction	8.75%	8.44%-9.05%

NET OPERATING INCOME

Our calculations of net operating income are depicted on Schedules Nos. 1-D, 2-D, 3-D, and 4-D, and our adjustments are itemized on Schedules Nos. 1-E, 2-E, 3-E, and 4-E. Separate statements are attached for each test period. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Misposting of Guaranteed Revenues

In 1994, FCWC posted guaranteed revenues from its Fort Myers water division to its wastewater division accounts. Correction of that error requires a \$7,987 addition to 1994 revenues.

Reduced Usage by a Commercial Customer

A motel customer (Holiday Inn of Ft. Myers) finished a major restoration project of its internal plumbing system in September of 1995. A dramatic reduction in usage followed, and FCWC subsequently learned that the motel repaired multiple on-site leaks. Based upon two months of billing activity, FCWC predicted that it would lose \$36,000 annually.

Flow data for three months indicates that this customer's usage dropped 74% during the last quarter of 1995 relative to 1994.

This loss pattern is expected to continue. Using a conservative 70% reduction factor for this customer, we estimate an annualized loss of \$31,957 in 1995, and a \$32,759 revenue loss in 1996.

Application of a Growth Factor

FCWC prepared projected income statements for 1995 and 1996 based upon actual operating conditions for the twelve-month period ended September 30, 1995. For forecasting purposes, FCWC adopted certain assumptions regarding customer growth and expected inflation. For customer growth, a 2% annual increase was predicted. For increased expenses, FCWC assumed that the 1.95% inflation rate experienced in 1994 would likewise apply in 1995 and 1996. However, FCWC predicted that residential and commercial sales accounts would only grow by .06% during the last three months of 1995. These revenue calculations appear to be flawed.

First, the 2% growth customer feature should be uniformly applied to calculate revenues and expenses. In 1995, a .5% adjustment (25% of the 2% growth estimate) was added for expenses that change with customer growth. We believe the conceptual balance between revenues and expenses must be preserved for the utility's modeling formula to work properly. Accordingly, the 1995 revenues shall be increased by the same .5% increase applied to expenses, and, as discussed below, that all revenue accounts should be adjusted proportionately. Applying this .5% growth factor to all revenue sources produces a \$44,223 increase in revenues, or \$40,851 more than FCWC predicted.

For 1995 and 1996, FCWC assumed that sales growth would only occur in terms of residential and commercial customers. FCWC assumed that sales to multi-family users (i.e., condominiums and apartments) and other revenue accounts would remain flat. This "other" revenue group includes sales to public authorities, fire protection revenues, guaranteed revenues, and miscellaneous service categories. For the base period ended September 1995, 31.4% of FCWC's revenues were collected from non-residential and non-commercial sales. FCWC's projection scheme uses a 2% across-the-board adjustment to expenses to match a 2% overall growth in customers. However, FCWC's 1996 adjustment to revenues was only 1.37% because some revenue accounts were excluded. We find it appropriate to increase all revenue accounts should be increased by the same 2% factor. Thus, we have calculated increased sales of \$177,776 for 1996, or \$56,311 more than FCWC predicted.

Adjustment for Customer Accounting Expense

The auditors examined the allocation ratios applied to common expenses. FCWC receives one bill for common data processing and customer billing services. This expense is allocated among the FCWC's various operating systems based upon relative number of customers. Because of an error, the allocated charge for this operating system was understated by \$18,068 in 1994. The corrected expense for 1994 shall be \$105,939.

Adjustment for Outside Accounting/Auditing Charges

The auditors also examined the allocated charges for outside audit services. This expense is allocated among the FCWC's various operating systems based upon relative number of customers. Because of an allocation error, the expense for 1994 was overstated by \$3,527. The corrected expense for 1994 shall be \$23,089.

Projected 1995 Expenses

When FCWC prepared its estimate of expected expenses for 1995, updating actual expenses through September of 1995 to reflect annualized 1995 information, it assumed that expenses associated with customer growth would be 1.95% larger due to inflation. However, this presumes that all of 1995's anticipated inflation would be embodied in that final quarter. We believe 75% of the inflation adjustment should be eliminated, since actual expenses through September would already include that portion of the expected inflation. Therefore, projected 1995 expenses are reduced by \$20,232 to reflect an even distribution of the projected 1.95% inflation factor during 1995. The carryover impact is a \$21,031 reduction in 1996.

Depreciation Expense

Depreciation expense is based upon application of composite rates, using guideline depreciation practices, relative to average test-year balances for plant and CIAC. The half-year convention was employed for test year additions and retirements. Using these principles, we reduced depreciation expense by \$22,189 in 1995 and \$33,328 in 1996.

Royalty Expense

The utility's operating expenses include a royalty payment for water extracted in the Green Meadows wellfield. This payment is based on a series of related party transactions that originated in 1973. At that time, GAC Properties, Inc. (a predecessor company to

Avatar Properties Inc.), owned 16,000 acres of land capable of producing large quantities of water. On April 23, 1973, GAC Properties, Inc., granted an easement to GAC Utilities, Inc. (a predecessor company to Avatar Utilities Inc.), to operate wellfields and do other work essential for delivery of water on 149 of the 16,000 acres. Concurrently, the same parties agreed on a royalty payment of 3¢ per thousand gallons for all water pumped from the wells. On June 24, 1973, GAC Properties, Inc., sold 16,000 acres to a third party for \$800 per acre.

The easement area is a rectangular field with wellfields spaced 1/2-mile apart that occupies about 149 acres in total. However, because of wellhead protection zones and a 60-foot path between the wellfields for maintenance of transmission lines, the easement actually encumbers many more acres. Ultimately, 26 wells are scheduled for development. FCWC asserts that about 3,500 acres were essentially preserved for its use, and, at \$800 an acre, the cost for the full acreage would have been \$2,800,000.

However, instead of purchasing this acreage, FCWC received a perpetual easement for its wellfields and the connecting transmission mains, subject to its continued payment of a 3¢ per 1,000 gallons charge for produced water. Access to available water is clearly a significant asset and has great value to the utility and its customers.

On May 14, 1996, FCWC furnished additional information to support its position that this 3¢ royalty fee is reasonable. In this additional information, FCWC states that it:

. . . has effectively tied up a well field of over 3,500 acres with a potable water capacity to supply current and future customer needs. The easement concept to encumber this land showed great forethought and was and is the most cost effective means to utilize the well field. The easement gives FCWC customers the advantage of the well field without the incumbent costs, including property taxes, and allows the customers to pay on the basis of only what they use. FCWC believes that there is no other acquisition or usage method which can control so much land and water withdrawal at such a reasonable cost. FCWC believes that no other transaction would have conveyed similar water withdrawal rights either in 1976, 1996 or in the future.

FCWC presently has consumptive use permits for approximately 2,791,000,000 gallons per year, or 7,646,600 gallons per day, with far greater potential. FCWC believes that the Green Meadows

wellfield has sufficient capacity to serve the existing service area when it is fully developed. Thirteen well sites are currently active and five additional wells can be developed under the existing water use permit. FCWC believes the easement will accommodate seven or eight additional well sites, and that the ultimate production from Green Meadows will more than double current capacity. FCWC argues that it would have been required to purchase a large tract of land to assure the water withdrawal that these easements provide into perpetuity.

FCWC has offered three tests of comparable costs for the easement agreement. The first comparison uses Lee County's acquisition cost for a 476 acre wellfield located 2.5 miles southwest of the Green Meadows area. In 1978, Lee County purchased a 373.3 acre wellfield for \$1,250 per acre (\$466,625). In 1991, this wellfield was expanded by 103 acres in settlement of a \$299,000 debt from Alico Land Corporation. However, for comparison purposes, FCWC used the original \$1,250 per acre price for the entire tract ($476 \times \$1,250 = \$595,000$). The second comparison merely doubles that investment based upon the proposition that FCWC's ultimate water usage allowance will double Lee County's allotted capacity. The final comparison depends upon an independent appraisal of the Green Meadows easement area and immediately adjacent land areas based upon a presumed loss of utility (value) to the underlying property owner.

Based upon a 9.23% return on investment and certain assumptions regarding corresponding tax elements, FCWC calculates that the resulting annual expense would exceed the present 3¢ per thousand gallons' charge. In 1995, the actual cost for the easement was \$54,800. FCWC calculated that the comparative expense would equal \$102,023 (\$0.056 per 1,000 gallons) to match Lee County's investment, \$204,046 (\$0.112 per 1,000 gallons) to adjust for the fact that FCWC's ultimate water usage doubles Lee County's allotted capacity, and \$157,750 (\$0.086 per 1,000 gallons) using the independent appraisal.

We have completed our own analysis using the projected 1996 royalty fee (\$57,946) to obtain the corresponding usage amount and an 8.75% cost of capital. Under the most conservative approach, an \$800 per acre price is employed to match the 1973 sales price of a 16,000 acre parcel sold by GAC Properties, Inc., to non-affiliated interests. Using that \$800 price for land, the resulting fee for purchased water falls below 3¢ per 1,000 gallons under the single assumption that 472 acres at \$800 per acre yields a comparable investment. If, instead, Lee County's 1978 purchase price (\$1,250) is used, the price per thousand gallons exceeds 3¢. If the configuration and capacity of the Green Meadows wellfield is

accepted as a rationale for doubling Lee County's acreage, the value of the easement exceeds 3¢ whether the land is valued at \$800 or \$1,250.

We find that the third approach of using a land appraisal to measure the worth of the easement provides a direct means of testing the fairness of the assessed royalty charge. Within the easement area (149.3 acres) FCWC enjoys a benefit that results in lost utility to the underlying land owner that approaches 90% of its intrinsic value. A wellhead protection zone that exists within 500 feet of each well site (Rule 62-521.100, Florida Administrative Code) affects an additional 400 acres, with 50% of that value being assigned to FCWC. Next, enlarging the 60-foot paths to accommodate the widened wellhead protection zone adds 1,117 acres to the easement zone of influence, with 25% of its value being assigned to FCWC. In all, over 1,660 acres have suffered some degree of degradation of value due to the easement consideration. Using the respective weighted percentages, the total acreage assigned to FCWC is 613.75 acres. At the most conservative cost of \$800 per acre (the cost per acre in the 1973 sale to non-affiliated interests), the investment attributable to this land would be \$491,000. Based upon an 8.75% rate of return, the return is calculated to be \$42,963. With taxes estimated to be: \$8,347 for property taxes, \$8,867 for income taxes, and \$2,836 for gross receipts taxes, the total expense would be \$63,013. This is \$5,067 more than the royalty expense of \$57,946 used for the 1996 test year, and equates to a cost of \$0.0326 per 1,000 gallons.

Different dates for dedication of property to utility service are discussed in the assessment profile for the Green Meadows wellfield. On April 23, 1973, GAC Properties, Inc. (the predecessor of Avatar Properties), granted an easement to GAC Utilities, Inc. (the predecessor to Avatar Utilities) to withdraw water from the Green Meadows wellfield. GAC Utilities, Inc., kept this right for approximately two years and considered using the property for a non-utility enterprise. However, in June of 1975, GAC Utilities, Inc., assigned a portion of the easement rights, specifically that area where the treatment plant is located, to FCWC. On December 8, 1976, GAC Utilities, Inc., assigned the balance of the wellfield easement rights to FCWC, which dedication eventually led to planning and development of the additional wells from 1980 to 1983.

The appraiser appraised the land as of 1976, and did not attempt to evaluate the relative market value of the land in 1973 when the original easement was granted to FCWC's parent company. The 1973 dedication date is more appropriate since GAC Utilities, Inc., did not actually develop the wellfield as a non-utility

enterprise. Even more importantly, the appraiser attempted to evaluate the property in terms of the lost utility to the underlying land owners, but, as noted above, those parties purchased the property for \$800 an acre.

Based upon the above, the current royalty charge is a reasonable cost in relation to the value acquired. The easement agreement appears to be worth not less than \$491,000, or the investment associated with acquiring a partial interest in 1,667 acres at \$800 per acre.

Net Operating Income for the Years 1994, 1995, and 1996

Based on our previous adjustments, the test year operating income is \$2,605,659 for 1994, \$2,578,084 for 1995, and \$2,503,439 for 1996.

REVENUE REQUIREMENT

Based upon our decisions concerning rate base, cost of capital, and operating income, we find that the following revenue requirements are relevant to this proceeding:

	<u>Total</u>	<u>Decrease</u>	<u>% Change</u>
1994 - For Index Purposes	\$8,279,167	\$581,596	(6.56%)
1995 - For Index Purposes	\$8,431,017	\$425,656	(4.81%)
1995 - For the Interim Refund	\$8,061,255	\$795,418	(8.98%)
1996 - For the Rate Reduction	\$8,351,680	\$682,126	(7.55%)

Refund of 1994 and 1995 Price Index Revenues

For service rendered after July 1, 1994, FCWC implemented a price index to represent anticipated increases in operating expenses for the forthcoming year. That rate adjustment was designed to increase revenues by \$82,454, or about 1% on an annual basis. Pursuant to Section 367.081(4)(d), Florida Statutes, the Commission may order a utility to refund, with interest, a price index if, within 15 months after the filing of a utility's annual report, the Commission finds that the utility exceeded the range of its last authorized rate of return on equity. The utility's 1994 annual report was filed on May 2, 1995; consequently, August 2, 1996, would be the fifteen-month expiration date of the Commission's allotted term for ordering refunds of index adjustments. That report indicated that the utility achieved a 13.05% return on its 1994 rate base amount. Later, the utility filed additional information showing that the reported income tax

amount improperly included "below-the-line" tax elements. The corrected rate of return was calculated to be 11.29%, with a corresponding 19.48% return on equity capital. The utility's last authorized return on equity investment was 14.23%, with an allowed range from 13.23% to 15.23% (Docket No. 851007-WU, Order No. 16768).

An audit investigation was conducted to confirm surplus earnings in 1994. At our staff's request, the utility produced additional information to show projected rate base and operating income levels for 1995 and 1996. Having considered these statements and the results of our audit, we find that the price index shall be refunded based upon the 1994 and 1995 income levels.

Based upon an average test year for 1994, and appropriate adjustments thereto, our review indicates that FCWC earned an 11.56% return on rate base and that the corresponding return on equity investment would be 20.41%. Using a 15.23% limit on equity earnings, the associated overall cost of capital for 1994 would be 10.03%. Thus, our review illustrates that the index adjustment collected in 1994, or about \$41,227, should be refunded. This refund is less than the overall decrease (6.56% or \$581,596) that could occur and still preserve a 15.23% return on equity investment. Only the index is subject to refund.

Employing average test year conditions for 1995, and annualizing actual operating costs through September to show expected calendar year amounts, our review indicated that FCWC would earn an 11.24% return on rate base, thus producing a 19.2% return on equity capital. Using a 15.23% limit on equity earnings, the weighted cost of capital for 1995 would be 10.14%. Thus, our review illustrates that the index adjustment collected throughout 1995, or about \$84,000, should be refunded. This refund is less than the overall decrease (4.81% or \$425,656) that could occur and still preserve a 15.23% return on equity investment.

Our review clearly shows that the 1994 price index contributed to an overearnings condition in 1994 and 1995. Therefore, the increases attributable to the price index shall be refunded with interest as required by Section 25-30.360(4), Florida Administrative Code. The utility shall submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. The refund shall be made to customers of record as of the date of the Order pursuant to Rule 25-30.360(3), Florida Administrative Code. Any unclaimed refunds shall be treated as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

Refund of Revenues Made Subject to Refund

Pursuant to Order No. PSC-95-1211-FOF-WU, issued October 2, 1995, we initiated an investigation of the rates and charges for FCWC's Lee County water system. In that Order, we declared that up to 4.99% of the utility's rates would be subject to refund if an overearnings condition was confirmed. Our review discloses that excess earnings were present throughout the interim collection period. The revenue excess exceeds the 4.99% potential refund amount outlined in Order. No. PSC-95-1211-FOF-WU. However, the amount held subject to refund included the index application implemented in 1994. Therefore, from October 2, 1995 through the end of 1995, the refund is 3.99% of the revenues collected (recognizing that the other 1% is already being taken into account by the requirement that all of the revenues for 1995 for the price index be refunded). These refunds shall be made with interest as required by Rule 25-30.360(4), Florida Administrative Code.

Based upon average conditions for 1995, using the 11.88% mid-point return on equity capital per the current leverage formula, the weighted cost of capital for 1995 would be 9.17%. Our review indicates that FCWC would earn an 11.23% return on rate base in 1995, thus producing a 19.2% return on equity capital. Our calculations indicate that a 8.98% rate decrease, or a \$795,418 rate reduction on an annual basis, would yield an 11.88% return on equity investment. However, the actual refund cannot exceed the amount collected subject to refund using the upper limit of the last authorized return on equity capital. For 1995, the expected refund amount is \$88,345. That amount was derived by multiplying 1995 operating revenues (\$8,856,673) by 3.99% (4.99% less the 1% for the price index) for a three-month period. Until the rates are reduced as required by this Order, 4.99% of the revenues collected in 1996 shall be refunded with interest under the same conditions as set out above for the price index.

REDUCTION IN RATES AND CHARGES

As stated above, water service rates shall be reduced so as to reduce water revenues by \$682,126, on an annual basis. This revenue reduction, applied to all revenues except guaranteed revenues and miscellaneous revenues, equates to a 7.55% decrease uniformly applied to the existing gallonage and base facility rates.

In addition to reducing their water service rates as indicated in Schedule No. 5, the utility shall file revised tariff sheets and a proposed customer notice reflecting the appropriate rates and the reason for the reduction. The approved rates shall be effective

for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates may not be implemented until proper notice has been received by the customers. The utility shall provide proof of the date notice was given within 10 days after the date of the notice.

CLOSING OF DOCKET

If a protest from a substantially affected person is not received within 21 days of issuance of this proposed agency action order, this Order will become final. Therefore, this docket shall be closed if no person, whose interests are substantially affected by the proposed action, files a protest within the 21 day protest period, upon staff's verification that the utility has completed the required refunds and upon the utility's filing of and staff's approval of revised tariff sheets. Further, the utility's corporate undertaking shall be released upon staff's verification that the refund has been completed.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Cities Water Company, Lee County Water Division, shall refund with interest the revenues collected during 1994 and 1995 pursuant to the price index that was implemented in 1994 as set out in the body of this Order. It is further

ORDERED that the provisions of this Order issued as proposed agency action shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that, in the event of protest, the current rates shall remain in effect pending the resolution of the protest. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the schedules attached hereto are by reference incorporated herein. It is further

ORDER NO. PSC-96-0859-FOF-WU
DOCKET NO. 951029-WU
PAGE 20

ORDERED that Florida Cities Water Company, Lee County Water Division, shall refund with interest, calculated pursuant to Rule 25-30.360(4), Florida Administrative Code, the revenues collected subject to refund as set out in the body of this order. It is further

ORDERED that Florida Cities Water Company, Lee County Water Division, shall make the refund to customers of record as of the date of the Order pursuant to Rule 25-30.360(3), Florida Administrative Code. Florida Cities Water Company, Lee County Water Division, shall submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. It is further

ORDERED that Florida Cities Water Company, Lee County Water Division, shall treat any unclaimed refunds as contributions-in-aid-of-construction pursuant to Rule 25-30.360(8), Florida Administrative Code. It is further

ORDERED that Florida Cities Water Company, Lee County Water Division, shall reduce its rates and charges as set forth in the body of this Order. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, Florida Cities Water Company, Lee County Water Division, shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon our staff's verification that they are consistent with our decision herein and that the protest period has expired. It is further

ORDERED that the rates and charges approved herein shall be effective for service rendered on or after the stamped date of approval on the revised tariff sheets, provided the customers have been given notice. It is further

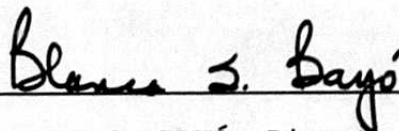
ORDERED that Florida Cities Water Company, Lee County Water Division, shall provide proof that notice was given within ten days of the date of the customer notice. It is further

ORDERED that Florida Cities Water Company, Lee County Water Division, shall record the adjustments in Order No. 16768 on its books and records as set out in the body of this Order. It is further

ORDERED that, upon expiration of the protest period, after Florida Cities Water Company, Lee County Water Division, has submitted and had approved revised tariff sheets reflecting the approved rates, and after our staff has verified that the refunds have been completed, this docket shall be closed administratively.

ORDER NO. PSC-96-0859-FOF-WU
DOCKET NO. 951029-WU
PAGE 21

By ORDER of the Florida Public Service Commission, this 2nd
day of July, 1996.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

RRJ

Dissent of Commissioner Deason:

I dissent on two issues. First, in a Proposed Agency Action (PAA) context (that doesn't even involve the filing of MFRs, including engineering data) the Commission has departed from longstanding precedent in establishing used and useful. Secondly, the majority has, again in a PAA, ignored the concept of administrative finality in allowing the recovery of the payment of a gallonage-based fee to an affiliate.

Used and useful

For the first time that I can recall, the Commission has departed from the investment concept of establishing used and useful. Here, in a PAA Order we are making a policy determination that a water management district's post-investment decision to limit groundwater withdrawals is a basis for implying a limitation on the hydraulic capacity of a plant against which the customer demand is measured. The Water Management District's determination that limits the pumping at the College Parkway plant to 50% of the DEP rated capacity is one that is subject to upward modification upon request. My view is that such a limitation is less permanent than the hydraulic capacity limitations inherent in a DEP permit rating. Hence, the District's withdrawal limitations are not a sound basis for ratemaking determinations. More importantly, I fear our decision sends the wrong signal to the rest of the industry that the burden of overbuilding plants to meet growth projections can be shifted to current customers if water withdrawal permits are limited to current demand. I would view the pumping

limitation to be prima facie evidence that the plant was not needed as built. The burden of proof should be on the company to justify the prudence of the plant size. Here we have potentially changed the policy on that burden of proof. If such a change in policy of the Commission is wise, I would urge that it be made in a forum where the public does not have to count on the protest of a willing party. A proposed rate reduction does not likely offer such a prospect.

If this decision becomes final, at a minimum I would urge that this case be viewed as a warning to other utilities that the initial sizing determinations of plant additions must be made with potential Water Management District limitations in mind. Withdrawal limitations may be seen as an indication of the ultimate need for the plant thereby calling into question the prudence of the excess plant insofar as determining what portion is currently used and useful.

Gallonage-based "Royalty" Payment

I also dissent from the decision to allow the company to pay an affiliate a charge based on the water pumped from wells located on land formerly owned by that affiliate. I believe our decision to abandon, in the context of a non-rate case PAA, the principles of res judicata or administrative finality with respect to four prior Commission orders and several Lee County decisions, on the basis of unsworn representations, constitutes an unwise precedent. I am confounded by this decision in light of our decision the very same day (of the original agenda vote) in Docket No. 950336-WS, Application for rate increase in Charlotte County by Rotonda West Utility Corporation. Therein the Commission saw the need to expressly hold open an issue of a very similar nature so that the Company would not be foreclosed under the principals of res judicata or administrative finality from justifying the transactions between affiliates in a future rate case.

I am further concerned that we have receded from our past requirement that FCWC come forward with a justification that the true cost of the land rights should be included in the cost of service in lieu of recognizing some other cost (as is being done with the "royalty" payment here). It is that burden of proof that is shifted away from the company, based on unsworn representations at the agenda conference where a vote is taken on a PAA. I do not mean to imply that there is any dishonesty in the company's representations. Rather, it is the fact of disturbing administrative finality in this type of process that gravely concerns me.

ORDER NO. PSC-96-0859-FOF-WU
DOCKET NO. 951029-WU
PAGE 23

This dissent also gives me an opportunity to express a concern that was not initially apparent at the time of the original agenda conference vote. Despite the fact that this payment to the affiliate is called a royalty and may be capped at some level on an annual basis, the sum and substance of the transaction is that the utility is purchasing the water from a land owner. This raises two questions.

First, does the sale of the water constitute a bulk water sale such that the seller needs to be certificated under our decision in In re: Application of East Central Florida Services, Inc., for an original certificate in Brevard, Orange and Osceola Counties, Docket No. 910114-WU, Order No. PSC-92-0104-FOF-WU, Issued March 27, 1992?

Furthermore, I question whether the landowner, who does not own any of the pumping or transmission facilities, can "sell" the water lying underneath the property he owns in light of the fact that the landowner does not have any ownership rights in the water. Village of Tequesta v. Jupiter Inlet Corporation, 371 So. 2d 661 (Fla. 1979) (The right of a landowner to ground water underlying his land is a usufructuary one and does not include a proprietary interest in the corpus of the water itself). I understand that the payment is represented as being one for the right to use the easement. However, so long as it is tied to the gallons pumped, it is undeniably a sale of water with all the ramifications that such a sale would entail. Certainly the Commission should be concerned that this precedent could encourage establishment of similar accounting transactions for the purpose of extracting payments from the utility for access to water.

Dissent of Commissioner Johnson:

I concur with Commissioner Deason's dissent, particularly as it relates to the "Gallonage-based 'Royalty' Payment."

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.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on July 23, 1996.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater 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 of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

PCWC - LEE COUNTY WATER SCHEDULE OF WATER RATE BASE TEST YEAR ENDED 12/31/94 - INDEX PURPOSES				SCHEDULE NO. 1-A DOCKET NO. 951029-WU		
COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	
1 UTILITY PLANT IN SERVICE	\$ 57,908,220	\$ 0	\$ 57,908,220	\$(125,867)	57,782,353	
2 LAND	368,175	0	368,175	0	368,175	
3 NON-USED & USEFUL COMPONENTS	0	0	0	(562,606)	(562,606)	
4 ACCUMULATED DEPRECIATION	(12,750,673)	0	(12,750,673)	174,385	(12,576,288)	
5 CIAC	(29,381,794)	0	(29,381,794)	(286,186)	(29,667,980)	
6 AMORTIZATION OF CIAC	6,808,020	0	6,808,020	45,430	6,853,450	
7 ACQUISITION ADJUSTMENTS -NET	0	0	0	0	0	
8 UNFUNDED FASB 106 OBLIGATION	0	0	0	(174,324)	(174,324)	
9 ALLOCATION OF COMMON PLANT	127,383	0	127,383	0	127,383	
10 WORKING CAPITAL ALLOWANCE	449,755	0	449,755	(69,276)	380,479	
RATE BASE	\$ 23,529,086	\$ 0	\$ 23,529,086	\$(998,444)	22,530,642	

EXPLANATION	WATER
FCWC - LEE COUNTY WATER ADJUSTMENTS TO RATE BASE TEST YEAR ENDED 12/31/94 - INDEX PURPOSES	
SCHEDULE NO. 1-B DOCKET NO. 951029-WU PAGE 1 OF 1	
(1) UTILITY PLANT IN SERVICE	
a) Adjustment to reflect corrections from prior dockets	\$ (138,308)
b) Adjustment to reflect misallocation of engineering costs	12,441
	<u>\$ (125,867)</u>
(2) PROPERTY HELD FOR FUTURE USE	
Used and Useful Adjustment	\$ <u>(562,606)</u>
(3) ACCUMULATED DEPRECIATION	
a) Adjustment to reflect corrections from prior dockets	\$ 138,308
b) Excess accrual of depreciation on prior adjustment	36,626
c) Adjustment to reflect misallocation of engineering costs	(549)
	<u>\$ 174,385</u>
(4) CIAC	
a) Adjustment to reflect corrections from prior dockets	\$ (99,618)
b) Adjustment to impute CIAC as offsetting adjustment to Margin Reserve	(186,568)
	<u>\$ (286,186)</u>
(5) ACCUMULATED AMORTIZATION	
a) Adjustment to reflect corrections from prior dockets	\$ 19,748
b) Excess accrual of depreciation on prior adjustment	25,682
	<u>\$ 45,430</u>
(6) UNFUNDED FASB 106 OBLIGATION	
Adjustment to reflect average balance	\$ <u>(174,324)</u>
(7) WORKING CAPITAL	
a) Adjustment to reflect balance sheet calculation of working capital	\$ <u>(69,276)</u>

FCWC - LEE COUNTY WATER CAPITAL STRUCTURE TEST YEAR ENDED 12/31/94 - INDEX PURPOSES				SCHEDULE NO. 1 - C DOCKET NO. 951029 - WU			
DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY							
1 LONG TERM DEBT	\$ 29,280,962	\$ 0	\$ 0	29,280,962	42.42%	9.47%	4.02%
2 SHORT - TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	9,000,000	0	0	9,000,000	13.04%	9.00%	1.17%
4 COMMON EQUITY	20,370,620	0	0	20,370,620	29.51%	15.23%	4.49%
5 CUSTOMER DEPOSITS	528,534	0	0	528,534	0.77%	6.00%	0.05%
6 DEFERRED ITC'S	1,800,343	0	0	1,800,343	2.61%	11.40%	0.30%
7 DEFERRED INCOME TAXES	8,053,048	0	0	8,053,048	11.67%	0.00%	0.00%
8 TOTAL CAPITAL	\$ <u>69,033,507</u>	\$ 0	\$ 0	<u>69,033,507</u>	<u>100.00%</u>		<u>10.03%</u>
PER STAFF							
9 LONG TERM DEBT	\$ 29,280,962	\$ 0	\$(19,724,459)	9,556,503	42.42%	9.47%	4.02%
10 SHORT - TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
11 ADVANCES - ASSOCIATED CO	9,000,000	0	\$(6,062,647)	2,937,353	13.04%	9.00%	1.17%
12 COMMON EQUITY	20,370,620	0	\$(13,722,208)	6,648,412	29.51%	15.23%	4.49%
13 CUSTOMER DEPOSITS	528,534	0	\$(356,035)	172,499	0.77%	6.00%	0.05%
14 DEFERRED ITC'S	1,800,343	0	\$(1,212,760)	587,583	2.61%	11.40%	0.30%
15 DEFERRED INCOME TAXES	8,053,048	0	\$(5,424,754)	2,628,294	11.67%	0.00%	0.00%
16 TOTAL CAPITAL	\$ <u>69,033,507</u>	\$ 0	\$(46,502,864)	<u>22,530,643</u>	<u>100.00%</u>		<u>10.03%</u>
RANGE OF REASONABLENESS					LOW	HIGH	
RETURN ON EQUITY					13.23%	15.23%	
OVERALL RATE OF RETURN					9.44%	10.03%	

FCWC - LEE COUNTY WATER
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED 12/31/94 - INDEX PURPOSES

SCHEDULE NO. 1-D
DOCKET NO. 951029-WU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 8,852,776	\$ 0	\$ 8,852,776	\$ 7,987	\$ 8,860,763	(\$581,596)	8,279,167
OPERATING EXPENSES:		0.00%				-6.56%	
2 OPERATION AND MAINTENANCE	\$ 3,564,050	\$ 0	\$ 3,564,050	\$ 14,541	\$ 3,578,591	\$	3,578,591
3 DEPRECIATION	890,417	0	890,417	(33,319)	857,098		857,098
4 AMORTIZATION	6,222	0	6,222	0	6,222		6,222
5 TAXES OTHER THAN INCOME	1,050,853	0	1,050,853	359	1,051,212	(26,172)	1,025,041
6 INCOME TAXES	238,753	446,841	685,594	76,387	761,981	(209,006)	552,975
7 TOTAL OPERATING EXPENSES	\$ 5,750,295	\$ 446,841	\$ 6,197,136	\$ 57,968	\$ 6,255,104	(\$235,178)	6,019,926
8 OPERATING INCOME	\$ 3,102,481	(\$446,841)	\$ 2,655,640	(\$49,981)	\$ 2,605,659	(\$346,418)	2,259,241
9 RATE BASE	\$ 23,529,086		\$ 23,529,086		\$ 22,530,642		\$ 22,530,642
RATE OF RETURN	13.19%		11.29%		11.56%		10.03%

**FCWC - LEE COUNTY WATER
 ADJUSTMENTS TO OPERATING STATEMENTS
 TEST YEAR ENDED 12/31/94 - INDEX PURPOSES**

**SCHEDULE NO. 1-E
 DOCKET NO. 951029-WU
 PAGE 1 OF 1**

EXPLANATION	WATER
(1) OPERATING REVENUES	
a) Correction to guaranteed revenues	\$ 7,987
	<u>\$ 7,987</u>
(2) OPERATING EXPENSES	
a) Adjustment to increase billing cost	\$ 18,068
b) Reduction for outside auditing expense	(3,527)
	<u>\$ 14,541</u>
(3) DEPRECIATION EXPENSE	
a) Adjustment to reflect retirement per Order No. 16768	\$ (4,070)
b) Adjustment to reflect reclassification of engineering costs	366
c) Adjustment to reflect increased CIAC per Order No. 16768	(2,584)
d) Used and Useful Adjustment	(21,695)
e) Imputation of CIAC as offsetting adjustment to Margin Reserve	(5,336)
	<u>\$ (33,319)</u>
(4) TAXES OTHER THAN INCOME	
Associated provision for regulatory assessment fees	\$ <u>359</u>
(5) INCOME TAXES	
Adjustment to show provision for income taxes on stand alone basis	\$ <u>76,387</u>
(6) OPERATING REVENUES	
Reduction to yield revenue requirement	\$ <u>(581,596)</u>
(7) TAXES OTHER THAN INCOME	
Associated provision for regulatory assessment fees	\$ <u>(26,172)</u>
(8) INCOME TAXES	
Associated income taxes	\$ <u>(209,006)</u>

FCWC - LEE COUNTY WATER SCHEDULE OF WATER RATE BASE TEST YEAR ENDED 12/31/95 - INDEX PURPOSES			SCHEDULE NO. 2-A DOCKET NO. 951029-WU			
COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	
1 UTILITY PLANT IN SERVICE	\$ 62,318,757	\$ 0	\$ 62,318,757	(1,633,020)	60,685,737	
2 LAND	0	0	0	0	0	
3 NON-USED & USEFUL COMPONENTS	0	0	0	(566,606)	(566,606)	
4 ACCUMULATED DEPRECIATION	(15,041,739)	0	(15,041,739)	951,028	(14,090,711)	
5 CIAC	(31,409,500)	0	(31,409,500)	477,347	(30,932,153)	
6 AMORTIZATION OF CIAC	8,117,273	0	8,117,273	(404,432)	7,712,841	
7 ACQUISITION ADJUSTMENTS - NET	0	0	0	0	0	
8 UNFUNDED FASB 106 OBLIGATION	0	0	0	(383,230)	(383,230)	
9 ALLOCATION OF COMMON PLANT	134,528	0	134,528	0	134,528	
10 WORKING CAPITAL ALLOWANCE	469,899	0	469,899	(98,130)	371,769	
RATE BASE	\$ 24,589,218	\$ 0	\$ 24,589,218	(1,657,043)	22,932,175	

**FCWC - LEE COUNTY WATER
 ADJUSTMENTS TO RATE BASE
 TEST YEAR ENDED 12/31/95 - INDEX PURPOSES**

**SCHEDULE NO. 2-B
 DOCKET NO. 951029-WU
 PAGE 1 OF 1**

EXPLANATION	WATER
(1) UTILITY PLANT IN SERVICE	
a) Adjustment to reflect corrections from prior dockets	\$ (138,308)
b) Adjustment to reflect misallocation of engineering costs	12,441
c) Averaging Adjustment	(1,507,153)
	<u>\$ (1,633,020)</u>
(2) PROPERTY HELD FOR FUTURE USE	
Used and Useful Adjustment	<u>\$ (566,606)</u>
(3) ACCUMULATED DEPRECIATION	
a) Adjustment to reflect corrections from prior dockets	\$ 138,308
b) Excess accrual of depreciation on prior adjustment	36,626
c) Adjustment to reflect misallocation of engineering costs	(549)
d) Averaging adjustment	776,643
	<u>\$ 951,028</u>
(4) CIAC	
a) Adjustment to reflect corrections from prior dockets	\$ (99,618)
b) Adjustment to impute CIAC as offsetting adjustment to Margin Reserve	(187,895)
c) Averaging adjustment	764,860
	<u>\$ 477,347</u>
(5) ACCUMULATED AMORTIZATION	
a) Adjustment to reflect corrections from prior dockets	\$ 19,748
b) Excess accrual of depreciation on prior adjustment	25,682
c) Averaging adjustment	(449,862)
	<u>\$ (404,432)</u>
(6) UNFUNDED FASB 106 OBLIGATION	
Adjustment to reflect average balance	<u>\$ (383,230)</u>
(7) WORKING CAPITAL	
a) Adjustment to reflect balance sheet calculation of working capital	<u>\$ (98,130)</u>

**FCWC - LEE COUNTY WATER
CAPITAL STRUCTURE
TEST YEAR ENDED 12/31/95 - INDEX PURPOSES**

**SCHEDULE NO. 2 - C
DOCKET NO. 951029 - WU**

ORDER NO. PSC-96-0859-FOF-WU
DOCKET NO. 951029-WU
PAGE 32

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY							
1 LONG TERM DEBT	\$ 33,809,712	\$ 0	\$ 0	33,809,712	46.26%	9.53%	4.41%
2 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	9,000,000	0	0	9,000,000	12.31%	9.00%	1.11%
4 COMMON EQUITY	20,562,725	0	0	20,562,725	28.14%	15.23%	4.28%
5 CUSTOMER DEPOSITS	838,301	0	0	838,301	1.15%	6.00%	0.07%
6 DEFERRED ITC'S - ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S - WTD COST	1,719,081	0	0	1,719,081	2.35%	11.30%	0.27%
8 DEFERRED INCOME TAXES	7,155,594	0	0	7,155,594	9.79%	0.00%	0.00%
9 TOTAL CAPITAL	\$ 73,085,413	\$ 0	\$ 0	73,085,413	100.00%		10.14%
PER COMMISSION							
10 LONG TERM DEBT	\$ 33,809,712	\$ 0	(23,201,162)	10,608,550	46.26%	9.53%	4.41%
11 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
12 PREFERRED STOCK	9,000,000	0	(6,176,050)	2,823,950	12.31%	9.00%	1.11%
13 COMMON EQUITY	20,562,725	0	(14,110,712)	6,452,013	28.14%	15.23%	4.28%
14 CUSTOMER DEPOSITS	838,301	0	(575,265)	263,036	1.15%	6.00%	0.07%
15 DEFERRED ITC'S - ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S - WTD COST	1,719,081	0	(1,179,681)	539,400	2.35%	11.30%	0.27%
16 DEFERRED INCOME TAXES	7,155,594	0	(4,910,367)	2,245,227	9.79%	0.00%	0.00%
17 TOTAL CAPITAL	\$ 73,085,413	\$ 0	(50,153,238)	22,932,175	100.00%		10.14%
RANGE OF REASONABLENESS					LOW	HIGH	
RETURN ON EQUITY					13.23%	15.23%	
OVERALL RATE OF RETURN					9.57%	10.14%	

FCWC - LEE COUNTY WATER
 STATEMENT OF WATER OPERATIONS
 TEST YEAR ENDED 12/31/95 - INDEX PURPOSES

SCHEDULE NO. 2-D
 DOCKET NO. 951029-WU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 8,847,939	\$ 0	\$ 8,847,939	\$ 8,734	\$ 8,856,673	(425,656)	\$ 8,431,017
OPERATING EXPENSES:						-4.81%	
2 OPERATION AND MAINTENANCE	\$ 3,708,860	\$ 0	\$ 3,708,860	(20,232)	\$ 3,688,628	\$	\$ 3,688,628
3 DEPRECIATION	922,861	0	922,861	(55,701)	867,160		867,160
4 AMORTIZATION	6,222	0	6,222	0	6,222		6,222
5 TAXES OTHER THAN INCOME	1,053,046	0	1,053,046	393	1,053,439	(19,155)	1,034,285
6 INCOME TAXES	597,570	0	597,570	65,570	663,140	(152,967)	510,173
7 TOTAL OPERATING EXPENSES	\$ 6,288,559	\$ 0	\$ 6,288,559	(9,970)	\$ 6,278,589	(172,121)	\$ 6,106,468
8 OPERATING INCOME	\$ 2,559,380	\$ 0	\$ 2,559,380	18,704	\$ 2,578,084	(253,535)	\$ 2,324,549
9 RATE BASE	\$ 24,589,218		\$ 24,589,218		\$ 22,932,175		\$ 22,932,175
RATE OF RETURN	10.41%		10.41%		11.24%		10.14%

EXPLANATION	WATER
FCWC - LEE COUNTY WATER ADJUSTMENTS TO OPERATING STATEMENTS TEST YEAR ENDED 12/31/95 - INDEX PURPOSES	
SCHEDULE NO. 2-E DOCKET NO. 951029-WU PAGE 1 OF 1	
(1) OPERATING REVENUES	
a) Addition to annualized revenues 1995	\$ 40,851
b) Projected lost revenues due to customer repair of lines	(32,117)
	<u>\$ 8,734</u>
(2) OPERATING EXPENSES	
a) Adjustment to reduce annualized expenses	\$ (20,232)
(3) DEPRECIATION EXPENSE	
a) Adjustment to reflect retirement per Order No. 16768	\$ (4,070)
b) Adjustment to reflect reclassification of engineering costs	366
c) Adjustment to reflect increased CIAC per Order No. 16768	(2,584)
d) Used and Useful Adjustment	(21,850)
e) Adjustment to impute CIAC as offsetting adjustment for Margin Reserve	(5,374)
f) Adjustment to reflect revised calculation of depreciation expense	(22,189)
	<u>\$ (55,701)</u>
(4) TAXES OTHER THAN INCOME	
Associated provision for regulatory assessment fees	\$ 393
(5) INCOME TAXES	
Adjustment to show provision for income taxes on stand alone basis	\$ 65,570
(6) OPERATING REVENUES	
Adjustment to reflect excessive earnings condition	\$ (425,656)
(7) TAXES OTHER THAN INCOME	
Related provision for regulatory assessment fees	\$ (19,155)
(8) INCOME TAXES	
Income taxes associated with revenue adjustment	\$ (152,967)

FCWC - LEE COUNTY WATER SCHEDULE OF WATER RATE BASE TEST YEAR ENDED 12/31/95 - INTERIM REFUND			SCHEDULE NO. 3-A DOCKET NO. 951029-WU			
COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	
1 UTILITY PLANT IN SERVICE	\$ 62,318,757	\$ 0	\$ 62,318,757	\$(1,633,020)	\$ 60,685,737	
2 LAND	0	0	0	0	0	
3 NON-USED & USEFUL COMPONENTS	0	0	0	(566,606)	(566,606)	
4 ACCUMULATED DEPRECIATION	(15,041,739)	0	(15,041,739)	951,028	(14,090,711)	
5 CIAC	(31,409,500)	0	(31,409,500)	477,347	(30,932,153)	
6 AMORTIZATION OF CIAC	8,117,273	0	8,117,273	(404,432)	7,712,841	
7 ACQUISITION ADJUSTMENTS -NET	0	0	0	0	0	
8 UNFUNDED FASB 106 OBLIGATION	0	0	0	(383,230)	(383,230)	
9 ALLOCATION OF COMMON PLANT	134,528	0	134,528	0	134,528	
10 WORKING CAPITAL ALLOWANCE	469,899	0	469,899	(98,130)	371,769	
RATE BASE	\$ 24,589,218	\$ 0	\$ 24,589,218	\$(1,657,043)	\$ 22,932,175	

FCWC - LEE COUNTY WATER ADJUSTMENTS TO RATE BASE TEST YEAR ENDED 12/31/95 - INTERIM REFUND		SCHEDULE NO. 3-B DOCKET NO. 951029-WU PAGE 1 OF 1
EXPLANATION	WATER	
(1) UTILITY PLANT IN SERVICE		
a) Reduction to reflect adjustments in prior dockets	\$	(138,308)
b) Adjustment to reflect misallocation of engineering costs		12,441
c) Averaging Adjustment		(1,507,153)
	\$	<u>(1,633,020)</u>
(2) PROPERTY HELD FOR FUTURE USE		
Used and Useful Adjustment	\$	<u>(566,606)</u>
(3) ACCUMULATED DEPRECIATION		
a) Reduction to reflect adjustments in prior dockets	\$	138,308
b) Excess accrual of depreciation on prior adjustment		36,626
c) Adjustment to reflect misallocation of engineering costs		(549)
d) Averaging adjustment		776,643
	\$	<u>951,028</u>
(4) CIAC		
a) Reduction to reflect adjustments in prior dockets	\$	(99,618)
b) Adjustment to impute CIAC as offsetting adjustment to Margin Reserve		(187,895)
c) Averaging adjustment		764,860
	\$	<u>477,347</u>
(5) ACCUMULATED AMORTIZATION		
a) Reduction to reflect adjustments in prior dockets	\$	19,748
b) Excess accrual of depreciation on prior adjustment		25,682
c) Averaging adjustment		(449,862)
	\$	<u>(404,432)</u>
(6) UNFUNDED FASB 106 OBLIGATION		
Adjustment to reflect average balance	\$	<u>(383,230)</u>
(7) WORKING CAPITAL		
a) Adjustment to reflect balance sheet calculation of working capital	\$	<u>(98,130)</u>

**FCWC - LEE COUNTY WATER
 CAPITAL STRUCTURE
 TEST YEAR ENDED 12/31/95 - INTERIM REFUND**

**SCHEDULE NO. 3-C
 DOCKET NO. 951029-WU**

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY							
1 LONG TERM DEBT	\$ 33,809,712	\$ 0	\$ 0	33,809,712	46.26%	9.53%	4.41%
2 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	9,000,000	0	0	9,000,000	12.31%	9.00%	1.11%
4 COMMON EQUITY	20,562,725	0	0	20,562,725	28.14%	15.23%	4.28%
5 CUSTOMER DEPOSITS	838,301	0	0	838,301	1.15%	6.00%	0.07%
6 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-WTD COST	1,719,081	0	0	1,719,081	2.35%	11.30%	0.27%
8 DEFERRED INCOME TAXES	7,155,594	0	0	7,155,594	9.79%	0.00%	0.00%
9 TOTAL CAPITAL	\$ <u>73,085,413</u>	\$ 0	\$ 0	<u>73,085,413</u>	<u>100.00%</u>		<u>10.14%</u>
PER COMMISSION							
10 LONG TERM DEBT	\$ 33,809,712	\$ 0	\$(23,201,162)	10,608,550	46.26%	9.53%	4.41%
11 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
12 PREFERRED STOCK	9,000,000	0	\$(6,176,050)	2,823,950	12.31%	9.00%	1.11%
13 COMMON EQUITY	20,562,725	0	\$(14,110,712)	6,452,013	28.14%	11.88%	3.34%
14 CUSTOMER DEPOSITS	838,301	0	\$(575,265)	263,036	1.15%	6.00%	0.07%
15 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S-WTD COST	1,719,081	0	\$(1,179,681)	539,400	2.35%	10.22%	0.24%
16 DEFERRED INCOME TAXES	7,155,594	0	\$(4,910,367)	2,245,227	9.79%	0.00%	0.00%
17 TOTAL CAPITAL	\$ <u>73,085,413</u>	\$ 0	\$(50,153,238)	<u>22,932,175</u>	<u>100.00%</u>		<u>9.17%</u>
RANGE OF REASONABLENESS					LOW	HIGH	
RETURN ON EQUITY					<u>10.88%</u>	<u>12.88%</u>	
OVERALL RATE OF RETURN					<u>8.89%</u>	<u>9.45%</u>	

FCWC - LEE COUNTY WATER
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED 12/31/95 - INTERIM REFUND

SCHEDULE NO. 3-D
DOCKET NO. 951029-WU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 8,847,939	0	\$ 8,847,939	\$ 8,734	\$ 8,856,673	(795,418)	\$ 8,061,255
OPERATING EXPENSES:						-8.98%	
2 OPERATION AND MAINTENANCE	\$ 3,708,860	0	\$ 3,708,860	(20,232)	\$ 3,688,628		\$ 3,688,628
3 DEPRECIATION	922,861	0	922,861	(55,701)	867,160		867,160
4 AMORTIZATION	6,222	0	6,222	0	6,222		6,222
5 TAXES OTHER THAN INCOME	1,053,046	0	1,053,046	393	1,053,439	(35,794)	1,017,645
6 INCOME TAXES	597,570	0	597,570	67,333	664,903	(285,847)	379,056
7 TOTAL OPERATING EXPENSES	\$ 6,288,559	0	\$ 6,288,559	(8,207)	\$ 6,280,352	(321,640)	\$ 5,958,712
8 OPERATING INCOME	\$ 2,559,380	0	\$ 2,559,380	16,941	\$ 2,576,321	(473,778)	\$ 2,102,543
9 RATE BASE	\$ 24,589,218		\$ 24,589,218		\$ 22,932,175		\$ 22,932,175
RATE OF RETURN	10.41%		10.41%		11.23%		9.17%

FCWC - LEE COUNTY WATER ADJUSTMENTS TO OPERATING STATEMENTS TEST YEAR ENDED 12/31/95 - INTERIM REFUND	SCHEDULE NO. 3-E DOCKET NO. 951029-WU PAGE 1 OF 1
EXPLANATION	WATER
(1) OPERATING REVENUES	
a) Addition to annualized revenues 1995	\$ 40,851
b) Projected lost revenues due to customer repair of lines	(32,117)
	\$ <u>8,734</u>
(2) OPERATING EXPENSES	
a) Adjustment to reduce annualized expenses	\$ <u>(20,232)</u>
(3) DEPRECIATION EXPENSE	
a) Adjustment to reflect retirement per Order No. 16768	\$ (4,070)
b) Adjustment to reflect reclassification of engineering costs	366
c) Adjustment to reflect increased CIAC per Order No. 16768	(2,584)
d) Used and Useful Adjustment	(21,850)
e) Imputation of CIAC as offsetting adjustment to Margin Reserve	(5,374)
f) Adjustment to reflect revised calculation of depreciation expense	(22,189)
	\$ <u>(55,701)</u>
(4) TAXES OTHER THAN INCOME	
Associated provision for regulatory assessment fees	\$ <u>393</u>
(5) INCOME TAXES	
Adjustment to show provision for income taxes on stand alone basis	\$ <u>67,333</u>
(6) OPERATING REVENUES	
Adjustment to reflect excessive earnings condition	\$ <u>(795,418)</u>
(7) TAXES OTHER THAN INCOME	
Related provision for regulatory assessment fees	\$ <u>(35,794)</u>
(8) INCOME TAXES	
Income taxes associated with revenue adjustment	\$ <u>(285,847)</u>

FCWC - LEE COUNTY WATER SCHEDULE OF WATER RATE BASE TEST YEAR ENDED 12/31/96 - RATE REDUCTION				SCHEDULE NO. 4-A DOCKET NO. 951029-WU		
COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	
1 UTILITY PLANT IN SERVICE	\$ 65,212,912 \$	0 \$	65,212,912 \$	(1,572,944)\$	63,639,968	
2 LAND	0	0	0	0	0	
3 NON-USED & USEFUL COMPONENTS	0	0	0	(572,337)	(572,337)	
4 ACCUMULATED DEPRECIATION	(16,949,470)	0	(16,949,470)	1,126,251	(15,821,219)	
5 CIAC	(32,037,690)	0	(32,037,690)	24,682	(32,013,008)	
6 AMORTIZATION OF CIAC	9,034,987	0	9,034,987	(413,427)	8,621,560	
7 ACQUISITION ADJUSTMENTS -NET	0	0	0	0	0	
8 UNFUNDED FASB 106 OBLIGATION	0	0	0	(383,230)	(383,230)	
9 ALLOCATION OF COMMON PLANT	134,528	0	134,528	0	134,528	
10 WORKING CAPITAL ALLOWANCE	486,269	0	486,269	(114,500)	371,769	
RATE BASE	\$ 25,881,536 \$	0 \$	25,881,536 \$	(1,903,505)\$	23,978,031	

**FCWC - LEE COUNTY WATER
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED 12/31/96 - RATE REDUCTION**

**SCHEDULE NO. 4-B
DOCKET NO. 951029-WU
PAGE 1 OF 1**

EXPLANATION	WATER
(1) UTILITY PLANT IN SERVICE	
a) Adjustment to reflect corrections from prior dockets	\$ (138,308)
b) Adjustment to reflect misallocation of engineering costs	12,441
c) Averaging Adjustment	(1,447,077)
	<u>\$ (1,572,944)</u>
(2) PROPERTY HELD FOR FUTURE USE	
Used and Useful Adjustment	<u>\$ (572,337)</u>
(3) ACCUMULATED DEPRECIATION	
a) Adjustment to reflect corrections from prior dockets	\$ 138,308
b) Excess accrual of depreciation on prior adjustment	36,626
c) Adjustment to reflect misallocation of engineering costs	(549)
d) Averaging adjustment	953,866
	<u>\$ 1,128,251</u>
(4) CIAC	
a) Adjustment to reflect corrections from prior dockets	\$ (99,618)
b) Adjustment to impute CIAC as offsetting adjustment to Margin Reserve	(189,795)
c) Averaging adjustment	314,095
	<u>\$ 24,682</u>
(5) ACCUMULATED AMORTIZATION	
a) Adjustment to reflect corrections from prior dockets	\$ 19,748
b) Excess accrual of depreciation on prior adjustment	25,682
c) Averaging adjustment	(458,857)
	<u>\$ (413,427)</u>
(6) UNFUNDED FASB 106 OBLIGATION	
a) Adjustment to reflect average balance	<u>\$ (383,230)</u>
(7) WORKING CAPITAL	
a) Adjustment to reflect balance sheet calculation of working capital	<u>\$ (114,500)</u>

FCWC - LEE COUNTY WATER
 CAPITAL STRUCTURE
 TEST YEAR ENDED 12/31/96 - RATE REDUCTION

SCHEDULE NO. 4-C
 DOCKET NO. 951029-WU

ORDER NO. PSC-96-0859-FOF-WU
 DOCKET NO. 951029-WU
 PAGE 42

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY							
(projected balance 12/95)							
1 LONG TERM DEBT	\$ 36,660,000	0 \$	0 \$	36,660,000	48.30%	9.53%	4.60%
2 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	9,000,000	0	0	9,000,000	11.86%	9.00%	1.07%
4 COMMON EQUITY	20,782,539	0	0	20,782,539	27.38%	15.23%	4.17%
5 CUSTOMER DEPOSITS	1,013,037	0	0	1,013,037	1.33%	6.00%	0.08%
6 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-WTD COST	1,678,281	0	0	1,678,281	2.21%	11.30%	0.25%
8 DEFERRED INCOME TAXES	6,762,006	0	0	6,762,006	8.91%	0.00%	0.00%
9 TOTAL CAPITAL	\$ 75,895,863	0 \$	0 \$	75,895,863	100.00%		10.17%
PER COMMISSION							
(actual balance 6/96)							
10 LONG TERM DEBT	\$ 36,616,667	0 \$	(25,580,184)\$	11,036,483	46.03%	8.33%	3.83%
11 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
12 PREFERRED STOCK	9,000,000	0	(6,287,346)	2,712,654	11.31%	9.00%	1.02%
13 COMMON EQUITY	24,360,915	0	(17,018,389)	7,342,526	30.62%	11.88%	3.64%
14 CUSTOMER DEPOSITS	759,458	0	(530,553)	228,905	0.95%	6.00%	0.06%
15 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S-WTD COST	1,637,481	0	(1,143,934)	493,547	2.06%	9.65%	0.20%
16 DEFERRED INCOME TAXES	7,179,404	0	(5,015,488)	2,163,916	9.02%	0.00%	0.00%
17 TOTAL CAPITAL	\$ 79,553,925	0 \$	(55,575,894)\$	23,978,031	100.00%		8.75%

RANGE OF REASONABLENESS

LOW

HIGH

RETURN ON EQUITY

10.88%

12.88%

OVERALL RATE OF RETURN

8.44%

9.05%

FCWC - LEE COUNTY WATER STATEMENT OF WATER OPERATIONS TEST YEAR ENDED 12/31/96 - RATE REDUCTION				SCHEDULE NO. 4-D DOCKET NO. 951029-WU			
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 8,969,404	\$ 0	\$ 8,969,404	\$ 64,403	\$ 9,033,807	(682,126)\$	8,351,680
OPERATING EXPENSES:						-7.55%	
2 OPERATION AND MAINTENANCE	\$ 3,840,740	\$ 0	\$ 3,840,740	(21,031)\$	\$ 3,819,709	\$	3,819,709
3 DEPRECIATION	990,018	0	990,018	(67,115)	922,903		922,903
4 AMORTIZATION	6,222	0	6,222	0	6,222		6,222
5 TAXES OTHER THAN INCOME	1,100,361	0	1,100,361	2,898	1,103,259	(30,696)	1,072,563
6 INCOME TAXES	526,302	0	526,302	151,973	678,275	(245,133)	433,142
7 TOTAL OPERATING EXPENSES	\$ 6,463,643	\$ 0	\$ 6,463,643	\$ 66,725	\$ 6,530,368	(275,829)\$	6,254,539
8 OPERATING INCOME	\$ 2,505,761	\$ 0	\$ 2,505,761	(2,322)\$	\$ 2,503,439	(406,297)\$	2,097,142
9 RATE BASE	\$ 25,881,536	\$ 25,881,536	\$ 25,881,536	\$ 23,978,031	\$ 23,978,031		\$ 23,978,031
RATE OF RETURN	9.68%		9.68%		10.44%		8.75%

**FCWC - LEE COUNTY WATER
 ADJUSTMENTS TO OPERATING STATEMENTS
 TEST YEAR ENDED 12/31/96 - RATE REDUCTION**

**SCHEDULE NO. 4-E
 DOCKET NO. 951029-WU
 PAGE 1 OF 1**

EXPLANATION	WATER
(1) OPERATING REVENUES	
a) Addition to annualized revenues 1995	\$ 40,851
b) Addition to annualized revenues 1996	56,311
c) Projected lost revenues due to customer repair of lines	(32,759)
	<u>\$ 64,403</u>
(2) OPERATING EXPENSES	
a) Adjustment to reduce annualized expenses	\$ <u>(21,031)</u>
(3) DEPRECIATION EXPENSE	
a) Adjustment to reflect retirement per Order No. 16768	\$ (4,070)
b) Adjustment to reflect reclassification of engineering costs	366
c) Adjustment to reflect increased CIAC per Order No. 16768	(2,584)
d) Used and Useful Adjustment	(22,071)
e) Imputation of CIAC as offsetting adjustment to Margin Reserve	(5,428)
f) Adjustment to reflect revised calculation of depreciation expense	(33,328)
	<u>\$ (67,115)</u>
(4) TAXES OTHER THAN INCOME	
Associated provision for regulatory assessment fees	\$ <u>2,898</u>
(5) INCOME TAXES	
Adjustment to show provision for income taxes on stand alone basis	\$ <u>151,973</u>
(6) OPERATING REVENUES	
Adjustment to reflect excessive earnings condition	\$ <u>(682,126)</u>
(7) TAXES OTHER THAN INCOME	
Associated provision for regulatory assessment fees	\$ <u>(30,696)</u>
(8) INCOME TAXES	
Income taxes associated with revenue adjustment	\$ <u>(245,133)</u>

State of Florida



Public Service Commission

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

DATE: July 8, 1996
TO: Recipients of Order No. PSC-96-0859-FOF-WU
FROM: Kay Flynn, Division of Records and Reporting *KF*
RE: Docket No. 951029-WU - Investigation into rates and charges of Florida Cities Water Company - Lee County Division for potential overearnings in Lee County

Order No. PSC-96-0859-FOF-WU was issued in the referenced docket on July 2, 1996. Page 45 was inadvertently not included in the copies of the order that were prepared and distributed on July 2. I have attached a copy of page 45, which should be placed with your copy of the order. I apologize for any confusion that might have been caused by this oversight. Please call me if you have any questions about the matter.

Attachment

cc: Ralph Jaeger
Docket File 951029-WU

**FCWC - LEE COUNTY WATER
 SCHEDULE OF WATER RATES
 TEST YEAR ENDED 12/31/96 - RATE REDUCTION**

**SCHEDULE NO. 5
 DOCKET NO. 951029-WU**

TYPE OF SERVICE	Rates Prior to 7/1/94 Index	Rates as of 7/1/94	Commission Approved Rates
Residential (North & South Ft. Myers)			
Base Facility Charge:			
5/8" x 3/4"	\$6.09	\$6.15	\$5.69
3/4"	\$8.49	\$8.57	\$7.92
1"	\$13.29	\$13.42	\$12.41
1 -1/2"	\$25.26	\$25.51	\$23.58
2"	\$39.65	\$40.03	\$37.01
Gallonge Charge, per 1,000 Gallons	\$3.12	\$3.15	\$2.91
General Service and Multiple Dwelling (North & South Ft. Myers)			
Base Facility Charge:			
5/8" x 3/4"	\$6.09	\$6.15	\$5.69
3/4"	\$8.49	\$8.57	\$7.92
1"	\$13.29	\$13.42	\$12.41
1 -1/2"	\$25.26	\$25.51	\$23.58
2"	\$39.65	\$40.03	\$37.01
3"	\$78.01	\$78.77	\$72.82
4"	\$121.16	\$122.34	\$113.10
6"	\$241.01	\$243.35	\$224.98
8"	\$384.85	\$388.58	\$359.24
Gallonge Charge, per 1,000 Gallons	\$3.12	\$3.15	\$2.91
Private Fire Protection Service (North & South Ft. Myers)			
Base Facility Charge:			
1"	\$4.64	\$4.69	\$4.34
1-1/2"	\$9.29	\$9.38	\$8.67
2"	\$14.08	\$14.22	\$13.15
3"	\$26.86	\$27.12	\$25.07
4"	\$41.25	\$41.65	\$38.51
6"	\$81.21	\$82.00	\$75.81
8"	\$129.14	\$130.39	\$120.55
10"	\$185.08	\$186.88	\$172.77
TYPICAL RESIDENTIAL BILLS			
5/8" x 3/4" meter			
3,000 Gallons	\$15.45	\$15.60	\$14.42
5,000 Gallons	\$21.69	\$21.90	\$20.25
10,000 Gallons	\$24.81	\$25.05	\$23.16

**FCWC - LEE COUNTY WATER
 SCHEDULE OF WATER RATES
 TEST YEAR ENDED 12/31/96 - RATE REDUCTION**

**SCHEDULE NO. 5
 DOCKET NO. 951029-WU**

TYPE OF SERVICE	Rates Prior to 7/1/94 Index	Rates as of 7/1/94	Commission Approved Rates
Residential (North & South Ft. Myers)			
Base Facility Charge:			
5/8" x 3/4"	\$6.09	\$6.15	\$5.69
3/4"	\$8.49	\$8.57	\$7.92
1"	\$13.29	\$13.42	\$12.41
1 -1/2"	\$25.26	\$25.51	\$23.58
2"	\$39.65	\$40.03	\$37.01
Gallage Charge, per 1,000 Gallons	\$3.12	\$3.15	\$2.91
General Service and Multiple Dwelling (North & South Ft. Myers)			
Base Facility Charge:			
5/8" x 3/4"	\$6.09	\$6.15	\$5.69
3/4"	\$8.49	\$8.57	\$7.92
1"	\$13.29	\$13.42	\$12.41
1 -1/2"	\$25.26	\$25.51	\$23.58
2"	\$39.65	\$40.03	\$37.01
3"	\$78.01	\$78.77	\$72.82
4"	\$121.16	\$122.34	\$113.10
6"	\$241.01	\$243.35	\$224.98
8"	\$384.85	\$388.58	\$359.24
Gallage Charge, per 1,000 Gallons	\$3.12	\$3.15	\$2.91
Private Fire Protection Service (North & South Ft. Myers)			
Base Facility Charge:			
1"	\$4.64	\$4.69	\$4.34
1-1/2"	\$9.29	\$9.38	\$8.67
2"	\$14.08	\$14.22	\$13.15
3"	\$26.86	\$27.12	\$25.07
4"	\$41.25	\$41.65	\$38.51
6"	\$81.21	\$82.00	\$75.81
8"	\$129.14	\$130.39	\$120.55
10"	\$185.08	\$186.88	\$172.77
TYPICAL RESIDENTIAL BILLS			
5/8" x 3/4" meter			
3,000 Gallons	\$15.45	\$15.60	\$14.42
5,000 Gallons	\$21.69	\$21.90	\$20.25
10,000 Gallons	\$24.81	\$25.05	\$23.16