

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation of
possible overearnings by North
Peninsula Utilities Corporation
in Volusia County.

DOCKET NO. 000715-SU
ORDER NO. PSC-00-1676-PAA-SU
ISSUED: September 19, 2000

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
E. LEON JACOBS, JR.
LILA A. JABER

NOTICE OF PROPOSED AGENCY ACTION
ORDER FINDING OVEREARNINGS, ESTABLISHING RATE BASE, AND
REQUIRING REFUNDS OF INDEX AND PASS-THROUGH RATE ADJUSTMENTS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the actions discussed herein are 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

North Peninsula Utilities Corporation (North Peninsula or utility) is a Class C wastewater only utility located in Volusia County. The utility's 1998 annual report shows the utility served 514 customers and had gross revenues of \$161,195, operating expenses of \$111,266, for a net operating income of \$49,929.

By Order No. 16184, issued June 4, 1986, in Docket No. 850121-SU, we processed a staff assisted rate case for this utility when the utility was known as Shore Utility Corporation. A transfer docket was opened in 1989 to transfer Shore Utility Corporation to North Peninsula. By Order No. 22345, issued December 27, 1989, in Docket No. 891016-SU, we approved the transfer. Rate base was established during this transfer proceeding for book value of the property being transferred and did not include the normal

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FPSC-RECORDS/REPORTING

ratemaking adjustments of working capital calculations and used and useful adjustments.

North Peninsula received price index rate increases in 1991, 1992, 1993, 1994, 1995, 1996, and 1998. The utility also received pass-through rate increases in 1993, 1994, 1995, 1996 and 1998.

By Order No. PSC-97-0263-FOF-SU, issued March 11, 1997, we found the utility to be overearning and ordered a refund (with interest) of index and pass-through increases which contributed to utility overearnings in 1995 and 1996, and also ordered a refund of interim revenues which were held subject to refund.

A review of the utility's 1998 annual report indicated that North Peninsula's wastewater system was earning an overall rate of return of 24.46%, showing a 29% increase in revenue since the 1996 investigation with only a 1.3% increase in operating expenses. An undocketed investigation of 1998 possible overearnings was initiated.

We audited the utility's records for compliance with our rules and orders and determined all components necessary for rate setting. We selected a historical test year ending December 31, 1998. A review of the utility's operating expenses and files was performed to obtain information on the systems and operating costs. The field audit was completed on March 3, 2000. The utility's accountant filed a response to the exceptions and disclosures contained in the audit on June 21, 2000.

By letter dated July 31, 2000, the utility requested a deferral of our staff's recommendation from the August 1, 2000 agenda conference in order to provide our staff with additional information and discuss certain issues in the recommendation. The Chairman's office approved the deferral until the August 29, 2000 agenda conference. The utility waived the 15-month statutory timeframe for refunds of index and pass-through adjustments set forth in Section 367.081(4)(d), Florida Statutes.

OVEREARNINGS INVESTIGATION

Rate base for this utility was last established as of June 30, 1996. The appropriate components of North Peninsula's rate base include plant-in-service, land, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of

CIAC, and working capital allowance. A discussion of adjustments to rate base follows.

Plant-in-Service: The utility recorded a utility plant-in-service balance of \$798,008 at the end of the test year. Pursuant to Audit Exception No. 5, we made an adjustment of \$7,406 to capitalize utility plant which was expensed during the test year. An averaging adjustment of (\$7,453) was also made. Therefore, test year utility plant-in-service is \$797,961.

Non-Used and Useful Plant: By Order No. PSC-97-0263-FOF-SU, we approved the use of connection capacity as a means to calculate this utility's plant used and useful percentage. We found the utility's wastewater treatment plant and wastewater collection system to be 91% used and useful. During the utility's last proceeding, the capacity of the existing plant was calculated at 485 Equivalent Residential Connections (ERCs) with 422 average test year customers and 19.4 ERCs of growth margin resulting in the 91% used and useful determination.

At test year end, our audit shows 514 customers. Using the same methodology approved in the last investigation, the utility's treatment plant and collection system are operating over capacity and shall be considered 100% used and useful.

CIAC: The utility recorded a CIAC balance of \$640,994 at the end of the test year. This balance included apparent unauthorized CIAC charges to two customers totaling \$10,500 in 1996. As discussed in later paragraphs, we exercised our discretion to have the \$10,500 remain as CIAC in lieu of a refund to benefit customers on a prospective basis. We therefore find test year CIAC is \$640,994.

Amortization of CIAC: The utility books reflected an accumulated amortization balance of \$234,103 at the end of the test year. We made an adjustment of \$140,684 to reflect our calculated accumulated amortization, and made an averaging adjustment of (\$14,809). Test year accumulated amortization of CIAC is \$359,978.

Working Capital Allowance: Consistent with Rule 25-30.433(2), Florida Administrative Code, the one-eighth of operation and maintenance (O&M) expense formula approach shall be used for calculating working capital allowance. Applying that formula, a test year working capital allowance of \$13,677 (based on O&M of \$109,413), is appropriate.

Rate Base Summary: Based on the foregoing, the appropriate balance of North Peninsula's test year rate base is \$148,238. Rate base is shown on Schedule No. 1A, and adjustments are shown on Schedule No. 1B, attached to this Order and by reference incorporated herein.

Based on the audit, the utility's capital structure consists of negative common equity of \$369,841, and long term debt consisting of five loans (\$353,661 at 8.75%, \$5,000 at 14.00%, \$5,000 at 14.00%, \$2,409 at 7.00%, and \$6,443 at 10.50%) totaling \$372,513. Because including a negative retained earnings would penalize the utility's capital structure by understating the overall rate of return, we have adjusted the negative retained earnings to zero.

Using the current leverage formula approved by Order No. PSC-00-1162-PAA-WS, issued June 26, 2000, in Docket No. 000006-WS, the rate of return on common equity shall be 9.94% for future proceedings, with a range of 8.94% - 10.94%.

Applying the weighted average method to the total capital structure yields an overall rate of return of 8.91%. The company's test year capital structure balance has been adjusted to match the total of the wastewater rate base.

North Peninsula's return on equity and overall rate of return are shown on Schedule No. 2, attached to this Order and by reference incorporated herein.

North Peninsula's records showed revenues of \$161,195 for the test year ending December 31, 1998. Our auditors reviewed the utility's revenues on a month-by-month basis and agreed with the utility's test year revenue amount.

The utility recorded operating expenses of \$109,005 for the test year. The components of these expenses include operation and maintenance expenses, net depreciation expense, and taxes other than income taxes. The utility's test year operating expenses have been reviewed and invoices and other supporting documentation have been examined. Adjustments have been made to reflect unrecorded test year expenses and to reflect allowances for plant operations.

Operation and Maintenance Expenses (O&M): The utility charged \$89,560 to O&M expenses during the test year. A summary of adjustments that were made to the utility's recorded expenses follows:

(720) Materials and Supplies - The utility recorded materials and supplies expenses of \$2,730 for the test year. The utility accrued \$458 for office supplies at year-end 1997. The entry was reversed, per the general ledger, on December 31, 1998 which understated the amount of 1998 office supplies. We made an adjustment of \$458 to include office supplies expense for the 1998 test year as recommended in Audit Exception No. 6. A materials and supplies expense of \$3,188 for the test year is appropriate.

(731) Contractual Services - Professional - The utility recorded contractual professional services expenses of \$73,478 in this account for the test year. In accordance with Audit Exception No. 5, we made adjustments of \$5,512 to add non-booked operator charges, \$4,048 to correct a year-end general journal entry, (\$7,406) to reclassify expensed utility plant to rate base, \$18,826 to reflect the management contract allowed in the previous overearnings docket, and (\$1,348) to remove an out-of-test year operator expense. Total test year adjustments are \$19,632. Test year professional contractual services expenses of \$93,110 is appropriate.

(775) Miscellaneous Expense - The utility recorded \$3,157 of miscellaneous expenses for the test year. The utility recorded a charitable contribution of \$387 during the test year. Rule 25-30.433(6), Florida Administrative Code, states "[c]haritable contributions shall not be recovered through rates." We made an adjustment of (\$387) to remove the charitable contribution, and also made an adjustment of \$150 to include a Florida Department of State corporate filing fee which was incurred but not recorded in the test year. Test year miscellaneous expenses of \$2,920 are appropriate.

O&M Summary: Total O&M adjustments are \$19,853. O&M expenses of \$109,413 are appropriate. O&M expenses are shown on Schedule No. 3C, attached to this Order and by reference incorporated herein.

Depreciation Expense: The utility recorded \$7,260 of net depreciation expense (\$36,898 depreciation - \$29,638 CIAC amortization) on its books for the test year. We calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, Florida Administrative Code. We made an adjustment of \$338 to reflect test year net depreciation calculated per Rule 25-30.140, Florida Administrative Code. Test year net depreciation expense of \$7,598 (\$37,216 depreciation - \$29,618 CIAC amortization) is appropriate.

Taxes Other Than Income Taxes: The utility recorded test year taxes other than income of \$12,185. We made adjustments of \$6,878 to include regulatory assessment fees on test year revenue (Audit Exception No. 4), and (\$725) to reflect test year property taxes (Audit Exception No. 7). Test year taxes other than income of \$18,338 are appropriate.

A revenue requirement decrease of \$13,234 for the utility is appropriate. Taxes other than income taxes decrease by \$596 to reflect the regulatory assessment fee of 4.5%.

Operating Revenues: Revenues have been adjusted by (\$13,234) to reflect the decrease in revenue required to allow the utility to cover expenses and have the opportunity to earn the approved rate of return on investment without overearning.

Operating Expenses Summary: The application of our adjustments to the utility's test year operating expenses results in operating expenses of \$134,753.

Operating expenses are shown on Schedule No. 3A. Adjustments are shown on Schedule No. 3B. These Schedules are attached to this Order and by reference incorporated therein.

A decrease of \$13,234 (or 8.21%) in the utility's revenue requirement for 1998 is appropriate. This will allow the utility the opportunity to recover its expenses and earn an 8.91% return on its investment. The calculations are as follows:

	<u>Water</u>
Adjusted Rate Base	\$ 148,238
Rate of Return	x <u>.0891</u>
Return on Investment	\$ 13,208
Adjusted Operation Expenses	109,413
Depreciation Expense (Net)	7,598
Taxes Other Than Income Taxes	<u>17,742</u>
Revenue Requirement	<u>\$ 147,961</u>
Annual Revenue Decrease	\$ 13,234
Percentage Decrease	<u>8.21%</u>

The revenue requirement and resulting annual decrease are shown on Schedule No. 3A, attached to this Order and by reference incorporated therein.

North Peninsula's approved capital structure is 100% debt resulting in a weighted average rate of return of 8.91%. Our adjusted test year figures show revenues of \$161,195 with operating expenses of \$135,349 resulting in a operating income of \$25,846 which reflects a 17.44% rate of return.

We recognize \$13,234 of revenue which exceeds North Peninsula's authorized rate of return 8.91%.

North Peninsula implemented a price index and pass-through rate adjustment on May 2, 1998, to represent anticipated increases in operating expenses and to offset allowable pass-through cost increases for the forthcoming years. Those rate adjustments were designed to increase revenues by \$4,242 on an annual basis.

Pursuant to Section 367.081(4)(d), Florida Statutes, we may order a utility to refund, with interest, a price index and/or pass-through rate adjustment if, within 15 months after the filing of a utility's annual report, we find that the utility exceeded the range of its last authorized rate of return on equity after an index and/or pass-through rate adjustment was implemented within the year for which the annual report was filed or was implemented in the preceding year. The utility's 1998 annual report was filed on May 20, 1999. Therefore, August 20, 2000, is the expiration date for ordering refunds of index and/or pass-through rate adjustments. However, in an August 11, 2000 letter, the utility waived the 15-month statutory timeframe and stated it stands ready to proceed with the refund of index and pass-through revenues.

We completed a review of the utility's 1999 annual report to determine if 1998 overearnings were carried through to 1999. Based on our analysis, the utility did not overearn in 1999, and is not anticipated to experience overearnings on a going-forward basis. Therefore, we find that a reduction in rates is not appropriate.

Our review clearly shows that the 1998 price index and pass-through rate increase was implemented during a period of utility overearnings and contributed to utility overearnings in 1998 by \$13,234. Therefore, the 1998 index and pass-through rate adjustment shall be refunded with interest. The refund for 1998 is \$2,824 before assessment of interest. This refund shall be made

with interest in accordance with Rule 25-30.360 (4), Florida Administrative Code, within 90 days of the effective date of this Order. The utility shall be required to 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. The utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

COLLECTION OF UNAUTHORIZED RATES AND CHARGES

Sections 367.081(1) and 367.091(3), Florida Statutes, provide that a utility may only collect rates and charges approved by this Commission. It appears that North Peninsula violated these statutes. By Order No. 16184, issued June 4, 1986, in Docket No. 850121-SU, we ordered the utility, then known as Shore Utility, to cease charging service availability charges to avoid exceeding the 75% maximum CIAC level established by Rule 25-30.580(1), Florida Administrative Code (The utility's contribution level at December 31, 1999 was 71.42%). North Peninsula did not request a change in rates or charges at the time of transfer, and by Order No. 22345, issued December 27, 1989, in Docket No. 891016-SU, we ordered North Peninsula to continue charging the rates and charges approved for Shore Utility. Audit Exception No. 2 states that North Peninsula collected service availability charges totaling \$10,500 from two customers in 1996. The audit response provided by the utility's CPA stated that "It is my understanding the utility is no longer collecting CIAC." In a telephone call made by our staff on June 26, 2000, to the utility's vice president, the utility vice president stated the \$10,500 collected from the two customers was to offset construction costs of plant completed in the early 1990's.

An August 11, 2000 letter from the utility's consultant stated the utility's belief that all that Order No. 16184 required the utility to do was discontinue collections of cash CIAC. The letter further stated that the charge to the developer was in fact reimbursement to the utility's owners for services provided to that developer for territorial expansion of its service territory and planning, permitting, and design of developer facilities.

The utility's tariff does provide for reimbursement of expenses. Paragraph 2.2 of the utility's service availability policy states that "the utility will not be obligated to provide its services outside the territory unless the contributor agrees,

in advance, to defray those additional expenses and pay to the utility the estimated cost thereof." However, paragraph 5.1 states:

The utility will require that provisions for extensions of service and service availability be made pursuant to a written "developer's agreement," which shall set forth such reasonable provisions governing developer and utility responsibility pertaining but not limited to the installation of service facilities.

The utility is contending that the \$10,500 received from two customers in 1996 and included on the utility books as CIAC was actually reimbursement for expenses involved in the territorial expansion of its service territory and planning, permitting, and design of developer facilities. The utility consultant's letter states that "those services were provided by related parties, rather than by the utility and no distinction was made between the utility and the related party providing the service, simply because this is a small and relatively unsophisticated company without the resources to provide those services on its own." The utility is developer-related with common owners.

We requested documentation of the costs involved with providing this service and were told that no written agreements, invoices, estimates, letters, list of hours, etc., were in existence that could substantiate the charges and transaction. The utility's 1996 annual report does not reflect any regulatory commission expense which would occur from the filing for territorial expansion, or any increase in utility plant for lines installed to connect these two new customers. The NARUC Class "A" Accounting Instruction No. 2, General Records, states, in part, that "Each entry shall be supported by such detailed information as will permit a ready identification, analysis and verification of all facts relevant thereto."

The utility is unable to substantiate its allegation that the \$10,500 received and recorded in 1996 as CIAC was actually reimbursement of expenses involved in the territorial expansion of its service territory and planning, permitting, and design of developer facilities. Given the absence of any documentation, we are exercising our discretion to treat the \$10,500 as CIAC, and not require a refund. We therefore find that the \$10,500 recorded on the utility's books as CIAC in 1996 shall be considered CIAC for the benefit of the customers on a prospective basis.

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Nevertheless, the utility's action appears to be "willful" in the sense intended by Section 367.161, Florida Statutes. Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated any provision of Chapter 367, Florida Statutes, or any lawful rule or order of the Commission. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, titled In Re: Investigation Into the Proper Application of Rule 25-14.003, F.A.C., Relating to Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6.

Although we recognize that the utility collected unauthorized service availability charges, a show cause proceeding shall not be initiated. The utility has indicated its understanding of the statutes and has indicated that it will continue to charge only those rates and charges approved by this Commission. The utility is admonished that, pursuant to Sections 367.081(1) and 367.091(3), Florida Statutes, it may only charge rates and charges approved by the Commission.

This docket shall remain open in order for our staff to verify that the utility has completed the required refund, after which time, this docket shall be closed administratively.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that North Peninsula Utilities Corporation shall refund with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code, the 1998 price index and pass-through rate increase collected in 1998 within 12 months of the effective date of this Order, as set out in the body of this Order. 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 incorporated herein by reference. It is further

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ORDERED that North Peninsula Utilities Corporation shall make the refunds to customers of record as of the date of this Order pursuant to Rule 25-30.360(3), Florida Administrative Code. It is further

ORDERED that North Peninsula Utilities Corporation shall submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. It is further

ORDERED that North Peninsula Utilities Corporation 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 the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, 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" attached hereto. It is further

ORDERED that this docket shall be closed administratively after verification that the utility has completed the required refund.

By ORDER of the Florida Public Service Commission this 19th day of September, 2000.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), 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.

As identified in the body of this order, our actions are preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on October 10, 2000. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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.

NORTH PENINSULA UTILITIES CORPORATION		SCHEDULE NO. 1-A	
TEST YEAR ENDING DECEMBER 31, 1998		DOCKET NO. 000715-SU	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	COMM. ADJUST. TO UTIL.	BALANCE PER COMM.
1. UTILITY PLANT IN SERVICE	\$798,008	(\$47)	\$797,961
2. LAND & LAND RIGHTS	46,800	0	46,800
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(640,994)	0	(640,994)
5. ACCUMULATED DEPRECIATION	(447,620)	18,436	(429,184)
6. AMORTIZATION OF CIAC	234,103	125,875	359,978
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>13,677</u>	<u>13,677</u>
8. WASTEWATER RATE BASE	<u>(\$9,703)</u>	<u>\$157,941</u>	<u>\$148,238</u>

NORTH PENINSULA UTILITIES CORPORATION
TEST YEAR ENDING DECEMBER 31, 1998
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-B
DOCKET NO. 000715-
SU

WASTEWATER

UTILITY PLANT IN SERVICE

1. To reflect Commission approved utility plant.	\$7,406
2. To reflect averaging adjustment.	<u>(\$7,453)</u>
Total	<u>(\$47)</u>

ACCUMULATED DEPRECIATION

1. To reflect Commission approved accumulated	(\$171)
2. To reflect averaging adjustment.	<u>18,607</u>
Total	<u>\$18,436</u>

AMORTIZATION OF CIAC

1. To reflect Commission approved accumulated	\$140,684
2. To reflect averaging adjustment.	<u>(14,809)</u>
Total	<u>\$125,875</u>

WORKING CAPITAL

1. To reflect 1/8 of operation and maintenance	<u>\$13,677</u>
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NORTH PENINSULA UTILITIES CORPORATION						SCHEDULE NO. 2		
TEST YEAR ENDING DECEMBER 31, 1998						DOCKET NO. 000715-SU		
SCHEDULE OF CAPITAL STRUCTURE								
CAPITAL COMPONENT	PER	SPECIFIC ADJUST- MENTS	BALANCE		BALANCE PER COMM.	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST- MENTS				
1. COMMON EQUITY	(\$369,841)	\$369,841	0	0	0	0.00%	9.94%	0.00%
2. LONG TERM DEBT	353,661	0	353,661	(212,925)	140,736	94.94%	8.75%	8.31%
3. LONG TERM DEBT	5,000	0	5,000	(3,010)	1,990	1.34%	14.00%	0.19%
4. LONG TERM DEBT	5,000	0	5,000	(3,010)	1,990	1.34%	14.00%	0.19%
5. LONG TERM DEBT	2,409	0	2,409	(1,450)	959	0.65%	7.00%	0.05%
6. LONG TERM DEBT	<u>6,443</u>	<u>0</u>	<u>6,443</u>	<u>(3,879)</u>	<u>2,564</u>	<u>1.73%</u>	10.50%	<u>0.18%</u>
7. TOTAL	<u>\$2,672</u>	<u>\$369,841</u>	<u>\$372,513</u>	<u>(\$224,275)</u>	<u>\$148,238</u>	<u>100.00%</u>		<u>8.91%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>8.94%</u>	<u>10.94%</u>	
OVERALL RATE OF RETURN						<u>8.91%</u>	<u>8.91%</u>	

NORTH PENINSULA UTILITIES CORPORATION			SCHEDULE NO. 3-A		
TEST YEAR ENDING DECEMBER 31, 1998			DOCKET NO. 000715-SU		
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR	COMM.	COMM.	ADJUST.	REVENUE
	PER UTILITY	ADJUSTMENTS	ADJUSTED	FOR	REQUIREMENT
			TEST YEAR	INCREASE	
1. OPERATING REVENUES	<u>\$161,195</u>	<u>\$0</u>	<u>\$161,195</u>	<u>(\$13,234)</u>	<u>\$147,961</u>
				-8.21%	
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	89,560	19,853	\$109,413	0	109,413
3. DEPRECIATION (NET)	7,260	338	7,598	0	7,598
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	12,185	6,153	18,338	(596)	17,742
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$109,005</u>	<u>\$26,344</u>	<u>\$135,349</u>	<u>(\$596)</u>	<u>\$134,753</u>
8. OPERATING INCOME/(LOSS)	<u>\$52,190</u>		<u>\$25,846</u>		<u>\$13,208</u>
9. WASTEWATER RATE BASE	<u>(\$9,703)</u>		<u>\$148,238</u>		<u>\$148,238</u>
10. RATE OF RETURN	<u>-537.87%</u>		<u>17.44%</u>		<u>8.91%</u>

NORTH PENINSULA UTILITIES CORPORATION
TEST YEAR ENDING DECEMBER 31, 1998
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-B
DOCKET NO. 000715-SU

	<u>WASTEWATER</u>
<u>OPERATION AND MAINTENANCE EXPENSES</u>	
1. Materials and Supplies	
To include 1998 office supplies (AE No. 6).	<u>\$458</u>
2. Contractual Services - Professional	
a. To add non-booked operator charges (AE No. 5).	\$5,512
b. To correct a general journal entry (AE No. 5).	\$4,048
c. To reclassify capital expenditures to upis (AE #5).	(\$7,406)
d. To reflect the mgt. contract allowed in previous	\$18,826
e. To remove out-of-test-year operator expense (AE #5).	<u>(\$1,348)</u>
Subtotal	<u>\$19,632</u>
3. Miscellaneous Expenses	
a. To remove contribution to soccer team (AE #9).	(\$387)
b. To include a corporate filing fee (AE No. 9).	<u>\$150</u>
Subtotal	<u>(\$237)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$19,853</u>
<u>DEPRECIATION EXPENSE</u>	
1. To reflect test year depreciation calculated per 25-	<u>\$338</u>
<u>TAXES OTHER THAN INCOME</u>	
1. To include RAFs on test year revenue per AE No. 4.	\$6,878
2. To reflect test year property taxes (AE No. 7).	<u>(725)</u>
Total	<u>\$6,153</u>

NORTH PENINSULA UTILITIES CORPORATION
TEST YEAR ENDING DECEMBER 31, 1998
ANALYSIS OF WASTEWATER OPERATION AND
MAINTENANCE EXPENSE

SCHEDULE NO. 3-C
DOCKET NO. 000715-SU

	TOTAL PER UTILITY	COMM. ADJUST- MENTS	TOTAL PER COMM.
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	0	0	0
(715) PURCHASED POWER	8,659	0	8,659
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	0	0	0
(720) MATERIALS AND SUPPLIES	2,730	458	3,188
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES -	0	0	0
(735) CONTRACTUAL SERVICES - TESTING	0	0	0
(736) CONTRACTUAL SERVICES - OTHER	73,478	19,632	93,110
(740) RENTS	0	0	0
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE	1,536	0	1,536
(765) REGULATORY COMMISSION EXPENSES	0	0	0
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	<u>3,157</u>	<u>(237)</u>	<u>2,920</u>
	<u>\$89,560</u>	<u>\$19,853</u>	<u>\$109,413</u>