

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a rate ) DOCKET NO. 911194-WS  
increase in Collier County by ) ORDER NO. PSC-92-0811-FOF-WS  
FLORIDA CITIES WATER COMPANY, ) ISSUED: 08/12/92  
Golden Gate Division )  
\_\_\_\_\_ )

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING INCREASED RATES AND REQUIRING  
REFUND OF EXCESS INTERIM WATER RATES

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 adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Florida Cities Water Company, Golden Gate Division, (Golden Gate or utility) is a Class A water and wastewater utility providing water and wastewater service to a community adjacent to the eastern edge of Naples, Florida. As of August 31, 1991, the utility was serving approximately 2,427 water customers and 1,838 wastewater customers. The utility is in an area that has been designated by the South Florida Water Management District as a critical use area.

On January 31, 1992, the utility filed the instant request for interim and permanent rate increases pursuant to Sections 367.081 and 367.082, Florida Statutes. On February 26, 1992, the utility corrected the deficiencies which we found in its original filing, so that date is the official date of filing for this proceeding. Pursuant to Section 367.081(8), Florida Statutes, the utility requested that this case be processed as a proposed agency

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action (PAA) procedure. The approved test year for this proceeding is the twelve-month period ended August 31, 1991.

In its application, the utility requested approval of interim and final rates designed to generate revenue increases of \$239,203 for the water system and \$218,354 for the wastewater system. By Order No. PSC-92-0336-FOF-WS, issued May 12, 1992, we suspended the utility's proposed rates and granted, subject to refund, interim rates designed to generate annual revenues of \$1,058,480 for the wastewater system, an increase of \$97,279 (10.12%), and annual revenues of \$1,230,669 for the water system, an increase of \$112,155 (10.03%).

#### QUALITY OF SERVICE

Our analysis of the overall quality of service provided by the utility is based upon our evaluation of the utility's compliance with the rules of the Department of Environmental Regulation (DER) and other regulatory agencies, the quality of the utility's water and wastewater, the operational conditions of the utility's plants, and customer satisfaction. We conducted a customer meeting in the utility's service area on April 23, 1992, to gather information from the customers.

Raw water is obtained from several shallow wells within the area. The water is treated in a 1.220 million gallons per day (mgd) filter plant with lime softening, chlorine, and filtration, while wastewater is treated by a .750 mgd, Smith and Loveless, extended aeration plant. Effluent is disposed of by means of rapid infiltration basins within the utility's service area. At this time, the utility has no citations or notices of violations on file with DER's district office. Plant capacities are adequate, operator staffing is sufficient and plant operation is satisfactory.

Approximately 75 customers attended the customer service hearing we conducted. Fourteen customers testified. All of the customers who testified were dissatisfied with the proposed rate increase, contending that the instant proceeding is too soon after the utility's last rate increase, which was granted by Order No. 23660, issued October 24, 1990. Further, many customers had complaints concerning the utility's service.

Four of the customers testified about odors from the water. One customer stated that the water smelled and tasted like mud. Another customer testified the water sometimes appeared yellow. A third customer mentioned that she had experienced red, rusty water.

She also testified that the odor from the wastewater plant, which is located approximately 200 feet from her home, is so offensive that she had to keep her windows closed and run the air conditioning even in the winter. She also stated that, because of the odor, she is unable to sit on her porch. Another customer testified that she had a sewer line obstruction several years ago, which was finally repaired by the utility after the customer had spent more than \$500 on plumbers. Another customer testified she had experienced a red or rust colored staining of her sidewalks from irrigation with the utility's water. The red water problem has apparently been alleviated because of the utility's flushing program.

The utility acknowledges these odors emanating from the wastewater plant. The utility states that it has attempted to alleviate this odor problem by using odor control agents, which are introduced to the plant influent and plant washdown of the metal walls at least three times a day. While this has helped to reduce the odor, the company is also fabricating a cover to completely enclose the plant influent structure, hoping to stop the airborne odor drift.

We believe that the utility is making strides in correcting this odor problem. The utility may want to consider interconnection with the regional system once it is available, and take the existing wastewater plant off line rather than enlarge this facility when additional capacity is necessitated.

We find that, while the water provided by the utility is technically satisfactory, the utility should monitor the chlorine concentration more closely and consider reducing the concentration slightly. A concentration of 3 milligrams per liter (mg/l) leaving the plant seems higher than necessary in order to maintain a 0.2 mg/l free chlorine residual in the distribution system. Because the plant is staffed 16 hours a day, as required by the DER rules, this monitoring can be accomplished by the existing utility operator staff.

Upon consideration of the above, we find that the quality of service provided by Golden Gate in treating and distributing water is satisfactory and that the quality of service provided by Golden Gate in the collecting, treating and disposing of wastewater is also satisfactory.



### RATE BASE

Our calculations of the appropriate rate bases for this proceeding are depicted on Schedule No. 1-A for the water system and Schedule No. 1-B for the wastewater system. Our adjustments are itemized on Schedule No. 1-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.

#### Plant-in-Service

By Orders Nos. 20537 and 23660, issued December 29, 1988, and October 24, 1990, respectively, this Commission required the utility to correctly state its plant-in-service balances and other corresponding adjustments. The utility acknowledges that it has yet to make the adjustments required by those Orders to its books and records or minimum filing requirements (MFRs). Thus, consistent with our practice and for ratemaking purposes, these adjustments must be considered in the utility's rate application.

We have calculated the adjustments from the effective date of Orders Nos. 20537 and 23660. In consideration of the above, we find it appropriate to reduce the utility's plant-in-service by \$63,193, with a corresponding reduction of \$9,695 to accumulated depreciation, and \$2,076 to depreciation expense. We have also reduced retained earnings by \$54,536 for the water system. Further, we find it appropriate to reduce the wastewater system's plant-in-service by \$10,132, with a corresponding reduction of \$10,263 to accumulated depreciation, and \$412 to depreciation expense. In addition, we find it appropriate to reduce retained earnings by \$76 and reduce accumulated amortization of contributions-in-aid-of-construction (CIAC) by \$33,477.

#### Allowance for Funds Used During Construction

In Order No. 19847, effective January 1, 1988, we granted the utility an allowance for funds used during construction (AFUDC) discounted monthly rate of .831249%. However, the utility accrued AFUDC on its books at a rate of .870000% from January 1, 1988, through December 1990. In Order No. 22016, effective for 1989, we granted the utility a new AFUDC rate for water of 10.37%, a .825624% discounted monthly rate, and of 10.35% for wastewater, a .824102% discounted monthly rate, which the utility incorrectly applied.

Rule 25-30.116, Florida Administrative Code, provides:

A discounted monthly AFUDC rate, calculated to six decimal places, shall be employed to insure that the annual AFUDC charged does not exceed authorized levels. The monthly AFUDC rate, carried out to six decimal places, shall be applied to the average monthly balance of eligible CWIP that is not included in rate base.

In consideration of the above, we find that the utility's water system's plant-in-service must be reduced by \$5,310, with a corresponding reduction of \$278 to accumulated depreciation, and \$171 to depreciation expense. We have also reduced retained earnings by \$5,290 for the water system and \$1,465 for the wastewater system. Further, we find that the wastewater system's plant-in-service balance must be reduced by \$1,602, with a corresponding reduction of \$166 to accumulated depreciation, and \$60 to depreciation expense and a reduction of \$1,465 to retained earnings.

#### Construction Work in Progress (CWIP)

Golden Gate included construction work in progress (CWIP) of \$15,325 for water and (\$22,504) for wastewater in its computation of rate base. The utility has failed to demonstrate why CWIP should be included in its rate base. Therefore, we find it appropriate to remove CWIP with a corresponding water system reduction to rate base of \$15,325 and a corresponding wastewater increase in rate base of \$22,504.

#### Accumulated Depreciation and Accumulated Amortization of CIAC

The utility's proposed test year adjustments to depreciation for the water system increased depreciation expense by \$14,756 and increased amortization of CIAC by \$768, or a net of \$13,988. The test year depreciation adjustments for the wastewater system reduced depreciation expense by \$14,436 and increased amortization of CIAC by \$7,818, or a net reduction of (\$22,254). The utility made no rate base adjustments to correspond to the depreciation expense adjustments.

However, we believe it is appropriate to use corresponding adjustments to accumulated depreciation and accumulated amortization of CIAC to properly reflect the complete accounting entry. Therefore, we have increased the water system accumulated depreciation account by \$7,378 and reduced the wastewater system accumulated depreciation account by \$7,218 in order to reflect the appropriate test-year ending balance. Further, we have increased

the water system accumulated amortization of CIAC by \$384 and increased the wastewater system accumulated amortization by \$3,909.

Accumulated Amortization of CIAC

During our audit, we discovered that the utility had overstated accumulated depreciation by \$413. The utility explained that it had mistakenly omitted the retirement of the work-in-progress in determining its accumulated depreciation balance. Therefore, we find it appropriate to correct this overstatement by reducing wastewater system accumulated depreciation by \$413.

Used and Useful

The lime softening plant was expanded from a capacity of .720 mgd to 1.220 mgd. The expansion went on line in 1990. The service area of this utility is the City of Golden Gate, a four square mile area. The utility's service area map indicates that about half of its geographical service area has water lines installed. Therefore, a number of residents are on private wells and septic tanks.

Golden Gate states in its MFRs that to the maximum flow of the water plant is 1.055 mgd. When we add to the 1.055 mgd a fire flow allowance of .360 mgd, plant capacity is exceeded. This is without including a margin reserve. We, therefore, find the appropriate fire flow capacity to be .165 mgd, which is 45% of the county's minimum required amount. Margin reserve has been projected by the utility at 206 equivalent residential connections (ERCs) per year as shown on Schedule F-5, based upon the last four years' growth statistics. However, as discussed in another section of this Order, we find margin reserve shall be based on growth of 71 ERCs per year. Therefore, based on the above, we find Golden Gate's water treatment plant is 100% used and useful.

We are concerned that, while the utility is deficient in capacity, it continues to add transmission and distribution mains and customers. According to its annual reports, Golden Gate added \$86,235 worth of mains in 1989 and \$363,682 in 1990. The utility also added \$14,612 worth of fire hydrants in 1989 and \$34,719 in 1990.

In Golden Gate's last rate proceeding, in which a projected test year ended March 31, 1991, was used, this Commission found that the utility's water plant was 100% used and useful, based upon 360,000 gallons per day (gpd) needed for fire flow, an available fire flow of 230,000 gpd, a maximum daily flow of 990,000 gpd, and



no margin reserve allowance. Its capacity has not changed since that proceeding. The utility has been, in effect, selling fire flow as plant capacity. The utility has expanded by an average of approximately 200 new connections per year or 17 or 18 new connections per month. Since 1990, no additional capacity has been added to the water treatment plant and this Commission has been informed of no plans to provide more capacity. Later in this Order, we require the utility to file information regarding its alternatives for additional capacity.

As discussed above, the utility is effectively providing only 45% of the county's required minimum fire flow and is not prepared to provide the adequate level of fire protection expected by utility customers. Therefore, we find it appropriate to require that the utility provide this Commission within 90 days of the effective date of this Order an analysis of its available fire flow, stating whether or not it meets Collier County's requirements, and if those requirements are not met, its plans for meeting those requirements.

#### Wastewater Treatment Plant

The utility submitted a capacity analysis report with DER in January 1992 that discusses dry weather flows of 614,000 gpd, as well as infiltration during wet weather periods. We have reviewed this report and considered it during our investigation in this proceeding. The report concludes that by 1994 additional capacity is needed and notes that the existing plant has the capability of handling higher flows than it is currently permitted to handle.

Golden Gate's MFRs indicate average flows for the maximum month of 1.386 mgd. These maximum month flows are influenced by infiltration. However, the average daily flows for the year were .804 mgd, which still exceeded the plant's rated capacity.

It is DER's position that, as long as the plant can treat the incoming flow and meet the treatment parameters set forth in its DER permit, the plant is operating adequately and can continue to add new connections. Later in this Order, we will address our concerns regarding the utility's alternatives for additional capacity.

As indicated in its 1991 Annual Report, this system has 21.84 miles of gravity main. Engineering design Manual of Practice No. 9 suggests infiltration allowances from 5,000 gpd to 30,000 gpd/mile of pipe. This equates to an allowance of 109,000 to 655,000 gpd for infiltration alone. We do not believe that the

amount of infiltration is exceeding the allowed range. During the test year the company performed some repairs to a portion of its system to reduce infiltration and, apparently, due to the flows experienced, more work is needed.

We do not believe an adjustment is appropriate to used and useful as a result of excessive infiltration. Therefore, based upon the flow of wastewater through the plant, we find that the wastewater treatment plant is 100% used and useful. However, Golden Gate should begin taking steps to reduce its infiltration similar to the approach used in its other wastewater systems which includes the monitoring of flow in specific sections of the collection systems followed by a detailed inspection and repairs as necessary of the areas of those systems where infiltration is the greatest.

#### Margin Reserve - Water Treatment Plant and Distribution System

By allowing a margin reserve, the Commission recognizes that the utility must provide extra capacity sufficient to meet short term growth without impairing the utility's ability to provide safe and adequate service to existing customers. The purpose of the margin reserve is to enable the utility to connect new customers during the next 18 months, the normal construction time for building new plant, without plant expansion.

In its MFRs the utility has included an allowance for margin reserve and projects an annual growth in ERCs of 206 per year. Projecting forward for 18 months, the utility's growth statistics indicate an expected growth of 309 ERCs beyond the end of the test year.

The utility's MFRs indicate that, based upon the design capacity of the plant, the treatment plant can serve an additional 71 ERCs. Growth statistics reflect average annual growth of 206 ERCs. We believe the utility will continue to add customers to the existing plant and distribution system.

For calculating the margin reserve, this Commission has often used a linear regression analysis which attempts to quantify the relationship between growth and time. Margin reserve has also been calculated based upon the average growth in ERCs over the past five years. In the instant case, the number of ERCs projected using linear regression or simple averaging are nearly identical: 217 ERCs for regression and 206 ERCs for averaging. However, under the circumstances of diminished plant capacity, we find it more appropriate to base margin reserve on the projected growth of 71



ERCs, which is the number of remaining ERCs the existing plant can serve.

The utility is also considering several alternatives to increase plant production including adding more wells and treatment plant and becoming a bulk purchaser of water from the City of Naples and/or Collier County. The utility is also considering blending, which was the method the utility used in 1989 and 1990 before the last plant addition was completed and put on line.

In consideration of the above, we will recognize as margin reserve for the test year 71 ERCs for the water treatment plant and 71 ERCs for the distribution system.

#### Margin Reserve - Wastewater Treatment Plant and Collection System

The utility has included an allowance for margin reserve for the wastewater treatment plant and collection system in its application. The utility projects the annual growth in ERCs at 142 ERCs per year. Projecting forward for 18 months, the utility's growth statistics indicate an expected growth of 213 ERCs beyond the end of the test year.

Even though the wastewater plant is operating significantly in excess of its plant capacity on an average day during the peak flow month, the effluent quality continues to meet standards set forth by DER. In light of this accomplishment, DER continues to allow new connections to be made to the plant and has not instituted a moratorium.

Because we are concerned about the plant operating in excess of its permitted plant capacity, we do not find it appropriate to include a margin reserve for the wastewater treatment plant or the collection system. We discuss our concerns regarding the utility's need for additional capacity later in this Order.

#### Imputation of CIAC on Margin Reserve

In the past, we have included in our determination of plant used and useful an amount for the prospective customers to be connected during the margin reserve period, as determined by historical growth patterns. This Commission's policy is that only the utility's investment in the margin reserve should be recognized in rate base and that CIAC should be imputed for the additional ERCs. The imputed CIAC is usually limited to the plant cost that is included in the rate base as a result of the margin reserve.

In this proceeding, we are recognizing the additional 71 ERCs that will be added to take the utility up to the design capacity of the water system. As discussed previously, the used and useful water gallonage during the test year, absent a margin reserve, was 1,055,000 gallons or 86% used and useful. With a fire flow allowance, the utility is over 100% used and useful. According to its MFRs, the utility will add 309 ERCs to the water system in the year and a half after the test year without adding more treatment capacity. The utility has actually added 26 water ERCs since the end of the current test year and has made no changes to its plant capacity. The water treatment system was also considered 100% used and useful, absent a margin reserve, in the utility's last rate case. The test year in that case ended March 31, 1991.

It is evident from this analysis that the utility is either selling its fire flow allowance or its rated plant capacity does not reflect the real capacity that the plant is capable of treating. To compensate for this, we find it appropriate to recognize the additional 71 ERCs that will take the utility up to 100% of design capacity.

In calculating the appropriate amount of CIAC, we multiplied the 71 ERCs by the total cost for a plant capacity and main extension fee of \$2,325 per ERC. This results in an imputation of \$165,075. Corresponding adjustments are necessary to increase accumulated amortization of CIAC and amortization expense of \$2,715 and \$5,431, respectively.

The utility is above 100% used and useful for the wastewater system without a margin reserve. Therefore, no imputation is appropriate for the wastewater system.

#### Working Capital

Golden Gate used the formula approach, or one-eighth of operation and maintenance (O & M) expenses, to calculate working capital. Golden Gate's use of the formula approach is consistent with the method prescribed by Form PSC/WAS 17 of the MFRs, which is incorporated in Rule 25-30.437, Florida Administrative Code, by reference.

We find it appropriate to use the formula method to calculate the working capital requirement of this utility. In a later section of this Order, we find that the proper amounts of test year O & M expense are \$532,708 for the water system and \$489,180 for the wastewater system. Therefore, we have included one-eighth of those amounts, \$66,589 for the water system and \$61,148 for the

wastewater system, in rate base as the utility's working capital allowance. Based on those adjustments, working capital should be reduced by \$4,163 and \$4,528 for water and wastewater, respectively.

#### Test Year Rate Base

In consideration of the foregoing, we find that average test year rate base is \$3,457,966 for the water system and \$2,561,960 for the wastewater system.

#### COST OF CAPITAL

Our calculation of the appropriate cost of capital is depicted on Schedule No. 2-A. Our adjustments are itemized on Schedule No. 2-B. 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.

#### Deferred Taxes

The utility's proposed capital structure does not include a \$3,863,500 average test year balance for deferred taxes relating to accrual of allowance for funds prudently invested (AFPI) charges. We disagree with the utility's exclusion of this amount and therefore have increased deferred taxes by the subject amount.

The utility recorded accrual of AFPI charges (a deferred debit account) on its balance sheet, and, after subtracting the tax impact of these revenues (the deferred tax account), it closed the resulting net income to retained earnings, thus increasing the equity balance. The utility argues that since the accrual of AFPI charges is a non-cash transaction, deferred taxes are properly excluded from the schedule of capital accounts.

We believe that the utility has taken a piecemeal approach to defining capital investment. If AFPI-related taxes should be excluded from the capital structure because AFPI accrual is a non-cash transaction, an associated reduction to the equity balance should be made for the same reason. AFPI charges are designed to allow the utility to recover prudently incurred carrying costs--depreciation charges, interest expense, property taxes, and equity return--for non-used and useful facilities. Were we to reduce equity capital to be consistent with the exclusion of deferred taxes, the utility would be penalized for having to defer recovery of prudently incurred carrying charges.



Further, we believe the utility's proposed adjustment to exclude the cost-free deferred tax account is an attempt to trace funds to a particular asset. Generally, this Commission rejects all such proposals. We normally reconcile rate base and the capital structure on a pro rata basis and do not assign particular capital accounts to specific asset accounts, which is effectively what FCWC has asked us to do.

In consideration of the foregoing, we have increased the provision for cost-free tax accounts by \$3,863,500. This adjustment reduces the weighted cost of capital.

#### Debt

The utility's outstanding debt capital includes a credit line component used for short-term financing of construction. The utility pays the prevailing prime rate of interest, and thus a variable rate, for this source of funds. During the historical year ended August 31, 1991, the utility was charged an 8.5% interest rate for the credit line. The current prime rate, however, is 6.5%. We think it is appropriate to use the current prime rate to establish the overall cost of debt capital. Therefore, the overall cost of debt capital is thus reduced from 10.01% to 9.73%.

#### Preferred Stock

During the test year, Golden Gate issued \$9,000,000 of preferred stock to its parent company, which in turn issued an equal amount of preferred stock to Allstate Insurance Company. Golden Gate used the proceeds from its preferred stock transaction, which occurred on June 15, 1991, to redeem an equivalent amount of common stock.

The utility included \$4,500,000 of preferred stock in its capital structure. That amount represents the simple average for the 1991 test year, which the MFRs show as beginning with a zero balance and ending with a \$9,000,000 balance. The dividend rate for the preferred stock is 9.00%, or about 4% less than the comparative return allowed for common stock. The full amount of the preferred stock will be outstanding when the final rates approved in this case are implemented, and the preferred stock cannot be redeemed before March of 1997.

The preferred stock issue replaced an equivalent amount of common equity and did not increase total capital. No plant improvements were built from funds infused by the preferred stock

issue. It was simply a conversion of capital: a less expensive form of equity capital in exchange for a more expensive source of equity capital.

In consideration of the above, and because we think it appropriate to take into account a known change, we have increased the balance of preferred stock by \$4,500,000 and reduced common equity accordingly.

#### Investment Tax Credits

The utility's capital structure includes an allocated share of deferred investment tax credits (ITCs) for Golden Gate as a whole. The \$232,053 amount reported on Schedule No. D-1 of the MFRs was computed by reconciling rate base and the capital structure on a pro rata basis. Although the pro rata reconciliation is proper, the utility employed the wrong cost rate for the ITCs.

The cost rate for the ITCs in the MFRs is 10.15%, which matches the utility's requested overall cost of capital. The cost rate for ITCs should be a weighted average cost rate for investor supplied sources of capital. The utility calculated its cost rate for the ITCs as a weighted average for all components in the capital structure, including a cost-free component for deferred taxes. Therefore, we have recalculated the cost rate for the ITCs so as to exclude deferred taxes from the weighted average. The proper cost rate is 10.83%, and the resulting appropriate adjusted amount of ITCs is \$208,927.

#### Return on Equity

We have calculated the allowed return on equity using the leverage formula set forth in Order No. 24246, issued March 18, 1991. According to that Order, the appropriate return on equity for this utility is 13.11%. Therefore, Golden Gate's authorized rate of return on equity is 13.11%, with a range of reasonableness of between 12.11% to 14.11%.

#### Overall Rate of Return

After making the described adjustments to the balances and cost rates for the capital structure components, we have calculated an overall weighted average cost of capital. The proper overall rate of return for this utility is 9.27%, with a range of 8.97% to 9.57%.

#### NET OPERATING INCOME

Our calculation of net operating incomes for Golden Gates' water and wastewater systems are depicted on Schedules Nos. 3-A and 3-B. Our adjustments are itemized on Schedule No. 3-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.

#### Operation and Maintenance Expense

We have reviewed the utility's expense accounts for proper amounts, periods, and clarifications. A summary of our adjustments follows.

#### Purchased Power Expense

Our audit revealed that adjustments were needed to the utility's purchased power expense account to correct understatements or overstatements in such account. Specifically, one account for purchased power expense for the water system was understated by \$11,717 and another water system account was overstated by \$111. Further, one account for purchased power expense for the wastewater system was overstated by \$1,064 and another wastewater account was overstated by \$3,517. Therefore, we find it appropriate to increase annual power expense by \$11,606 for the water system and to reduce the annual power expense for the wastewater system by \$4,580.

#### Major Maintenance Expense

In its MFRs, the utility reported major maintenance expenses during the test year of \$48,543 for the water system and \$50,406 for the wastewater system. However, actual maintenance expenditures during the test year were \$32,234 for the water system and \$42,782 for wastewater system.

After performing an analysis of actual maintenance expenditures during the test period we determined that the adjusted expenditures were \$30,256 for the water system and \$40,466 for the wastewater system. This difference reflected out-of-period amounts of \$1,978 for the water system and \$2,317 for the wastewater system. Therefore, we believe that the utility's estimated provisions for major maintenance expense are overstated. Accordingly, to reflect the actual test period cost, we find it



appropriate to reduce major maintenance expense for the water system by \$18,287 and for the wastewater system \$9,941.

#### Materials and Supplies Expense

The utility accounts for materials and supplies by first adding a 40% overhead charge to inventory items to cover shipping costs and other indirect costs that are not directly identifiable. At year end, a physical inventory count is performed during which both debits and credits to the same account may be required. The underages are entered into the inventory system as usages and the entry to materials and supplies expense is debited at average cost plus the 40% overhead charge. The overages are entered into the inventory system as receipts and recorded as a credit to materials and supplies expense at average cost, with no overhead charge. We find this method of accounting for actual supplies is inconsistent with this Commission's policy. Therefore, we find it appropriate to reduce the utility's year-end debit to materials and supplies expense by \$8,934, or 40%. Accordingly, we have reduced the materials and supplies expense for water by \$2,553.

#### Bad Debt Expense

The utility reported a test year ratio of bad debt expense to revenues of 1.70% for water and 1.67% for wastewater. Our comparison of similar class A utilities revealed that the average bad debt expense for these utilities was less than 0.50%. Therefore, we find it appropriate to adjust the utility's bad debt expense to equal 0.50% of its test year revenues. As a result of this adjustment, bad debt expense is reduced by \$13,388 for water and \$11,021 for wastewater.

#### Rate Case Expense

The utility included a \$128,300 estimate for rate case expense in its MFRs. The utility subsequently submitted updated rate case expense information showing actual expenses as of the date of submittal and an estimate of costs through completion of the PAA process. According to the utility's updated information, overall rate case expense is \$42,873.

The updated rate expense included payments for legal services totaling \$14,717, the rate case filing fee of \$3,750, accounting and other regulatory services provided by affiliated companies totaling \$12,095, and various costs to notify customers about this proceeding. We have reviewed the actual payments and the projected completion costs for evidence of unreasonable or unnecessary cost,

and we detected none. Therefore, we find that the updated request for rate case expense, \$42,873, is reasonable and the utility shall be allowed to recover this amount. This approved amount results in an overall reduction of \$85,427 to rate case expense and yields a \$10,678 per system reduction to test year expenses.

In addition, the utility is to submit, within 60 days of this Order, a breakdown of actual rate case expense incurred. The information shall be submitted in the manner required for Schedule No. B-10 of the MFRs.

#### Taxes Other Than Income

The utility uses an accrual accounting system to record estimated property taxes. The utility's estimated property taxes for the test year were \$77,094 for the water system and \$53,566 for the wastewater system. In 1991, the actual assessments were \$53,447 for water and \$50,956 for wastewater. In addition, some of the property which appears on the property tax assessment for the water division is not recorded on the utility's books nor included in rate base. Therefore, we find that the \$556 tax assessment related to this property should be excluded from test year expenses. Based on the actual assessments and excluding non-utility land, we find it appropriate to reduce property taxes by \$24,203 for water and \$2,611 for wastewater.

#### Test Year Operating Income

Based on our adjustments discussed herein, we find the appropriate test year level of operating income to be \$265,457 and \$159,115 for the water and wastewater systems, respectively.

#### REVENUE REQUIREMENT

Based upon our review of the utility's books and records and based upon the adjustments discussed above, we find that the appropriate annual revenue requirements for this utility are \$1,211,003 for the water system and \$1,092,778 for the wastewater system. These revenue requirements represent an annual increase in revenues of \$92,489 (8.27%) for the water system and \$131,577 (13.69%) for the wastewater system. This revenue requirement will allow the utility to recover its operating expenses and will allow it the opportunity to earn a 9.27% overall rate of return on average rate base.

RATES AND CHARGES

Monthly Service Rates

We have calculated new rates designed to allow the utility to achieve the revenue requirements approved herein. We find that these new rates are fair, just, and reasonable, and are not unduly discriminatory. The utility's existing rates, its approved interim rates, its requested final rates, and the rates which we hereby approve are set forth below for comparison. We have designed the approved rates using the base facility charge (BFC) rate structure. The BFC rate structure allows the utility to more accurately track its costs and allows the customers to have some control over their bills. Each customer pays for his or her pro rata share of the fixed costs necessary to provide utility service through the base facility charge and pays for his or her usage through the gallonage charge.

WATER

Residential, Multi-Residential, Commercial,  
 Public Authorities and General Service

| <u>Meter Size</u>                  | <u>Original</u> | <u>Commission<br/>Approved<br/>Interim<br/>Rates</u> | <u>Utility<br/>Proposed<br/>Final<br/>Rates</u> | <u>Commission<br/>Approved<br/>Final<br/>Rates</u> |
|------------------------------------|-----------------|--|---|--|
| 5/8" x 3/4"                        | \$ 10.44        | \$ 11.51   | \$ 13.92  | \$ 11.49   |
| 3/4"                               |                 |  |   | 17.24  |
| 1"                                 | 26.12           | 28.79  | 34.80   | 28.73  |
| 1-1/2"                             | 52.23           | 57.58  | 69.60   | 57.45  |
| 2"                                 | 83.55           | 92.11  | 111.36  | 91.42  |
| 3"                                 | 182.79          | 201.51   | 222.72  | 183.84   |
| 4"                                 | 313.36          | 345.45   | 348.00  | 287.25   |
| 6"                                 | 652.85          | 719.70   | 696.00  | 574.50   |
| 8"                                 | 940.08          | 1,036.34   | 1,392.00  | 919.20   |
| Gal. Charge<br>(per 1,000 gallons) | \$ 2.93         | \$ 3.23  | \$ 3.41   | \$ 3.18  |



Private Fire Service

| <u>Line Size</u> | <u>Original</u> | <u>Commission<br/>Approved<br/>Interim<br/>Rates</u> | <u>Utility<br/>Proposed<br/>Final<br/>Rates</u> | <u>Commission<br/>Approved<br/>Final<br/>Rates</u> |
|------------------|-----------------|--|---|--|
| 2"               | \$ 27.86        | \$ 30.71   | \$ 37.15  | \$ 30.64   |
| 4"               | 104.45          | 115.15   | 139.30  | 95.75  |
| 6"               | 217.62          | 239.90   | 290.22  | 191.53   |
| 8"               | 313.36          | 345.45   | 417.90  | 306.40   |

WASTEWATER  
Monthly - Residential

| <u>Meter Size</u>                                       | <u>Original</u> | <u>Commission<br/>Approved<br/>Interim<br/>Rates</u> | <u>Utility<br/>Proposed<br/>Final<br/>Rates</u> | <u>Commission<br/>Approved<br/>Final<br/>Rates</u> |
|---|-----------------|--|---|--|
| <u>All Sizes</u>  | \$ 14.99        | \$ 16.51   | \$ 19.86  | \$ 17.22   |
| Gal. Charge<br>(Per 1,000 gallons)<br>(Max 6 M gallons) | \$ 2.85         | \$ 3.41  | \$ 3.23   | \$ 3.25  |
| Minimum Bill:   | \$ 14.99        | \$ 16.51   | \$ 19.86  | \$ 17.22   |
| Maximum Bill:   | \$ 32.09        | \$ 35.35   | \$ 39.24  | \$ 36.72   |

General Service and All Other Classes

| <u>Meter Size</u>                                  | <u>Original</u> | <u>Commission<br/>Approved<br/>Interim<br/>Rates</u> | <u>Utility<br/>Proposed<br/>Final<br/>Rates</u> | <u>Commission<br/>Approved<br/>Final<br/>Rates</u> |
|--|-----------------|--|---|--|
| 5/8" x 3/4"  | \$ 14.99        | \$ 16.51   | \$ 19.86  | \$ 17.22   |
| 3/4"   |                 |  |   | 25.83  |
| 1"   | 37.33           | 41.11  | 49.65   | 43.05  |
| 1-1/2"   | 74.85           | 82.42  | 99.30   | 86.10  |
| 2"   | 119.21          | 131.27   | 158.88  | 137.76   |
| 3"   | 238.27          | 262.38   | 317.76  | 275.52   |
| 4"   | 446.67          | 491.87   | 496.50  | 430.50   |
| 6"   | 744.36          | 819.69   | 993.00  | 861.00   |
| 8"   | 1,339.76        | 1,475.34   | 1,986.00  | 1,377.60   |
| Gal. Charge<br>(per 1,000 gallons)<br>(No Maximum) | \$ 3.43         | \$ 3.78  | \$ 3.86   | \$ 3.90  |

The approved rates will be effective for meters read on or after thirty days from the stamped approval date on the revised tariff sheets. The utility shall submit revised tariff sheets reflecting the approved rates and a proposed customer notice listing the new rates and explaining the reasons therefor. The tariff sheets will be approved upon our staff's verification that the tariffs are consistent with our decisions herein, that the protest period has expired and that the proposed customer notice is adequate.

#### Customer Deposits

As discussed above, for the test year, the utility's ratio of bad debt expense to revenues was 1.70% for water and 1.67% for wastewater. Bad debt expense on the average for comparable Class A utilities is less than 0.50% of revenues.

In order to improve the utility's bad debt expense problem, we believe it appropriate to require the utility to begin collecting deposits from all new customers and from those customers with a bad credit history. The average monthly bills for a residential customer are \$28.55 for water and \$30.59 for wastewater. Approximately twice these amounts, \$60.00 for water and \$60.00 for wastewater, should be the initial deposit requirements for new residential customers. The initial deposit for a general service customer should be equivalent to a bill for two months' usage. In addition, for those customers with a bad credit history, the utility should follow the "New or Additional Deposits" guidelines set forth in Rule 25-30.311 (7), Florida Administrative Code.

#### Statutory Four-year Rate Reduction

Section 367.0816, Florida Statutes, states,

The amount of rate case expense determined by the commission . . . to be recovered through . . . rate[s] shall be apportioned for recovery over a period of 4 years. At the conclusion of the recovery period, the rate[s] . . . shall be reduced immediately by the amount of rate case expense previously included in rates.

Accordingly, we have amortized the amount of allowed rate case expense over four years and then adjusted the altered revenue requirement for regulatory assessment fees. Therefore, at the end of the four-year recovery period, the utility's water rates shall be reduced by \$21,437 and its wastewater rates shall be reduced by

\$21,436. The appropriate rates to be implemented at the end of this period are shown below.

Rate Schedule  
Water - Monthly

Schedule of Commission Approved  
Rates and Rate Decrease in  
Four Years  
Residential and General Services

|                                   | <u>Commission</u><br><u>Approved</u><br><u>Rates</u> | <u>Rate</u><br><u>Decrease</u> |
|-----------------------------------|--|--------------------------------|
| BASE FACILITY CHARGE              |  |                                |
| Meter Size:                       |  |                                |
| 5/8" x 3/4"                       | \$ 11.49   | \$ .05                         |
| 3/4"                              | 17.24  | .08                            |
| 1"                                | 28.73  | .13                            |
| 1 - 1/2"                          | 57.45  | .27                            |
| 2"                                | 91.92  | .43                            |
| 3"                                | 183.84   | .85                            |
| 4"                                | 287.25   | 1.33                           |
| 6"                                | 574.50   | 2.66                           |
| 8"                                | 919.20   | 4.26                           |
| Gallonge Charge per 1,000 gallons | \$ 3.18  | \$ .01                         |

Rate Schedule  
Wastewater - Monthly Rates  
Schedule of Commission Approved  
Rates and Rate Decrease in Four Years

|  | <u>Commission</u><br><u>Approved</u><br><u>Rates</u> | <u>Rate</u><br><u>Decrease</u> |
|--|--|--------------------------------|
| <u>Residential</u>   |  |                                |
| Base Facility Charge<br>(All Meter Sizes)                    | \$ 17.22   | \$ .08                         |
| Gallonge charge per 1,000 gallons<br>(Maximum 6,000 gallons) | \$ 3.25  | \$ .02                         |



Rate Schedule  
Wastewater - Monthly Rates  
Schedule of Commission Approved  
Rates and Rate Decrease in Four Years

| <u>General Service</u>                            | <u>Commission</u><br><u>Approved</u><br><u>Rates</u> | <u>Rate</u><br><u>Decrease</u> |
|---|--|--------------------------------|
| Base Facility Charge                              |  |                                |
| Meter Size:                                       |  |                                |
| 5/8" x 3/4"                                       | \$ 17.22   | \$ .08                         |
| 3/4"  | 25.83  | .13                            |
| 1"  | 43.05  | .22                            |
| 1 - 1/2"  | 86.10  | .44                            |
| 2"  | 137.76   | .70                            |
| 3"  | 275.52   | 1.41                           |
| 4"  | 430.50   | 2.21                           |
| 6"  | 861.00   | 4.42                           |
| 8"  | 1,377.60   | 7.07                           |
| Gallonge Charge per 1,000 gallons<br>(No maximum) | \$ 3.90  | \$ .02                         |

The utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility shall also file a proposed customer notice setting forth the lower rates and the reason for the reduction. If the utility files this reduction in conjunction with a price index or a pass-through rate adjustment, separate data shall be filed for each rate change.

DISPOSITION OF EXCESS INTERIM RATES

By Order No. PSC-92-0027-FOF-WS, issued on May 12, 1992, we suspended the utility's proposed rates and granted it interim water and wastewater rates, subject to refund. The interim revenue requirement for wastewater was \$1,058,480; the approved final revenue requirement for wastewater is \$1,092,788. Therefore, no refund of excess interim wastewater rates is appropriate. However, the interim revenue requirement for water was \$1,230,669, less miscellaneous service revenue of \$23,310 and the approved final revenue requirement is \$1,211,003, less miscellaneous service

revenues of \$23,150. Thus, a refund is necessary for excess interim water rates.

We calculated the refund percentage factor by removing the utility's approved rate case expense and the proforma adjustment for depreciation and amortization of CIAC. We also made an associated adjustment to accumulated depreciation and accumulated amortization of CIAC which resulted in a reduction in the revenue requirement of \$19,155. Therefore, the revenue requirement for this refund determination is \$1,191,848. Based on the foregoing, the amount of the refund is approximately \$38,661. Therefore, Golden Gate shall refund 3.2% of the interim water revenues collected, with interest and in accordance with Rule 25-30.360, Florida Administrative Code.

NO CONNECTION MORATORIUM AT THIS TIME

As stated previously, the water and wastewater plants are considered 100% used and useful and margin reserve has been recognized for the water plant and system up to a level that matches design capacity. We recognized no margin reserve for wastewater since that treatment plant is operating well above its rated design capacity during maximum flow periods.

We contacted DER's district office in Ft. Myers regarding the capacity question involving the utility's wastewater treatment plant. DER's policy is if a plant can treat the incoming flow and meet the treatment parameters set forth in the DER permit, which this system has consistently been able to do, the plant is operating adequately and can continue to add new connections.

We are concerned that sufficient plant capacity may not be available to potential customers involved in new construction in the utility's certificated territory. During our staff's on-site investigation of the utility's new homes were observed under construction taking construction water. Further, growth statistics reveal an average water customer growth of 206 ERCs per year and an average wastewater growth of 142 ERCs per year.

Therefore, we find it appropriate to require that the utility furnish this Commission a report listing or providing the following:

1. The alternatives for providing additional water supply and/or treatment capacity, listing the advantages and disadvantages of each alternative;

2. The alternatives for providing additional wastewater treatment capacity, listing the advantages and disadvantages of each alternative;
3. Copies of any written report or plans detailing the utility's plans for expansion of the water and/or wastewater facilities, including a timetable for construction and completion;
4. If no written report, plans, or summary exist for Item 3, the utility should summarize its intentions for expansion and include in that discussion a timetable for construction and completion;
5. Whether the water and wastewater plants can be rerated at a higher flow rate by DER and, if so, what steps are needed to accomplish that;
6. Whether capacity is available from Collier County Utilities or the City of Naples for bulk raw water, bulk treated water, or bulk wastewater treatment and, if so, the costs for same and a timetable for effecting interconnection.
7. Any other information the utility deems appropriate.

We will review this report once it is filed and monitor the improvements necessary to provide adequate service to the utility's territory. If a moratorium appears necessary our staff will bring a recommendation to our attention.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that the application of Florida Cities Water Company, Golden Gate Division, for an increase in its water and wastewater rates in Collier County is approved as set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order are by reference incorporated herein. It is further

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

ORDERED that the utility shall provide this Commission within 90 days of the effective date of this Order an analysis of its



available fire flow, stating whether or not it meets Collier County's requirements, and if those requirements are not met, its plans for meeting those requirements. It is further

ORDERED that the utility shall provide a report to this Commission within 90 days of the effective date of this Order providing alternatives and plans for additional water and wastewater capacity as discussed in the body of this Order. It is further

ORDERED that Florida Cities Water Company, Golden Gate Division, is authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that the rates and charges approved herein shall be effective for meter readings taken on or after thirty days after the stamped approval date on the revised tariff pages. It is further

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

ORDERED that, prior to its implementation of the rates and charges approved herein, Florida Cities Water Company, Golden Gate Division, shall submit and have approved a proposed notice to its customers showing the increased rates and charges and the reasons therefor. The notice will be approved upon Staff's verification that it is consistent with our decision herein. It is further

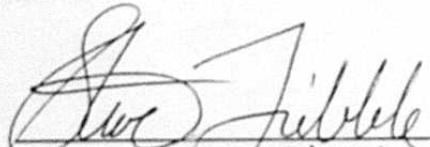
ORDERED that Florida Cities Water Company, Golden Gate Division, shall refund 3.2% of the interim water revenues collected, with interest and in accordance with Rule 25-30.360, Florida Administrative Code. It is further

ORDERED that all of the provisions of this Order are issued as proposed agency action and shall become final, unless an appropriate petition in the form provided by Rule 25-22.029, Florida Administrative Code, is received by the Director of the Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the date set forth in the Notice of Further Proceedings below. It is further

ORDER NO. PSC-92-0811-FOF-WS  
DOCKET NO. 911194-WS  
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ORDERED that this docket may be closed if no timely protest is received from a substantially affected person and upon the utility's filing of revised tariff sheets, our Staff's approval of them, and upon our Staff's verification that the utility has completed the required refunds.

By ORDER of the Florida Public Service Commission, this 12th day of August, 1992.



\_\_\_\_\_

STEVE TRIBBLE, Director  
Division of Records and Reporting

( S E A L )

MJF/RG

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 at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on September 3, 1992.

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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 adversely 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.



| FLORIDA CITIES WATER COMPANY—GOLDEN GATE |                             |                        | SCHEDULE NO. 1—A                     |                           |                                     |
|--|-----------------------------|------------------------|--------------------------------------|---------------------------|-------------------------------------|
| SCHEDULE OF WATER RATE BASE              |                             |                        | DOCKET NO. 911194—WS                 |                           |                                     |
| TEST YEAR ENDED AUGUST 31, 1991          |                             |                        |                                      |                           |                                     |
| COMPONENT                                | TEST YEAR<br>PER<br>UTILITY | UTILITY<br>ADJUSTMENTS | ADJUSTED<br>TEST YEAR<br>PER UTILITY | COMMISSION<br>ADJUSTMENTS | COMMISSION<br>ADJUSTED<br>TEST YEAR |
| 1 UTILITY PLANT IN SERVICE               | \$ 6,943,061                | \$ 0                   | \$ 6,943,061                         | (68,503)                  | 6,874,558                           |
| 2 LAND                                   | 136                         | 0                      | 136                                  |                           | 136                                 |
| 3 NON—USED & USEFUL COMPONENTS           | 0                           | 0                      | 0                                    |                           | 0                                   |
| 4 CONSTRUCTION WORK IN PROGRESS          | 28,306                      | (12,981)               | 15,325                               | (15,325)                  | 0                                   |
| 5 ACCUMULATED DEPRECIATION               | (1,027,864)                 | 0                      | (1,027,864)                          | 2,595                     | (1,025,269)                         |
| 6 CIAC                                   | (2,520,934)                 | 0                      | (2,520,934)                          | (165,075)                 | (2,686,009)                         |
| 7 AMORTIZATION OF CIAC                   | 354,157                     | 0                      | 354,157                              | 3,099                     | 357,256                             |
| 8 ADVANCES FOR CONSTRUCTION              | (129,295)                   | 0                      | (129,295)                            |                           | (129,295)                           |
| 9 WORKING CAPITAL ALLOWANCE              | 68,746                      | 2,005                  | 70,751                               | (4,163)                   | 66,589                              |
| <b>RATE BASE</b>                         | <b>\$ 3,716,313</b>         | <b>\$ (10,976)</b>     | <b>\$ 3,705,337</b>                  | <b>\$ (247,372)</b>       | <b>3,457,966</b>                    |

| FLORIDA CITIES WATER COMPANY—GOLDEN GATE<br>SCHEDULE OF WASTEWATER RATE BASE<br>TEST YEAR ENDED AUGUST 31, 1991 |                             |                        |                                      | SCHEDULE NO. 1-B<br>DOCKET NO. 911194-WS |                                     |
|---|-----------------------------|------------------------|--------------------------------------|--|-------------------------------------|
| COMPONENT   | TEST YEAR<br>PER<br>UTILITY | UTILITY<br>ADJUSTMENTS | ADJUSTED<br>TEST YEAR<br>PER UTILITY | COMMISSION<br>ADJUSTMENTS                | COMMISSION<br>ADJUSTED<br>TEST YEAR |
| 1 UTILITY PLANT IN SERVICE  | \$ 6,135,623                | \$ 0                   | \$ 6,135,623                         | (11,734)                                 | 6,123,889                           |
| 2 LAND  | 180,896                     | 0                      | 180,896                              |  | 180,896                             |
| 3 NON-USED & USEFUL COMPONENTS  | 0                           | 0                      | 0                                    |  | 0                                   |
| 4 CONSTRUCTION WORK IN PROGRESS   | 5,802                       | (28,306)               | (22,504)                             | 22,504                                   | 0                                   |
| 5 ACCUMULATED DEPRECIATION  | (1,027,152)                 | 0                      | (1,027,152)                          | 18,060                                   | (1,009,092)                         |
| 6 CIAC  | (2,791,116)                 | 0                      | (2,791,116)                          | 0  | (2,791,116)                         |
| 7 AMORTIZATION OF CIAC  | 273,957                     | 0                      | 273,957                              | (29,568)                                 | 244,389                             |
| 8 ADVANCES FOR CONSTRUCTION   | (248,154)                   | 0                      | (248,154)                            |  | (248,154)                           |
| 9 WORKING CAPITAL ALLOWANCE   | 63,670                      | 2,005                  | 65,675                               | (4,528)                                  | 61,148                              |
| <b>RATE BASE</b>  | <b>\$ 2,593,526</b>         | <b>(26,301)</b>        | <b>\$ 2,567,225</b>                  | <b>(5,256)</b>                           | <b>2,561,960</b>                    |

| FLORIDA CITIES WATER COMPANY—GOLDEN GATE<br>ADJUSTMENTS TO RATE BASE<br>TEST YEAR ENDED AUGUST 31,1991 |                 | SCHEDULE NO. 1—C<br>PAGE 1 OF 1<br>DOCKET NO. 911194—WS |  |
|--|-----------------|---|--|
| EXPLANATION  | WATER           | WASTEWATER  |  |
| <b>UTILITY PLANT IN SERVICE</b>  |                 |   |  |
| 1) Decrease to reflect prior Commission Order  | \$ (63,193)     | \$ (10,132)   |  |
| 2) Reduce AFUDC to reflect the authorized rate   | (5,310)         | (1,602)   |  |
| <b>Net Adjustment</b>  | <b>(68,503)</b> | <b>(11,734)</b>   |  |
| <b>CONSTRUCTION WORK IN PROGRESS</b>   |                 |   |  |
| Adjustment to remove CWIP from ratebase.   | \$ (15,325)     | \$ 22,504   |  |
| <b>ACCUMULATED DEPRECIATION</b>  |                 |   |  |
| 1) Decrease to reflect prior Commission Order # 20537  | \$ 9,695        | \$ 10,263   |  |
| 2) Decrease associated with AFUDC to reflect authorized rate.  | 278             | 166   |  |
| 3) Reduction to reflect retirement error.  |                 | 413   |  |
| 4) Adjustments that correspond to test year adjustments  | (7,378)         | 7,218   |  |
| <b>Net Adjustment</b>  | <b>\$ 2,595</b> | <b>\$ 18,060</b>  |  |
| <b>CIAC</b>  |                 |   |  |
| 1) To impute CIAC on the margin reserve  | \$ (165,075)    | \$ 0  |  |
| <b>AMORTIZATION OF CIAC</b>  |                 |   |  |
| 1) Adjustments that correspond to test year adjustments  | \$ 384          | \$ 3,909  |  |
| 2) Decrease to reflect prior Commission Order # 20537  | 0               | (33,477)  |  |
| 3) Adjustment assoc. with CIAC imputation  | 2,715           | 0   |  |
| <b>Net Adjustment</b>  | <b>3,099</b>    | <b>(29,568)</b>   |  |
| <b>WORKING CAPITAL</b>   |                 |   |  |
| Adjustment to reflect use of formula approach to compute working capital provision.                    | \$ (4,163)      | \$ (4,528)  |  |



FLORIDA CITIES WATER COMPANY—GOLDEN GATE  
 CAPITAL STRUCTURE  
 TEST YEAR ENDED AUGUST 31, 1991

SCHEDULE NO. 2-A  
 DOCKET NO. 911194-WS

| DESCRIPTION              | ADJUSTED<br>TEST YEAR<br>PER UTILITY | WEIGHT         | COST   | UTILITY<br>WEIGHTED<br>COST | COMMISSION<br>RECONC. ADJ.<br>TO UTILITY<br>EXHIBIT | BALANCE<br>PER<br>COMMISSION | WEIGHT         | COST   | WEIGHTED<br>COST PER<br>COMMISSION |  |
|--------------------------|--------------------------------------|----------------|--------|-----------------------------|---|------------------------------|----------------|--------|------------------------------------|--|
| 1 LONG TERM DEBT         | \$ 23,124,375                        | 40.12%         | 10.01% | 4.02%                       | \$ (20,858,907)                                     | \$ 2,265,468                 | 37.63%         | 9.73%  | 3.66%                              |  |
| 2 SHORT TERM DEBT        | 0                                    | 0.00%          | 0.00%  | 0.00%                       | 0   | 0                            | 0.00%          | 0.00%  | 0.00%                              |  |
| 3 CUSTOMER DEPOSITS      | 0                                    | 0.00%          | 0.00%  | 0.00%                       | 0   | 0                            | 0.00%          | 0.00%  | 0.00%                              |  |
| 4 PREFERRED STOCK        | 4,500,000                            | 7.81%          | 9.00%  | 0.70%                       | (3,618,280)   | 881,720                      | 14.65%         | 9.00%  | 1.32%                              |  |
| 5 COMMON EQUITY          | 22,907,139                           | 39.74%         | 12.74% | 5.06%                       | (21,109,825)  | 1,797,314                    | 29.86%         | 13.11% | 3.91%                              |  |
| 6 INVESTMENT TAX CREDITS | 2,132,581                            | 3.70%          | 10.15% | 0.38%                       | (1,923,654)   | 208,927                      | 3.47%          | 10.83% | 0.38%                              |  |
| 7 DEFERRED TAXES         | 4,981,109                            | 8.64%          | 0.00%  | 0.00%                       | (4,114,613)   | 866,496                      | 14.39%         | 0.00%  | 0.00%                              |  |
| <b>8 TOTAL CAPITAL</b>   | <b>\$ 57,645,204</b>                 | <b>100.00%</b> |        | <b>10.15%</b>               | <b>\$ (51,625,279)</b>                              | <b>\$ 6,019,925</b>          | <b>100.00%</b> |        | <b>9.27%</b>                       |  |
| RANGE OF REASONABLENESS  |                                      |                |        |                             |   |                              | LOW            | HIGH   |                                    |  |
|                          |                                      |                |        |                             |   |                              | -----          | -----  |                                    |  |
| RETURN ON EQUITY         |                                      |                |        |                             |   |                              | 12.11%         | 14.11% |                                    |  |
|                          |                                      |                |        |                             |   |                              | -----          | -----  |                                    |  |
| OVERALL RATE OF RETURN   |                                      |                |        |                             |   |                              | 8.97%          | 9.57%  |                                    |  |
|                          |                                      |                |        |                             |   |                              | -----          | -----  |                                    |  |

| FLORIDA CITIES WATER COMPANY—GOLDEN GATE<br>ADJUSTMENTS TO CAPITAL STRUCTURE<br>TEST YEAR ENDED AUGUST 31, 1991 |                                     |                                     | SCHEDULE NO. 2-B<br>DOCKET NO. 911194-WS |                     |
|---|-------------------------------------|-------------------------------------|--|---------------------|
| DESCRIPTION   | SPECIFIC<br>ADJUSTMENT<br>(EXPLAIN) | SPECIFIC<br>ADJUSTMENT<br>(EXPLAIN) | PRO RATA<br>RECONCILE                    | NET<br>ADJUSTMENT   |
| 1 LONG TERM DEBT  | \$ 0                                | \$ 0                                | (20,858,907)\$                           | (20,858,907)        |
| 2 SHORT TERM DEBT   | 0                                   | 0                                   | 0  | 0                   |
| 3 CUSTOMER DEPOSITS   | 0                                   | 0                                   | 0  | 0                   |
| 4 PREFERRED STOCK   | 4,500,000 A                         | 0                                   | (8,118,280)                              | (3,618,280)         |
| 5 COMMON EQUITY   | (4,500,000)A                        | (61,367)C                           | (16,548,458)                             | (21,109,825)        |
| 6 INVESTMENT TAX CREDITS  | 0                                   | 0                                   | (1,923,654)                              | (1,923,654)         |
| 7 DEFERRED INCOME TAXES   | 3,863,500 B                         | 0                                   | (7,978,113)                              | (4,114,613)         |
| 8 TOTAL CAPITAL   | <u>\$ 3,863,500</u>                 | <u>\$ (61,367)</u>                  | <u>(55,427,412)\$</u>                    | <u>(51,625,279)</u> |

(A) To reflect year—end level of preferred stock investment.  
 (B) To reflect inclusion of deferred credits relating to AFPI.  
 (C) Reductions to retained earning relating to prior Commission orders.

FLORIDA CITIES WATER COMPANY—GOLDEN GATE  
STATEMENT OF WATER OPERATIONS  
TEST YEAR ENDED AUGUST 31, 1991

SCHEDULE NO. 3--A  
DOCKET NO. 911194-WS

| DESCRIPTION                 | TEST YEAR<br>PER UTILITY | UTILITY<br>ADJUSTMENTS | UTILITY<br>ADJUSTED<br>TEST YEAR | COMMISSION<br>ADJUSTMENTS | COMMISSION<br>ADJUSTED<br>TEST YEAR | REVENUE<br>INCREASE | REVENUE<br>REQUIREMENT |
|-----------------------------|--------------------------|------------------------|----------------------------------|---------------------------|-------------------------------------|---------------------|------------------------|
| 1 OPERATING REVENUES        | \$ 1,079,957             | \$ 274,442             | \$ 1,354,399                     | \$(235,885)               | \$ 1,118,514                        | \$ 92,489           | 1,211,003              |
| OPERATING EXPENSES          |                          |                        |                                  |                           |                                     | 8.27%               |                        |
| 2 OPERATION AND MAINTENANCE | \$ 549,970               | \$ 16,038              | \$ 566,008                       | \$(33,300)                | \$ 532,708                          | \$                  | 532,708                |
| 3 DEPRECIATION              | 131,355                  | 13,988                 | 145,343                          | (7,678)                   | 137,665                             |                     | 137,665                |
| 4 AMORTIZATION              | 1,116                    | 0                      | 1,116                            | 0                         | 1,116                               |                     | 1,116                  |
| 5 TAXES OTHER THAN INCOME   | 134,793                  | 12,350                 | 147,143                          | (34,818)                  | 112,325                             | 4,162               | 116,487                |
| 6 INCOME TAXES              | 51,628                   | 67,071                 | 118,699                          | (49,456)                  | 69,243                              | 33,237              | 102,480                |
| 7 TOTAL OPERATING EXPENSES  | \$ 868,862               | \$ 109,447             | \$ 978,309                       | \$(125,252)               | \$ 853,057                          | \$ 37,399           | 890,456                |
| 8 OPERATING INCOME          | \$ 211,095               | \$ 164,995             | \$ 376,090                       | \$(110,633)               | \$ 265,457                          | \$ 55,090           | 320,547                |
| 9 RATE BASE                 | \$ 3,716,313             |                        | \$ 3,705,337                     |                           | \$ 3,457,966                        |                     | \$ 3,457,966           |
| RATE OF RETURN              | 5.68%                    |                        | 10.15%                           |                           | 7.68%                               |                     | 9.27%                  |



FLORIDA CITIES WATER COMPANY - GOLDEN GATE  
 STATEMENT OF WASTEWATER OPERATIONS  
 TEST YEAR ENDED AUGUST 31, 1991

SCHEDULE NO. 3-B  
 DOCKET NO. 911194-W

| DESCRIPTION                 | TEST YEAR<br>PER UTILITY | UTILITY<br>ADJUSTMENTS | UTILITY<br>ADJUSTED<br>TEST YEAR | COMMISSION<br>ADJUSTMENTS | COMMISSION<br>ADJUSTED<br>TEST YEAR | REVENUE<br>INCREASE | REVENUE<br>REQUIRED |
|-----------------------------|--------------------------|------------------------|----------------------------------|---------------------------|-------------------------------------|---------------------|---------------------|
| 1 OPERATING REVENUES        | \$ 899,674               | \$ 264,387             | \$ 1,164,061                     | \$(202,860)               | \$ 961,201                          | \$ 131,577          | \$ 1,092,778        |
| OPERATING EXPENSES          |                          |                        |                                  |                           |                                     | 13.69%              |                     |
| 2 OPERATION AND MAINTENANCE | \$ 509,362               | \$ 16,038              | \$ 525,400                       | \$(36,220)                | \$ 489,180                          | \$                  | \$ 489,180          |
| 3 DEPRECIATION              | 157,567                  | (22,254)               | 135,313                          | (472)                     | 134,841                             |                     | 134,841             |
| 4 AMORTIZATION              | 45,698                   | 0                      | 45,698                           | 0                         | 45,698                              |                     | 45,698              |
| 5 TAXES OTHER THAN INCOME   | 102,515                  | 11,897                 | 114,412                          | (11,740)                  | 102,672                             | 5,921               | 108,593             |
| 6 INCOME TAXES              | 8,749                    | 73,916                 | 82,665                           | \$(52,971)                | 29,694                              | 47,285              | 76,979              |
| 7 TOTAL OPERATING EXPENSES  | \$ 823,891               | \$ 79,597              | \$ 903,488                       | \$(101,402)               | \$ 802,086                          | \$ 53,206           | \$ 855,291          |
| 8 OPERATING INCOME          | \$ 75,783                | \$ 184,790             | \$ 260,573                       | \$(101,458)               | \$ 159,115                          | \$ 78,372           | \$ 237,487          |
| 9 RATE BASE                 | \$ 2,593,526             |                        | \$ 2,567,225                     |                           | \$ 2,561,960                        |                     | \$ 2,561,960        |
| RATE OF RETURN              | 2.92%                    |                        | 10.15%                           |                           | 6.21%                               |                     | 9.27%               |

| FLORIDA CITIES WATER COMPANY—GOLDEN GATE<br>ADJUSTMENTS TO OPERATING STATEMENTS<br>TEST YEAR ENDED AUGUST 31, 1991 |              | SCHEDULE NO. 3—C<br>PAGE 1 OF 2<br>DOCKET NO. 911194—WS |  |
|--|--------------|---|--|
| EXPLANATION  | WATER        | WASTEWATER  |  |
| <b>OPERATING REVENUES</b>  |              |   |  |
| 1) Adjustment to remove requested rate increase  | \$ (239,203) | \$ (218,354)  |  |
| 2) Billing analysis adjustment   | 3,318        | 15,494  |  |
| Net Adjustment   | \$ (235,885) | \$ (202,860)  |  |
| <b>OPERATION AND MAINTENANCE</b>   |              |   |  |
| 1) Correction to purchase power expense  | \$ 11,606    | \$ (4,580)  |  |
| 2) Reduction to reflect actual major maintenance expense   | (18,287)     | (9,941)   |  |
| 3) Adjust material and supplies to reflect removal of overhead   | (2,553)      |   |  |
| 4) Adjustment to reduce rate case expense  | (10,678)     | (10,678)  |  |
| 5) Adjustment to reduce bad debt expense.  | (13,388)     | (11,021)  |  |
| Net Adjustment   | \$ (33,300)  | \$ (36,220)   |  |
| <b>DEPRECIATION</b>  |              |   |  |
| 1) Decrease to reflect prior Commission Orders adjustment  | \$ (2,076)   | \$ (412)  |  |
| 2) Reduction to reflect adjustment assoc. with correct AFUDC   | (171)        | (60)  |  |
| 3) Corresponding adjustment assoc. with imputation of CIAC   | (5,431)      | 0   |  |
| Net Adjustment   | \$ (7,678)   | \$ (472)  |  |
| <b>TAXES OTHER THAN INCOME TAXES</b>   |              |   |  |
| Reduce property taxes to actual assessment   | \$ (24,203)  | \$ (2,611)  |  |
| Remove provision for added RAF taxes   | (10,615)     | (9,129)   |  |
| Net Adjustment   | \$ (34,818)  | \$ (11,740)   |  |

FLORIDA CITIES WATER COMPANY-GOLDEN GATE  
 ADJUSTMENTS TO OPERATING STATEMENTS  
 TEST YEAR ENDED AUGUST 31,1991

SCHEDULE NO. 3-C  
 PAGE 2 OF 2  
 DOCKET NO. 911194-WS

| EXPLANATION   | WATER       | WASTEWATER  |
|---|-------------|-------------|
| <b>INCOME TAXES</b>   |             |             |
| -----<br>Provision for income taxes for test adjustment     | \$ (49,456) | \$ (52,971) |
|   | =====       | =====       |
| <b>OPERATING REVENUES</b>                                   |             |             |
| -----<br>Additional revenues to achieve revenue requirement | \$ 92,489   | \$ 131,577  |
|   | =====       | =====       |
| <b>TAXES OTHER THAN INCOME TAXES</b>                        |             |             |
| -----<br>Adjustment for RAF taxes                           | \$ 4,162    | \$ 5,921    |
|   | =====       | =====       |
| <b>INCOME TAXES</b>   |             |             |
| -----<br>Adjustment to reflect increased income             | \$ 33,237   | \$ 47,285   |
|   | =====       | =====       |