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March 12, 1996

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Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

HAND DELIVERY

Re: Docket No. 951056-WS
Application for rate increase in Flagler County by Palm Coast
Utility Corporation.

Dear Ms. Bayo:

Enclosed for filing in the above docket are an original and 15
copies of Palm Coast Utility Corporation's Suggestion of Error.

Please acknowledge receipt of the foregoing by stamping the
enclosed extra copy of this letter and returning same to my
attention. Thank you for your assistance.

Sincerely,

Wayne L. Schiefelbein

Wayne L. Schiefelbein

- ICK _____
- UFA 1 _____
- APP _____
- CAF _____
- CMU _____ WLS/l dv
- CTR _____ Enclosures
- EAG _____
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FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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In re: Application of Palm Coast) Docket No. 951056-WS
Utility Corporation for an Increase)
in Water and Wastewater Rates in)
Flagler County, Florida)

SUGGESTION OF ERROR

Palm Coast Utility Corporation hereby submits its Suggestion of Error in the March 7, 1996 Staff Recommendation on Interim Rates scheduled as Item 47 of the March 19, 1996 Agenda Conference.

1. The standard for Commission consideration of Suggestions of Error in Staff Recommendations on Interim Rates has been clearly stated by the Commission.

Parties may be allowed to address mistakes or mathematical errors through an appropriate pleading, such as a "Suggestion of Error in Staff Recommendation." However, differences of opinion as to policy or accounting methodology shall not be communicated through such a pleading. Order No. PSC-94-1519-FOF-GU (December 9, 1994)

2. This Suggestion of Error addresses "mistakes or mathematical errors" in Staff's calculation of income tax expense.

3. In calculating the allowable income tax expense for interim rate-setting purposes, Staff inadvertently subtracted the parent debt adjustment shown on line 5 of Interim Schedule C-3 from the subsidiary income tax expense. Interim Schedule C-3 is the Schedule of INTEREST to be used in the income tax calculation. The adjustment shown on line 5 of Interim Schedule C-3 is the parent debt interest adjustment. The tax on the interest expense is 38.58% times the interest expense. Instead of subtracting the parent debt interest expense from the subsidiary tax expense, Staff should have subtracted the TAX on the parent debt interest expense.

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4. Correction of the Staff error will change the recommendation as follows:

Using Interim Schedule C-3 (MFRs, Vol. 1, p. 178)

	<u>Water</u>	<u>Wastewater</u>
Parent Debt Int. Exp. Adj. (line 5)	\$220,039	\$109,508
Combined Tax Rate	x .3858	x .3858
Parent Debt Tax Adjustment	\$ 84,891	\$ 42,248
Less Staff "Interest Adjustment"	\$220,039	\$109,508
Decrease "Tax Adjustment"	\$135,148	\$ 67,260
Revenue/Tax Gross Up Multiplier	x 1.7047	x 1.7047
Increase Interim Revenue By	\$230,435	\$114,685

The above calculations, including a comparison to the Staff calculation, are shown on the attached schedule.

5. Failure to correct the error in income tax expense allowed in setting interim rates would deny the utility the opportunity to earn the minimum of the range of rate of return, in violation of the interim rate statute. Sec. 367.082(2)a and (5), Fla. Stat. Absent correction of this error, the utility will be arbitrarily harmed. In the interest of fairness, the utility should not be penalized by Staff's miscalculation of income tax expense.

Based on the foregoing, Palm Coast Utility Corporation requests that this Suggestion of Error be considered by the Commission, and that the error in calculating income tax expense be corrected.

Respectfully submitted,



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Attorneys for Palm Coast Utility Corporation

Palm Coast Utility Corporation – Interim Increase

Correct Parent Debt Adjustment to Tax Rate x Weighted Parent Debt Interest Expense on Interim Schedule C–3.

	WATER			SEWER		
	per Staff	Corrected	Change	per Staff	Corrected	Change
OPERATING REVENUE	5,260,912	5,491,347	230,435	3,339,462	3,454,147	114,685
OPERATING EXPENSE	2,512,988	2,512,988		1,902,373	1,902,373	
DEP, NET OF CIAC AMORT.	975,276	975,276		464,801	464,801	
AMORT.	(69,805)	(69,805)		(48,509)	(48,509)	
OTHER TAXES	338,581	338,581		207,826	207,826	
GROSS RECEIPTS TAX	236,741	247,111	10,370	150,276	155,437	5,161
INTEREST EXPENSE	280,335	280,335		145,048	145,048	
TAXABLE INCOME	986,796	1,206,861	220,065	517,647	627,171	109,524
INCOME TAX CALCULATION:						
STATE TAX AT 5.5%	54,274	66,377	12,104	28,471	34,494	6,024
FED TAXABLE INCOME	932,522	1,140,484	207,962	489,176	592,677	103,500
FEDERAL INCOME TAX @ 35%	326,383	399,169	72,787	171,212	207,437	36,225
TOTAL INCOME TAX	380,656	465,547	84,890	199,682	241,931	42,249
Parent Debt Adj.	(220,039)	(84,891)	135,148	(109,508)	(42,248)	67,260
RECOVERABLE INCOME TAX	160,617	380,656	220,038	90,174	199,683	109,509
RETURN ON RATE BASE	1,106,514	1,106,541		572,521	572,536	
ALLOWABLE RETURN ON R.B.	1,106,541	1,106,541		572,536	572,536	
RATE BASE	14,368,802	14,368,802		7,434,564	7,434,564	
COST OF CAPITAL	7.70%	7.70%		7.70%	7.70%	

Calculation of Tax Gross-Up Multiplier

Revenue (R) = P + S + F + Re

Where:

R =	Grossed up Revenue		
P =	Parent Debt Tax Adjustment		
S =	State Tax = .055 x .955 x R	=	0.052525 x R
F =	Fed. Tax = .35 x (.955 x R - .055 x .955 x R)	=	0.315866 x R
Re =	RAF = .045 x R	=	0.045 x R

Then:

R =	0.413391 x R + P
0.586609 R =	P

And:

R =	1.704714 x P
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