

FLORIDA PUBLIC SERVICE COMMISSION
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M E M O R A N D U M

September 26, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: *JW* DIVISION OF WATER & WASTEWATER (FUCHS, ^{Bi}GALLOWAY, ^WMERCHANT, WEBB)
DIVISION OF LEGAL SERVICES (O'SULLIVAN, AGARWAL) ^{no} *RA* *LS* *JA*

RE: DOCKET NO. ~~960329~~ 960329-WS - GULF UTILITY COMPANY - APPLICATION
FOR AN INCREASE IN WASTEWATER RATES, APPROVAL OF A
DECREASE IN WATER RATES AND APPROVAL OF SERVICE
AVAILABILITY CHARGES

DOCKET NO. ~~960329~~ 960329-WS - GULF UTILITY COMPANY -
INVESTIGATION OF RATES FOR POSSIBLE OVEREARNINGS

COUNTY: LEE

AGENDA: OCTOBER 8, 1996 - REGULAR AGENDA - DECISION ON INTERIM
RATES - PARTICIPATION IS LIMITED TO COMMISSIONERS AND
STAFF

CRITICAL DATES: 60-DAY SUSPENSION DATE: OCTOBER 22, 1996

SPECIAL INSTRUCTIONS: S:\PSC\WAW\WP\960329WS.ACM

DOCUMENT NUMBER DATE

10319 SEP 26 96

FPSC-RECORDS/REPORTING

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CASE BACKGROUND

Gulf Utility Company (Gulf or utility) is a Class A utility which serves approximately 7,040 water and 2,435 wastewater customers in Lee County, Florida. The utility is located in a water use caution area as designated by the South Florida Water Management District.

Rate base was last established for Gulf's wastewater facilities in Docket No. 880308-SU, Order No. 20272, issued on November 7, 1988. Rate base was last established for the water facilities in Docket No. 900718-WU, Order No. 24735, issued on July 1, 1991.

By Order No. PSC-96-0501-FOF-WS, issued on April 11, 1996, in Docket No. 960234-WS, the Commission initiated an overearnings investigation and held \$353,492 in annual water revenues subject to refund. The Commission also required a surety bond, letter of credit or escrow agreement in the amount of \$179,203, representing a six-month timeframe, plus interest, pending the resolution of the investigation. The Commission further ordered that the overearnings investigation docket should be combined with the utility's upcoming rate case application, which is addressed in this current docket.

On June 27, 1996, Gulf filed an application for an increase in wastewater rates, approval of a decrease in water rates, and approval of service availability charges. The minimum filing requirements (MFRs) were satisfied on August 23, 1996, which was established as the official filing date pursuant to Section 367.083, Florida Statutes.

The utility's requested test year for interim purposes is the historical year ended December 31, 1995. The requested test year for final rates is the projected year ending December 31, 1996. Additionally, the utility has requested that this application be directly set for hearing. The case has been set for hearing in Lee County on February 6 and 7, 1996.

In its MFRs, the utility has requested total interim revenues of \$1,982,871 for water and \$1,374,425 for wastewater. This represents a revenue decrease of \$141,708 (6.67%) for water, and a revenue increase of \$256,855 (22.98%) for wastewater. However, in its application, Gulf inconsistently requested an interim increase in wastewater of \$300,000 and a permanent rate reduction in water of \$155,935, both to be effective on the same date. The wastewater requested increase in the application was based on total interim wastewater revenues for 1995 of \$1,431,111. It also stated in its

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application that it was requesting an interim, as opposed to a permanent, water decrease.

For final consideration, the utility has requested total revenues of \$2,139,422 for water and \$1,671,070 for wastewater. This represents a revenue decrease on a final basis of \$155,935 (6.79%) for water, and a revenue increase of \$366,340 (28.08%) for wastewater. The final revenues are based on the utility's request for an overall rate of return of 9.25%.

In addition to the above, the utility is requesting an increase in wastewater service availability charges from \$550 to \$800/ERC and a reduction in water service availability charges from \$800 to \$550/ERC.

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DISCUSSION OF ISSUES

ISSUE 1: Should the utility's proposed rates and service availability charges be suspended?

RECOMMENDATION: Yes. Gulf's proposed water and wastewater rates and service availability charges should be suspended. (WEBB)

STAFF ANALYSIS: Sections 367.081(6) and 367.091(5), Florida Statutes, provide that the rate schedules and service availability charges proposed by the utility shall become effective within sixty (60) days after filing unless the Commission votes to withhold consent to implementation of the requested rates. Further, the above referenced statutes permit the proposed rates and charges to go into effect, under bond, eight (8) months after filing unless final action has been taken by the Commission.

Staff has reviewed the filing and has considered the proposed rates, the revenues thereby generated, the proposed service availability charges, and the information filed in support of the rate application. We believe it is reasonable and necessary to require further amplification and explanation regarding this data, and to require production of additional and/or corroborative data. This further examination by staff will include on-site investigations by staff accountants, engineers and rate analysts. Based on the above, staff recommends that the utility's requested interim rates and service availability charges be suspended.

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ISSUE 2: What are the interim revenue requirements for water and wastewater, and what additional amount of water revenues should be held subject to refund?

RECOMMENDATION: On an interim basis, the annual water and wastewater revenues should be as follows:

	<u>Revenues</u>	<u>\$ Difference</u>	<u>% Difference</u>
Water	\$1,796,651	-\$329,920	-15.51%
Wastewater	\$1,288,391	+\$170,821	+15.29%

Since the utility has requested to reduce its water rates concurrently with its interim wastewater rate increase, the additional amount of annual water revenues held subject to refund should be \$186,220. This recognizes that 9.39% of the annualized water revenues collected should be held subject to refund on a perspective basis. (WEBB, MERCHANT)

STAFF ANALYSIS: As reflected in its MFRs, Gulf requested interim rates designed to generate annual revenues of \$1,982,871 for water and \$1,374,425 for wastewater. This represents a revenue decrease of \$141,708 (6.67%) for water, and a revenue increase of \$256,855 (22.98%) for wastewater. The requested test year for interim is the historical year ended December 31, 1995. The utility filed rate base, cost of capital, and operating statements to support its requested water decrease and wastewater increase. Gulf has requested its water rates be reduced to those requested on a final basis. These water rates were calculated using the projected test year ended December 31, 1996, but were applied to the 1995 bills and consumption in order to arrive at an annualized revenue requirement for the historical interim test year. As such, those revenues generated a return on rate base of 12.20% instead of the 6.77% interim return requested for wastewater.

Staff has reviewed the utility's interim request, as well as the prior rate proceeding orders, and we have made adjustments as discussed below. We have attached accounting schedules to illustrate staff's recommended rate base, capital structure, and test year operating income amounts. The rate base schedules are numbered 1-A, 1-B, and 1-C for water, wastewater, and adjustments, respectively. The capital structure schedule is number 2. The operating income schedules are numbered 3-A, 3-B, and 3-C for water, wastewater, and adjustments, respectively.

RATE BASE

In its application, the utility used a thirteen-month average to calculate its requested rate base and cost of capital amounts. Since the utility is a Class A utility, the MFRs are consistent with the averaging requirements of Rule 25-30.433, Florida Administrative Code.

Section 367.082(5)(b)(1), Florida Statutes, requires that the required rate of return be calculated by applying appropriate adjustments consistent with those used in the utility's most recent rate proceeding. Since the utility had separate rate proceedings for its last water and wastewater rate cases, staff has used the respective orders to determine if adjustments are appropriate for each system.

Three Oaks WWTP Expansion

For interim purposes, Gulf made adjustments to annualize the effect of an expansion to the Three Oaks wastewater treatment plant (WWTP) which was placed in service in December, 1995. On its wastewater schedules, the utility included the year-end balance of this plant addition, with corresponding adjustments to accumulated depreciation, depreciation expense and property taxes. Gulf also made an adjustment to annualize working capital for wastewater only. This adjustment resulted in an increase of \$1,431,484 to its 1995 average wastewater rate base.

While this may have been a major change to its wastewater facilities, staff does not believe that this adjustment is appropriate for interim purposes. First, the utility did not project out all components of rate base to year-end. Contributions in aid of construction (CIAC) additions as of the end of the year is one area where a mismatch occurs. This utility also has a very complex array of prepaid CIAC and advances for construction which are subject to used and useful adjustments, which would change as a result of going from average to year-end. Further, the utility requested a three-year margin reserve period for this plant, which is well in excess of the margin reserve allowed in the last wastewater rate proceeding. Gulf also did not provide the support for the calculation for the working capital adjustment or why such an adjustment is necessary.

In conclusion, staff does not believe that the annualization of the Three Oaks WWTP is consistent with any adjustments made in Gulf's last wastewater rate proceeding. In accordance with the interim statute, staff recommends that the proforma adjustments to

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plant, accumulated depreciation, working capital, depreciation expense and property taxes be removed.

Imputation of CIAC on Margin Reserve

In Orders Nos. 20272 (Docket No. 880308-SU) and 24735 (Docket No. 900718-WU), the Commission imputed CIAC on the ERCs included in the margin reserve. For interim purposes in this case, Gulf requested and staff agrees that the water plant is 100% used and useful, with a margin reserve included. Accordingly, staff has imputed CIAC on the ERCs included in the margin reserve. This results in an increase to water CIAC of \$176,631, an increase to accumulated amortization of CIAC of \$2,871, and a increase to test year amortization of CIAC of \$5,741. Since staff is recommending disallowance of the Three Oaks WWTP for interim, the wastewater treatment plants during the test year should be considered 100% used and useful without a margin reserve. Accordingly, no imputation of CIAC for wastewater is required.

Working Capital Allowance

The utility used the balance sheet method to calculate its requested allowance for working capital for both water and wastewater. In the utility's last wastewater rate proceeding, the balance sheet method was used. To comply with the interim statute, it is appropriate to use the balance sheet method for wastewater. Upon staff's review of the utility's calculation of working capital, we determined that the utility included the balance of Unamortized Debt Discount and Expense. Upon review of MFR Schedule D-5, the cost of long-term debt includes the amortization of issuance costs and discounts. To include this amount in both the cost of debt and working capital results in double-counting and is an error on the part of the utility. Staff believes that this correction should be made, which reduces the total company working capital by \$405,030. The reduction for wastewater is \$156,112.

In the utility's last water rate proceeding, the formula method (1/8 of operation and maintenance expenses) was used. To comply with the interim statute, an adjustment should be made to reflect the formula method for water. Based on the adjusted O&M expenses, the balance of working capital for interim purposes for water should be \$147,472. This results in a decrease of \$246,973 from the utility's requested balance of working capital.

COST OF CAPITAL

In its MFRs, the utility used a thirteen-month average capital structure and made no specific adjustments. The utility made pro

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rata adjustments to all accounts except for customer deposits to reconcile the capital structure to rate base. In both of the prior water and wastewater rate cases, the Commission made pro rata adjustments to all components of capital, including customer deposits. As such, staff recommends that all sources be reconcile consistent with the interim statute requirements.

In Order No. 20272, the Commission established a rate of return on equity (ROE) for the wastewater system of 14.35%, with a range of 13.35% to 15.35%. For its interim cost of capital, the utility used the mid-point of the current leverage formula, contained in Order No. PSC-96-0729-FOF-WS, issued on May 31, 1996. This resulted in an 11.88% ROE. Consequently, the cost of equity was not calculated in accordance with Section 367.082(5)(b)3, Florida Statutes. For an interim revenue increase, the rate of return on equity, according to this section of the Statutes, is calculated using the lower end of the range of the utility's last authorized rate of return on equity. Since the utility's requested wastewater ROE is less than what the statute would allow, staff has used the requested cost rate of 11.88%. This treatment has been consistently applied by the Commission in interim rate proceedings. See Orders Nos. PSC-94-1237-FOF-WU, PSC-93-1174-FOF-SU and PSC-95-0573-FOF-WS, issued on October 11, 1994, August 10, 1993 and May 9, 1995, respectively.

In Order No. 24735, the Commission established a 13.11% ROE for the water system, with a range of 12.11% to 14.11%. Section 367.082(5)(b)3, Florida Statutes, states that in calculating an interim decrease, the maximum of the range of the last authorized ROE should be used to determine the achieved rate of return. Accordingly, staff has recommended that in order to determine the amount of interim revenue decrease that an ROE of 14.11% be used.

Using the adjustments discussed above, staff has calculated an interim overall rates of return (ORR) of 9.68% and 9.48% for water and wastewater, respectively. Schedule 2 reflects staff's calculations, and specifically shows the ORR using the mid-point of the current leverage graph, as well as the minimum and maximum of the last authorized RORs for water and wastewater separately.

NET OPERATING INCOME

Test Year Operating Revenues

According to Section 367.082(5), Florida Statutes, any rate changes which occurred during the interim test year must be annualized in order to calculate the achieved rate of return. Based on staff's review of the MFRs, we recalculated test year

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revenues using the utility's billing determinants and the rates in effect at December 31, 1995. As a result of this analysis, staff believes that test year water revenues should be increased by \$1,992.

Amortization of Rate Case Expense

In its MFRs, Gulf reflects \$9,939 in rate case expense amortization from the prior water rate case. This amortization was discontinued in August, 1995, which is the end of four years after Order No. 24735 was issued. In that order, the Commission approved total rate case expense of \$52,442. Dividing that amount by 48 months results in monthly rate case amortization of \$1,093. Multiplying that amount by seven months equates to a test year amount of \$7,648, which is \$2,291 less than the amount expensed by the utility. Staff recommends that this adjustment is required to be consistent with the adjustment made in the utility's last water rate proceeding.

Test Year Net Operating Income

Based on the adjustments recommended above, staff has determined that test year operating income is \$454,735 for water and \$105,521 for wastewater.

REVENUE REQUIREMENT

Staff has calculated the interim revenue requirements using the actual operating expenses for the year ended December 31, 1995, and a 9.68% and 9.48% overall rate of return, for water and wastewater, respectively, on a 13-month average rate base. As a result, staff's recommended revenue requirements are \$1,796,651 for water and \$1,288,391 for wastewater. This represents an interim decrease in annual water revenues of \$329,920, or a negative 15.51%. For wastewater, the annual increase for interim is \$170,821 or 15.29%.

Section 367.082(2)(b), Florida Statutes, states that when an interim decrease in revenues is calculated, the rates are not decreased but the annual decrease in revenues is held subject to refund pending the final Commission decision. However, Gulf has requested to have its proposed final water rates implemented at interim, which rates are lower than the current rates. As discussed in Issue 3, staff is recommending that this request be approved, pending the final determination of water rates in this case. As a result of this voluntary rate reduction, the amount of annual water revenues will be decreased from the annualized amount used to determine the interim test year revenues.

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Using the utility's proposed water rates applied to the 1995 billing determinants, staff has determined that the annualized revenues would be \$1,982,871. This amount is still greater than the interim revenue requirement recommended by staff of \$1,796,651. Staff believes that the difference between these two amounts, or \$186,220, is the annual amount that needs to be held subject to refund on a prospective basis. As such 9.39% of the annualized water revenues collected should be held subject to refund on a perspective basis. This is in addition to the \$353,492 in annual water revenues held subject to refund by Order No. PSC-96-0501-FOF-WS, in the overearnings docket. However, the \$353,492 is held only from April 11, 1996, the issuance date of the order, until the water rate reduction occurs with interim rates, with no incremental increase other than interest. Issue 4 addresses the appropriate security to protect these amounts held subject to refund.

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ISSUE 3: What are the appropriate interim water and wastewater service rates?

RECOMMENDATION: The interim wastewater service rates for Gulf should be designed to allow the utility the opportunity to generate annual operating revenues of \$1,288,391 for its wastewater system, excluding miscellaneous revenues. Staff recommends that Gulf's proposed water rate reduction be approved which allows the utility the opportunity to generate interim water revenues of \$1,948,052, excluding miscellaneous service revenues. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Section 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof to staff of the date notice was given within 10 days after the date of notice. (GALLOWAY)

STAFF ANALYSIS: As stated in Issue 2, this docket is addressing the possibility of a rate decrease for Gulf's water system along with Gulf's requested wastewater rate increase. In its filing, it appears that the company did not request interim water rates. Instead, the company requested that their proposed final water rates be effective simultaneously with their proposed interim wastewater rates. Staff cannot make a final determination regarding the potential overearnings of the water system at this time. Therefore, we must recommend interim rates for both the water system and the wastewater system as shown on Schedules Nos. 4-A and 4-B.

As mentioned in the case background and in Issue 2, we believe that a potential overearnings position exists for Gulf's water system. Staff calculated an interim revenue requirement of \$1,796,651, which is lower than that revenue requirement generated by the utility's proposed rate reduction. These lower rates for the water system are designed to allow the utility the opportunity to generate interim revenues of \$1,948,052, which is a decrease in water revenues of \$143,700 from Gulf's current rates, excluding miscellaneous service revenues. This is a 6.87% reduction from current rates to the interim water rates.

Rates for the wastewater system should be designed to allow the utility the opportunity to generate interim revenues of \$1,288,391 for its wastewater system. Since the utility recorded no miscellaneous service revenues for the wastewater system, no further reduction to the recommended revenues is necessary for the purpose of interim rate design. This recommended amount represent an increase in wastewater revenues of \$170,821 or 15.29%. This

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percentage is applied to the wastewater rates in place during the interim test year ending December 31, 1995.

The corresponding interim rates should be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice. The revised tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's decision, that the proposed notice to the customers of the approved increase is adequate and the required security discussed under Issue 4 has been filed.

The utility's current rates, requested interim and final rates, and staff's recommended interim rates are shown on Schedules Nos. 4-A and 4-B.

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ISSUE 4: What is the appropriate security to guarantee the wastewater interim increase, the amount subject to refund as per Order No. PSC-96-0501-FOF-WS issued April 11, 1996, and the amount of any additional potential overearnings?

RECOMMENDATION: The utility should be required to file a bond, letter of credit or escrow agreement as security to guarantee any potential refunds of wastewater revenues collected under interim conditions. This security must also include the amount held subject to refund per Order No. PSC-96-0501-FOF-WS, and any additional potential overearnings. Pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. (GALLOWAY)

STAFF ANALYSIS: Staff has calculated the total amount of potential refunds for the water and wastewater systems is \$439,653. This amount includes the potential overearnings addressed in Order No. PSC-96-0501-FOF-WS, issued April 1, 1996 for the water system, any additional potential overearnings, and the potential refund amount associated with the interim wastewater revenue increase.

Staff has calculated the amount pursuant to Section 367.082, Florida Statutes, which states that the excess of interim rates over previously authorized rates shall be collected under guarantee subject to refund with interest.

Based on the financial analysis by the Division of Auditing and Financial Analysis, the utility cannot support a corporate undertaking due to its marginal interest coverage and minimal ownership equity. These concerns cast doubt on the utility's ability to back a corporate undertaking. Therefore, we recommend that the utility provide a letter of credit, bond, or escrow agreement to guarantee the funds collected subject to refund.

If the security provided is an escrow account, said account should be established between the utility and an independent financial institution pursuant to a written escrow agreement. The Commission should be a party to the written escrow agreement and a signatory to the escrow account. The written escrow agreement should state the following: That the account is established at the direction of this Commission for the purpose set forth above, that no withdrawals of funds should occur without the prior approval of the Commission through the Director of the Division of Records and Reporting, that the account should be interest bearing, that information concerning the escrow account should be available from the institution to the Commission or its representative at all times, and that pursuant to Cosentino v. Elson, 263 So. 2d 253

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(Fla. 3d. DCA 1972), escrow accounts are not subject to garnishments.

Complying with Order No. PSC-96-0501-FOF-WS, the utility opened an escrow account and has been making monthly deposits. Should the utility choose to remain with this form of security, the utility should deposit total funds to be escrowed, \$73,275, into the escrow account each month, pending the completion of the rate case proceeding. If a refund to the customers is required, all interest earned by the escrow account should be distributed to the customers. If a refund to the customers is not required, the interest earned by the escrow account should revert to the utility.

If the security provided is a bond or a letter of credit, said instrument should be in the amount of \$439,653. If the utility chooses a bond as security, the bond should state that it will be released or should terminate upon subsequent order of the Commission addressing overearnings or requiring a refund. If the utility chooses to provide a letter of credit as security, the letter of credit should state that it is irrevocable for the period it is in effect and that it will be in effect until a final Commission order is rendered addressing overearnings or requiring a refund.

Irrespective of the type of security provided, the utility should keep an accurate and detailed account of all monies it receives. Pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and should be borne by, the utility.

**GULF UTILITY COMPANY
 SCHEDULE OF WATER RATE BASE
 INTERIM TEST YEAR ENDED DECEMBER 31, 1995**

**SCHEDULE NO. 1-A
 DOCKET NO. 960329-WS**

1 UTILITY PLANT IN SERVICE	\$ 15,330,943	0	\$ 15,330,943	0	15,330,943
2 LAND	200,247	0	200,247	0	200,247
3 NON-USED & USEFUL COMPONENTS	0	(318,121)	(318,121)	0	(318,121)
4 CONSTRUCTION WORK IN PROGRESS	0		0	0	0
5 ACCUMULATED DEPRECIATION	(3,681,571)	44,511	(3,637,060)	0	(3,637,060)
6 CIAC	(11,442,547)	0	(11,442,547)	(176,631)	(11,619,178)
7 AMORTIZATION OF CIAC	2,573,942	0	2,573,942	2,871	2,576,813
8 ACQUISITION ADJUSTMENTS - NET	0		0	0	0
9 ADVANCES FOR CONSTRUCTION	(12,271)	0	(12,271)	0	(12,271)
10 WORKING CAPITAL ALLOWANCE	394,445	0	394,445	(248,973)	147,472
RATE BASE	\$ 3,383,188	(273,610)	\$ 3,089,578	(420,733)	2,668,845

**GULF UTILITY COMPANY
 SCHEDULE OF WASTEWATER RATE BASE
 INTERIM TEST YEAR ENDED DECEMBER 31, 1995**

**SCHEDULE NO. 1-B
 DOCKET NO. 960329-W5**

1 UTILITY PLANT IN SERVICE	\$	11,416,482	1,439,746	\$	12,856,228	(1,439,746)	11,416,482
2 LAND		476,498	0		476,498	0	476,498
3 NON-USED & USEFUL COMPONENTS		0	0		0	0	0
4 CONSTRUCTION WORK IN PROGRESS		0	0		0	0	0
5 ACCUMULATED DEPRECIATION		(2,527,894)	(49,594)		(2,577,488)	49,594	(2,527,894)
6 CIAC		(8,327,963)	0		(8,327,963)	0	(8,327,963)
7 AMORTIZATION OF CIAC		1,706,634	0		1,706,634	0	1,706,634
8 ACQUISITION ADJUSTMENTS - NET		0	0		0	0	0
9 ADVANCES FOR CONSTRUCTION		0	0		0	0	0
10 WORKING CAPITAL ALLOWANCE		247,407	41,332		288,739	(197,444)	91,295
RATE BASE	\$	2,991,164	1,431,484	\$	4,422,848	(1,587,596)	2,835,052

GULF UTILITY COMPANY
 ADJUSTMENTS TO RATE BASE
 INTERIM TEST YEAR ENDED DECEMBER 31, 1995

SCHEDULE NO. 1-C
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	WATER	WASTEWATER
(1) PLANT IN SERVICE		
a) Remove pro forma plant for Three Oaks WWTP		\$ (1,439,746)
(2) ACCUMULATED DEPRECIATION		
a) Remove pro forma plant for Three Oaks WWTP		\$ 49,594
(3) CIAC		
a) Imputation of CIAC to offset margin reserve	\$ (178,631)	\$ 0
(4) ACCUMULATED AMORTIZATION		
a) Imputation of CIAC to offset margin reserve	\$ 2,871	\$ 0
(5) WORKING CAPITAL		
a) Adjustment to reflect formula method for water	\$ (246,973)	\$ 0
b) Remove pro forma adjustment to wastewater balance sheet method		(41,332)
b) Remove unamort. debt discount & exp. from balance sheet method	0	(158,112)
Total	\$ (246,973)	\$ (197,444)

GULF UTILITY COMPANY
 CAPITAL STRUCTURE
 INTERIM TEST YEAR ENDED DECEMBER 31, 1995

SCHEDULE NO. 2
 DOCKET NO. 960329-WS

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST	
PER UTILITY								
1 LONG TERM DEBT	8,751,923	0	(4,108,347)\$	4,643,576	76.37%	10.63%	8.12%	
2 SHORT-TERM DEBT	75,360	0	(35,319)	40,041	0.66%	11.01%	0.07%	
3 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%	
4 COMMON EQUITY	1,007,706	0	(473,042)	534,664	8.79%	11.88%	1.04%	
5 CUSTOMER DEPOSITS	192,363	0	0	192,363	3.16%	6.00%	0.19%	
6 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%	
7 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%	
8 DEFERRED INCOME TAXES	1,262,577	0	(592,473)	670,098	11.02%	0.00%	0.00%	
9 TOTAL CAPITAL	<u>11,289,929</u>	0	<u>(5,209,187)\$</u>	<u>6,080,742</u>	<u>100.00%</u>		<u>9.42%</u>	
PER STAFF								
10 LONG TERM DEBT	8,751,923	0	(4,485,317)\$	4,266,606	77.52%	10.63%	8.24%	
11 SHORT-TERM DEBT	75,360	0	(38,622)	36,738	0.67%	11.01%	0.07%	
12 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%	
13 COMMON EQUITY	1,007,706	0	(516,444)	491,262	8.93%	11.88% (1)	1.06%	
14 CUSTOMER DEPOSITS	192,363	0	(98,585)	93,778	1.70%	6.00%	0.10%	
15 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%	
16 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%	
16 DEFERRED INCOME TAXES	1,262,577	0	(647,064)	615,513	11.18%	0.00%	0.00%	
17 TOTAL CAPITAL	<u>11,289,929</u>	0	<u>(5,786,032)\$</u>	<u>5,503,897</u>	<u>100.00%</u>		<u>9.48%</u>	
Notes:				WATER (2)		WASTEWATER (3)		
(1) Mid-point of current leverage graph				RANGE OF REASONABLENESS	MINIMUM	MAXIMUM	MINIMUM	MAXIMUM
(2) Order # 24735, Dkt # 900718-WU				LAST AUTHORIZED ROE	<u>12.11%</u>	<u>14.11%</u>	<u>13.35%</u>	<u>15.35%</u>
(3) Order #20272, Dkt # 880308-SU				OVERALL RATE OF RETURN	<u>9.50%</u>	<u>9.68%</u>	<u>9.61%</u>	<u>9.79%</u>

GULF UTILITY COMPANY
 STATEMENT OF WATER OPERATIONS
 INTERIM TEST YEAR ENDED DECEMBER 31, 1995

SCHEDULE NO. J-A
 DOCKET NO. 960329-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	2,124,579	(141,708)	1,982,871	143,700	2,126,571	(329,920)	1,796,651
OPERATING EXPENSES						-15.51%	
2 OPERATION AND MAINTENANCE	1,182,065	0	1,182,065	(2,291)	1,179,774		1,179,774
3 DEPRECIATION	158,452	(9,891)	148,561	(5,741)	142,820		142,820
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	210,401	(6,377)	204,024	6,377	210,401	(14,846)	195,554
6 INCOME TAXES	0	71,228	71,228	67,813	138,841	(118,562)	20,279
7 TOTAL OPERATING EXPENSES	1,550,918	54,960	1,605,878	65,958	1,671,836	(133,408)	1,538,428
8 OPERATING INCOME	573,661	(196,668)	376,993	77,742	454,735	(196,511)	258,224
9 RATE BASE	3,363,188		3,089,578		2,668,845		2,668,845
RATE OF RETURN	17.06%		12.20%		17.04%		9.68%

GULF UTILITY COMPANY
 STATEMENT OF WASTEWATER OPERATIONS
 INTERIM TEST YEAR ENDED DECEMBER 31, 1995

SCHEDULE NO. J-B
 DOCKET NO. 960329-W5

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	1,117,570	256,855	1,374,425	(256,855)	1,117,570	170,821	1,288,391
OPERATING EXPENSES						15.29%	
2 OPERATION AND MAINTENANCE	741,424	0	741,424	928	742,352	\$	742,352
3 DEPRECIATION	150,894	49,594	200,488	(49,594)	150,894		150,894
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	118,803	14,167	132,970	(14,167)	118,803	7,687	126,489
6 INCOME TAXES	0	0	0	0	0	0	0
7 TOTAL OPERATING EXPENSES	1,011,121	63,761	1,074,882	(62,833)	1,012,049	7,687	1,019,735
8 OPERATING INCOME	106,449	193,094	299,543	(194,022)	105,521	163,134	268,656
9 RATE BASE	2,991,164		4,422,648		2,835,052		2,835,052
RATE OF RETURN	3.56%		6.77%		3.72%		9.48%

GULF UTILITY COMPANY
 ADJUSTMENTS TO OPERATING STATEMENTS
 INTERIM TEST YEAR ENDED DECEMBER 31, 1995

SCHEDULE NO. J-C
 DOCKET NO. 960329-WS
 PAGE 1 OF 1

EXPLANATION	WATER	WASTEWATER
(1) OPERATING REVENUES		
a) Reverse utility's proposed revenue increase	\$ 141,708	\$ (256,855)
b) Annualize test year revenues for 4-year water rate reduction	1,992	0
	<u>143,700</u>	<u>(256,855)</u>
(2) OPERATION & MAINTENANCE EXPENSES		
a) To remove prior amortized balance from rate case expense	\$ (2,291)	\$ 0
b) To zero out balance remaining in prior years' rate case expense	0	928
Total	<u>\$ (2,291)</u>	<u>\$ 928</u>
(3) DEPRECIATION EXPENSE		
a) Remove pro forma depreciation for Three Oaks WWTP	\$ 0	\$ (49,594)
a) Imputation of CIAC to offset margin reserve	(5,741)	0
Total	<u>\$ (5,741)</u>	<u>\$ (49,594)</u>
(4) TAXES OTHER THAN INCOME TAXES		
a) Regulatory assessment fees related to revenue adjustments	\$ 6,377	\$ (11,558)
a) Remove pro forma property taxes for Three Oaks WWTP		(2,609)
Total	<u>\$ 6,377</u>	<u>\$ (14,167)</u>
(5) INCOME TAXES		
a) Income taxes associated with adjusted test year income	<u>\$ 87,613</u>	<u>\$ 0</u>
(6) OPERATING REVENUES		
a) Adjustment to reflect revenue requirement	<u>\$ (329,920)</u>	<u>\$ 170,821</u>
(7) TAXES OTHER THAN INCOME TAXES		
a) Regulatory assessment fees on revenue requirement	<u>\$ (14,846)</u>	<u>\$ 7,687</u>
(8) INCOME TAXES		
a) Income taxes related to recommended income amount	<u>\$ (118,562)</u>	<u>\$ 0</u>

WATER RATE SCHEDULE

Monthly Rates

	Rates Prior to Filing	Utility Requested Interim & Final	Staff Recommended Interim
<u>Residential, Multi-Family, General Service</u>			
Base Facility Charge:			
Meter Size:			
5/8"x3/4"	\$8.45	\$7.88	\$7.88
3/4"	\$12.68	\$11.82	\$11.82
1"	\$21.13	\$19.70	\$19.70
1-1/2"	\$45.25	\$39.38	\$39.38
2"	\$67.61	\$63.02	\$63.02
3"	\$135.21	\$126.03	\$126.03
4"	\$211.27	\$196.92	\$196.92
6"	\$422.54	\$393.85	\$393.85
Gallonge Charge, per 1,000 Gallons	\$2.16	\$2.01	\$2.01
<u>Irrigation</u>			
Base Facility Charge:			
Meter Size:			
5/8"x3/4"	\$8.45	\$7.88	\$7.88
1"	\$21.13	\$19.70	\$19.70
1-1/2"	\$45.25	\$39.38	\$39.38
Gallonge Charge, per 1,000 Gallons	\$2.16	\$2.01	\$2.01
<u>Public Authority</u>			
Base Facility Charge:			
Meter Size:			
1"	\$21.13	\$19.70	\$19.70
2"	\$67.61	\$63.02	\$63.02
3"	\$135.21	\$126.03	\$126.03
4"	\$211.27	\$196.92	\$196.92
Gallonge Charge, per 1,000 Gallons	\$2.16	\$2.01	\$2.01
<u>Private Fire Protection</u>			
Base Facility Charge:			
Meter Size			
1"	\$7.04	\$6.56	\$6.56
1-1/2"	\$14.08	\$13.12	\$13.12
2"	\$22.54	\$21.01	\$21.01
3"	\$45.07	\$42.01	\$42.01
4"	\$70.42	\$69.37	\$69.37
6"	\$140.85	\$131.29	\$131.29
8"	\$225.35	\$210.05	\$210.05
12"	\$605.64	\$564.52	\$564.52
<u>Typical Residential Bills</u>			
5/8" x 3/4" meter			
3,000 Gallons	\$14.93	\$13.91	\$13.91
5,000 Gallons	\$19.25	\$17.93	\$17.93
10,000 Gallons	\$30.05	\$27.98	\$27.98

WASTEWATER RATE SCHEDULE

Monthly Rates

	Rates Prior to Filing	Utility Requested Interim	Utility Requested Final	Staff Recommended Interim
Residential				
Base Facility Charge: All Meter Sizes	\$14 48	\$15 82	\$16 48	\$16.73
Gallonge Charge, per 1,000 Gallons Wastewater Gallonge Cap - 10,000 gallons	\$3 07	\$4 06	\$4 23	\$3 55
General Service, Multi-Family, & Public Authority				
Base Facility Charge: Meter Size:				
5/8" x 3/4"	\$14 48	\$15 82	\$16 48	\$16 73
1"	\$36 20	\$40 23	\$41 19	\$41 82
1-1/2"	\$72 39	\$79 10	\$82 37	\$83 62
2"	\$115.85	\$126 58	\$131 81	\$133.83
3"	\$231.68	\$253 14	\$263 61	\$267 64
4"	\$362.01	\$395 54	\$411 89	\$418 19
6"	\$724.01	\$791 08	\$823 78	\$836.39
Gallonge Charge, per 1,000 Gallons	\$3.68	\$4.88	\$5 08	\$4 25
Master Meter Influent Service				
Base Facility Charge: Meter Size:				
5/8" x 3/4"	\$14 48	\$15 82	\$16 48	N/A
1"	\$36 20	\$40 23	\$41 19	N/A
1-1/2"	\$72 39	\$79 10	\$82 37	N/A
2"	\$115 85	\$126 58	\$131 81	N/A
3"	\$231 68	\$253 14	\$263 61	\$267 64
4"	\$362 01	\$395 54	\$411 89	\$418 19
6"	\$724 01	\$791 08	\$823 78	N/A
Gallonge Charge, per 1,000 Gallons	\$3.84	\$5.08	\$5 29	\$4 41
Typical Residential Bills				
5/8" x 3/4" meter				
3,000 Gallons	\$23.69	\$28.00	\$29 17	\$27 38
5,000 Gallons	\$29 83	\$36 12	\$37 63	\$34 48
10,000 Gallons	\$45 18	\$56 42	\$58 78	\$52 23

WASTEWATER RATE SCHEDULE

Monthly Rates

	Rates Prior to Filing	Utility Requested Interim	Utility Requested Final	Staff Recommended Interim
<u>Residential</u>				
Base Facility Charge: All Meter Sizes	\$14.48	\$15.82	\$16.48	\$16.73
Gallage Charge, per 1,000 Gallons Wastewater Gallage Cap - 10,000 gallons	\$3.07	\$4.06	\$4.23	\$3.55
<u>General Service, Multi-Family, & Public Authority</u>				
Base Facility Charge: Meter Size:				
5/8" x 3/4"	\$14.48	\$15.82	\$16.48	\$16.73
1"	\$36.20	\$40.23	\$41.19	\$41.82
1-1/2"	\$72.39	\$79.10	\$82.37	\$83.62
2"	\$115.85	\$126.58	\$131.81	\$133.83
3"	\$231.68	\$253.14	\$263.61	\$267.64
4"	\$362.01	\$395.54	\$411.89	\$418.19
6"	\$724.01	\$791.08	\$823.78	\$836.39
Gallage Charge, per 1,000 Gallons	\$3.68	\$4.88	\$5.08	\$4.25
<u>Master Meter Influent Service</u>				
Base Facility Charge: Meter Size:				
5/8" x 3/4"	\$14.48	\$15.82	\$16.48	N/A
1"	\$36.20	\$40.23	\$41.19	N/A
1-1/2"	\$72.39	\$79.10	\$82.37	N/A
2"	\$115.85	\$126.58	\$131.81	N/A
3"	\$231.68	\$253.14	\$263.61	\$267.64
4"	\$362.01	\$395.54	\$411.89	\$418.19
6"	\$724.01	\$791.08	\$823.78	N/A
Gallage Charge, per 1,000 Gallons	\$3.84	\$5.08	\$5.29	\$4.44
<u>Typical Residential Bills</u>				
5/8" x 3/4" meter				
3,000 Gallons	\$23.69	\$28.00	\$29.17	\$27.38
5,000 Gallons	\$29.83	\$36.12	\$37.63	\$34.48
10,000 Gallons	\$45.18	\$56.42	\$58.78	\$52.23