

FLORIDA PUBLIC SERVICE COMMISSION  
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Tallahassee, Florida 32399-0850

M E M O R A N D U M

FEBRUARY 20, 1997

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

FROM: DIVISION OF WATER & WASTEWATER (CASEY, RIEGER) *SR*  
DIVISION OF LEGAL SERVICES (CAPELESS) *MSC*

RE: DOCKET NO. 960984-SU - INVESTIGATION OF POSSIBLE  
OVEREARNINGS BY NORTH PENINSULA UTILITIES CORPORATION

COUNTY: VOLUSIA

AGENDA: 3/4/97 - REGULAR AGENDA - PROPOSED AGENCY ACTION EXCEPT  
ISSUE NO. 6 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: STATUTORY DEADLINE FOR REQUIRING REFUND OF  
PRICE INDEX AND PASS-THROUGH RATE ADJUSTMENTS:  
JULY 23, 1997

LOCATION OF FILE: S:\PSC\WAW\WP\960984SU.RC2

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### CASE BACKGROUND

North Peninsula Utilities Corporation (North Peninsula or utility) is a Class C wastewater only utility providing wastewater service to approximately 480 customers in Volusia County. For the year ending December 31, 1995, the utility reported wastewater operating revenues of \$143,189 and a net operating income of \$22,459.

The utility's 1995 annual report, filed April 23, 1996, indicated that North Peninsula's wastewater system was earning an overall rate of return of 17.26%. On July 26, 1996, staff received a 1996 index and pass-through application for North Peninsula. This index and pass-through rate adjustment, which was effective September 28, 1996, increased customer rates by 1.74% or \$2,538. On September 4, 1996, prior to the effective date of the 1996 price index and pass-through, staff filed a recommendation to hold possible overearnings subject to refund and to initiate an overearnings investigation. By Order No. PSC-96-1243-FOF-SU, issued October 7, 1996, the Commission ordered an investigation of possible overearnings to be initiated, and required annual wastewater revenues of \$12,311 to be held subject to refund, which amount included the 1996 index and pass-through increases. The utility complied by placing \$6,381 of security in an escrow account with Barnett Bank. The \$6,381 represents \$6,156 of security and \$225 of interest, calculated in accordance with Rule 25-30.360, Florida Administrative Code, and assumes a six-month timeframe for the investigation.

The last staff assisted rate case for this utility was completed by Order No. 16184, issued June 4, 1986, in Docket No. 850121-SU, when the utility was known as Shore Utility Corporation. A transfer docket was opened in 1989 to transfer Shore Utility Corporation to North Peninsula. The Commission approved the transfer by Order No. 22345, issued December 27, 1989, in Docket No. 891016-SU. Rate base was established during this transfer proceeding for book value of the property being transferred and did not include the normal ratemaking adjustments of working capital calculations and used and useful adjustments.

North Peninsula has not applied for a staff assisted rate case since the transfer, but has received price index rate increases in 1991, 1992, 1993, 1994, 1995, and 1996. The utility has also received pass-through rate increases in 1993, 1994, 1995, and 1996.

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The utility's 1995 annual report review was the first staff review which showed possible utility overearnings. The annual report reviews for the previous six years showed the following earnings for North Peninsula:

<u>Year</u>	<u>Net Income</u>	<u>Rate of Return</u>
1994	(\$ 6,191)	( 4.31%)
1993	(\$19,899)	(11.51%)
1992	(\$22,469)	( 8.55%)
1991	\$ 4,941	3.95%
1990	(\$24,908)	(21.39%)
1989	\$ 4,016	3.10%

Staff has audited the utility's records for compliance with Commission rules and orders and has determined all components necessary for rate setting. Staff has selected a historical test year ending June 30, 1996. The staff engineer has also conducted a field investigation of the utility's wastewater treatment plant, wastewater collection system, and service area. A review of the utility's operation expenses, maps, and files was also performed to obtain information on the systems and operating costs.

Staff presented a recommendation concerning North Peninsula's overearnings to the Commission at the February 18, 1997 agenda conference. The Commission voted to approve staff's recommendation, finding, among other things, that the utility's wastewater treatment plant is 65% used and useful and the utility's wastewater collection system is 100% used and useful.

Based on comments made at agenda, staff reviewed the used and useful percentages and determined there was an error in the calculations used for staff's recommendation. The purpose of this recommendation is to correct the used and useful percentages and determine the fallout numbers.

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**DISCUSSION OF ISSUES**

**ISSUE 1:** Should the Commission reconsider its previous decision on the wastewater treatment plant used and useful, and if so, what should the used and useful percentage be?

**RECOMMENDATION:** Yes. The Commission should reconsider its decision and allow 91% used and useful for both the wastewater treatment plant and wastewater collection system. (RIEGER)

**STAFF ANALYSIS:** At the February 18, 1997, Agenda Conference, the Commission approved 65% used and useful for the utility's wastewater treatment plant and 100% used and useful for the wastewater collection system. Based on information brought to light by the utility's legal representative at the time of the agenda conference, staff believes it necessary to reconsider its used and useful recommendation for the wastewater treatment plant and wastewater collection system.

The utility's legal representative brought up two concerns. First, the utility contends that staff used an incorrect plant capacity figure. Staff agrees. Staff inadvertently used designed capacity of 210,000 gallons per day rather than permitted capacity of 181,000 gallons per day. The use of permitted plant capacity is consistent with present Commission practice. Although this change would result in a 76% used and useful percentage versus the 65% previously recommended based on plant flows, the utility raises another concern that potentially has a greater impact on the used and useful calculation.

The utility believes it is more appropriate to calculate treatment plant used and useful on the basis of connection capacity of the service area, since the plant was built to serve the existing territory. This was the methodology that staff used and the Commission approved for the collection system. Staff now believes that connection capacity should be used for both the treatment and the collection capacity. However, staff erred in the original assumption that the collection system should be considered 100% used and useful. Although the actual calculation indicated the used and useful for the collection system is 91%, staff rounded to 100%. Since margin reserve was considered in that calculation, it now seems inappropriate to raise the used and useful any further while connection growth potential still exists. Therefore, the use of the 91% number now seems more appropriate.

Although plant flows are normally used in treatment plant used and useful calculations, the Commission has in past cases found it appropriate to approve plant used and useful based on other

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criteria. For example, in Docket No. 940496-WS, J. Swiderski Utilities, Inc., and Docket No. 900749-WS, Century Group Inc. (Arbor Oaks System), the plant used and useful determinations approved by the Commission were based on system connection capacities since these systems were basically built out.

Another reason connection capacity should be used is there is little likelihood of further territorial expansion due to resistance from Volusia County. The County protested a previous request by the utility to amend its territory in Docket No. 930851-SU. The proposed amendment would have potentially added approximately 1,000 equivalent residential connections (ERCS), which included potential new development in the proposed service area and a certain number of existing property owners who were on septic tanks. The utility subsequently filed a request to modify its application limiting its amendment to include only 25 ERCS to its territory. However, continued resistance to the amendment resulted in the utility's withdrawal of the application. Since the County has objected to further expansion of the utility's territory, and areas adjacent to its territory are almost completely developed, staff believes there is little likelihood of further expansion.

In light of the above facts, staff recommends that the Commission reconsider its previous decision and approve a 91% used and useful percentage for both the treatment plant and collection system.

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**ISSUE 2:** If the Commission approves Issue No. 1, what is the fallout on test year figures because of the changes in the used and useful percentages?

**RECOMMENDATION:** If the Commission approves Issue No. 1, test year average rate base should be \$156,217, test year net depreciation should be \$7,041, test year taxes other than income should be \$17,618, and the test year operating income should be \$33,016.  
(CASEY, RIEGER)

**STAFF ANALYSIS:** By changing the used and useful percentages, four test year items will change. First, rate base would increase by \$25,923 to \$156,217, due to the change in non-used and useful plant. Second, net depreciation expense would increase by \$1,955 to \$7,041, due to the non-used and useful test year depreciation and contributions in aid of construction (CIAC) amortization being changed. Third, taxes other than income would increase by \$1,197 to \$17,618, due to ad valorem tax used and useful being changed, and finally the operating income would decrease by \$3,152 to \$33,016 because of the above adjustments.

Staff's recommended rate base is shown on Schedule No. 1 and adjustments are shown on Schedule No. 1A. Staff's recommended net depreciation, taxes other than income, and revenue requirement are shown on Schedule No. 3, and adjustments to operating income are shown on Schedule 3A.

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**RATES AND RATE STRUCTURE**

**ISSUE 3:** Should the utility still be ordered to refund price index and pass-through rate adjustments that were implemented in 1994, 1995 and 1996 after the corrections to the used and useful percentages are made?

**RECOMMENDATION:** Yes. After correcting the used and useful percentages, staff has determined that the utility was still overearning in 1995 and 1996. The index and pass-through rate adjustments should be refunded with interest. The combined refund for 1995 and 1996 is approximately \$21,257 before assessment of interest. These refunds should be made with interest as required by Rule 25-30.360 (4), Florida Administrative Code, within 90 days of the effective date of the order. The utility should be required to submit the proper refund reports pursuant to Rule 25-30.360 (7), Florida Administrative Code. The refund should be made to customers of record as of the date of the Order pursuant to Rule 25-30.360(3), Florida Administrative Code. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code. (CASEY)

**STAFF ANALYSIS:** North Peninsula implemented price index and pass-through rate adjustments on July 30, 1994, August 11, 1995, and September 28, 1996 to represent anticipated increases in operating expenses and to offset allowable pass-through cost increases for the forthcoming years. Those rate adjustments were designed to increase revenues by \$6,559, \$2,024 and \$2,538, respectively, on an annual basis.

Pursuant to Section 367.081(4)(d), Florida Statutes, the Commission may order a utility to refund, with interest, a price index and/or pass-through rate adjustment if, within 15 months after the filing of a utility's annual report, the Commission finds that the utility exceeded the range of its last authorized rate of return on equity after an index and/or pass-through rate adjustment was implemented within the year for which the annual report was filed or was implemented in the preceding year. The utility's 1995 annual report was filed on April 23, 1996. Therefore, July 23, 1997, would be the fifteen-month expiration date of the Commission's allotted term for ordering refunds of index and/or pass-through adjustments. A staff annual report review indicated that the utility achieved a 17.26% return on its 1995 rate base amount. North Peninsula's authorized rate of return has never been set by the Commission. However, a staff audit confirms that the utility's capital structure is 100% debt at a cost of 1 1/2% over prime, with the latest prime rate being 8.25%. Therefore, the utility's overall rate of return should be 9.75%.

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An audit investigation was conducted to determine if actual overearnings occurred in 1995. Staff chose a test year ending June 30, 1996.

After correcting the used and useful percentages, and making applicable adjustments for calendar years, staff calculated the utility December 31, 1995 rate base as \$154,406, operating revenue as \$143,189, and operating expenses as \$110,021. Staff also estimated the utility's December 31, 1996 rate base as \$152,025, operating revenue as \$147,765, and operating expenses as \$113,250. Based on these figures, staff determined that the utility earned a 21.48% return on rate base for 1995 and estimated a 22.70% return on rate base for 1996. Allowing a 9.75% overall rate of return, staff estimates the utility overearned by approximately \$18,967 (13.25%) in 1995 and \$20,620 (13.95%) in 1996.

Based on these results, staff recommends that the price index and pass-through rate increases initiated in 1994 (for 1995 and 1996 income levels), 1995 and 1996 should be refunded with interest based upon staff-calculated income levels in those years. Our review indicates that the 1994 and 1995 index and pass-through adjustments collected in 1995 total approximately \$9,503. This refund is less than the overall decrease (13.25% or \$18,967) that could occur for 1995 and still preserve a 9.75% overall return on rate base. Therefore, the full amount of the 1994 and 1995 index and pass-through rate adjustments are subject to refund for 1995.

Employing average test year conditions for 1996, and annualizing actual operating costs to show expected calendar year amounts, our review indicated that North Peninsula would earn an approximate 22.70% return on rate base. Using a 9.75% overall rate of return, our analysis indicates that the 1994, 1995, and 1996 index and pass-through adjustments collected throughout 1996, or about \$11,752, should be refunded. This refund is also less than the overall decrease (13.95% or \$20,620) that could occur for 1996 and still preserve a 9.75% overall rate of return. Therefore, the full amounts of the 1994, 1995, and 1996 index and pass-through rate adjustments are subject to refund for the year of 1996. In addition, by Order No. PSC-96-1243-FOF-SU, issued October 7, 1996, the Commission required annual wastewater revenues of \$12,311, which included the 1996 index and pass-through increases, to be held subject to refund.

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The following is a yearly breakdown of staff recommended refunds:

<u>Year</u>	<u>Net Income</u>	<u>Rate of Return</u>	<u>Allowable Net Income</u>	<u>Revenue from Index &amp; Pass-Throughs</u>	<u>Refund</u>
1995	\$33,168	21.48%	\$ 15,055	\$ 9,503	\$ 9,503
1996	\$34,515	22.70%	\$ 14,822	\$11,752	\$ 11,752*
1997	\$17,560	11.06%	\$ 15,474	-0-	1.47%**

\* The 1996 refund amount will also include 6.71% of revenues from October 7, 1996 through December 31, 1996 for funds held subject to refund by Order PSC-96-1243-FOF-SU, issued October 7, 1996.

\*\* The 1997 refund amount will be 1.47% of monthly revenues from January 1, 1997 until such time the Commission Order regarding overearnings is final and effective (See Issue No. 4).

Our review clearly shows that the 1994, 1995 and 1996 price index and pass-through rate increases were implemented during a period of utility overearnings. Therefore, staff recommends that the index and pass-through rate increases should be refunded with interest as required by Rule 25-30.360(4), Florida Administrative Code. The utility should be required to submit the proper refund reports pursuant to Rule 25-30.360 (7), Florida Administrative Code, within 90 days of the effective date of the Order. The refund should be made to customers of record as of the date of the Order pursuant to Rule 25-30.360(3), Florida Administrative Code. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

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**ISSUE 4:** Should North Peninsula be ordered to refund revenues collected during the interim collection period?

**RECOMMENDATION:** Yes. After the corrections of the used and useful percentages, our review still indicates that excess earnings were collected during the interim collection period. These amounts should be refunded as provided by Order No. PSC-96-1243-FOF-SU. The refund should be 6.71% of the sales revenues collected from October 7, 1996 through December 31, 1996, and 1.47% of sales revenues from January 1, 1997 until rates are reduced as approved by the Commission. These refunds should be made with interest as required by Section 25-30.360(4), Florida Administrative Code, within 90 days of the effective date of the Order. The refund should be made to customers of record as of the date of the Order pursuant to Rule 25-30.360(3), Florida Administrative Code. The utility should be required to submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code. (CASEY)

**STAFF ANALYSIS:** Pursuant to Order No. PSC-96-1243-FOF-SU, issued October 7, 1996, the Commission initiated an investigation of the rates and charges for North Peninsula. The Commission also declared that \$12,311 of annual utility income would be subject to refund pending the Commission's final determination. The utility provided security through an escrow agreement which holds 8.45% of monthly revenues subject to refund. Our review discloses that excess earnings were present throughout the interim collection period. The amount held subject to refund included the index and pass-through rate increase implemented in 1996. Subtracting that element, which is discussed in Issue No. 3, the recommended refund is 6.71% (recognizing that the other 1.74% of the 8.45% escrow amount is already being taken into account by the requirement that all of the revenues for the 1996 price index and pass-through adjustment be refunded) of the revenues collected from October 7, 1996 through December 31, 1996. These refunds should be made with interest as required by Rule 25-30.360 (4), Florida Administrative Code, within 90 days of the effective date of the Order.

Based upon average conditions for 1996, the overall rate of return would be 9.75%. Our review estimates that North Peninsula would earn a 22.70% return on rate base in 1996 which would result in an approximate 13.95% overearnings situation. Therefore, the refund discussed in Order No. PSC-96-1243-FOF-SU should be invoked. For October 7, 1996 through December 31, 1996, the expected refund amount is \$2,321. That amount was derived by multiplying the October 7, 1996 through December 31, 1996 estimated operating

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revenues (\$34,595) by 6.71% (8.45% less the 1.74% 1996 index and pass-through amount in Issue No. 3).

After the used and useful corrections were made and after making applicable adjustments for a 1997 projected year, staff estimates utility rate base of \$158,709, revenue of \$148,398, and operating expenses of \$130,838. Until the rates are reduced as outlined in Issue No. 5, 1.47% of the revenues collected in 1997 should be refunded with interest under the same conditions as set out for the price index and pass-through. This would allow the utility the opportunity to earn a 9.75% rate of return on a going-forward basis.

In addition to the interim refunds being made with interest as required by Rule 25-30.360(4), Florida Administrative Code, staff is recommending that the refund should be made, within 90 days of the effective date of the Order, to customers of record as of the date of the Order pursuant to Rule 25-30.360(3), Florida Administrative Code and that the utility be required to submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. Also, the utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

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**ISSUE 5:** What are the appropriate rates for North Peninsula?

**RECOMMENDATION:** The utility should reduce wastewater flat rates by \$.38 to reflect the new recommended flat monthly rate of \$25.60. The utility should file revised tariff sheets and a proposed customer notice reflecting the appropriate rates and the reason for the reduction. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (CASEY)

**STAFF ANALYSIS:** Wastewater rates should be reduced by \$2,184 (1.47%) per year, on a going-forward annual basis. This revenue reduction would provide the utility the opportunity to earn a 9.75% rate of return on rate base. Staff calculated this decrease using a projected test year, adjusting revenues and costs, including a new management contract which was effective January 1, 1997, and adjusting for the new recommended used and useful percentages.

In addition to adjusting its wastewater rates, the utility should file revised tariff sheets along with a proposed customer notice reflecting the appropriate rates and the reason for the reduction.

The rates should be effective for service rendered as of the stamped approval date on the tariff sheets provided the customers have received notice. The tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision, that the customer notice is adequate, and that any required security has been provided. The utility should provide proof of the date notice was given within 10 days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge should be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge should be prorated based on the number of days in the billing cycle on or after the effective date of the new rates.

In no event should the rates be effective for service rendered prior to the stamped approval date.

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**ISSUE 6:** Should the utility be required to continue to escrow funds as security?

**RECOMMENDATION:** The utility should escrow 1.47% of its monthly revenues on a going-forward basis, until such time as the Commission's Order regarding overearnings is final and effective.

**STAFF ANALYSIS:** By Order No. PSC-96-1243-FOF-SU, issued October 7, 1996, the Commission ordered an investigation of possible overearnings to be initiated, and required annual wastewater revenues of \$12,311, which included the 1996 index and pass-through increase, to be held subject to refund pending the Commission's final determination. The utility complied by placing \$6,381 of security in an escrow account with Barnett Bank. The \$6,381 represents \$6,156 of security and \$225 of interest, calculated in accordance with Rule 25-30.360, Florida Administrative Code, and assumed a six-month timeframe for the investigation.

Pursuant to Section 367.082, Florida Statutes, when revenues are held subject to refund, the utility is authorized to continue collecting the previously authorized rates. Under the terms of the escrow agreement, which the utility and Barnett Bank signed on October 28, 1996, and in accordance with Order No. PSC-96-1243-FOF-SU, the utility escrowed \$6,381. The utility should maintain in escrow 8.45% of its monthly revenues from October 7, 1996 through December 31, 1996, and 1.47% of its revenues from January 1, 1997 until such time as the Commission Order regarding overearnings is final. The utility should start depositing additional funds once the amount calculated, using the above formula, exceeds the \$6,381 already in the escrow account.

In no instance should the maintenance and administrative costs associated with any refund be borne by the customers. These costs are the responsibility of, and should be borne by, the utility. Also, by no later than the twentieth (20) day of each month, the utility should continue to file a report showing the amount of revenues collected each month and the amount of revenues collected to date relating to the amount subject to refund.

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**ISSUE 7:** Should this docket be closed?

**RECOMMENDATION:** Yes, this docket should be closed if no person, whose interests are substantially affected by the proposed action, files a protest within the 14 day protest period, upon staff's verification that the utility has completed the required refunds and upon the utility's filing of and staff's approval of the proposed customer notice and the revised tariff sheets. If the utility protests any PAA portion(s) of the order, it should be required to submit its prefiled direct testimony at the same time that it files its protest. (CAPELESS, CASEY)

**STAFF ANALYSIS:** If a protest is not received within 14 days of issuance of the Proposed Agency Action order, the order will become final, and the docket may be closed upon staff's verification that the utility has completed the required refunds and upon the utility's filing of and staff's approval of the proposed customer notice and the revised tariff sheets. If the utility protests any PAA portion(s) of the order, it should be required to submit its prefiled direct testimony at the same time that it files its protest.

**NORTH PENINSULA UTILITIES CORPORATION  
 SCHEDULE OF WASTEWATER RATE BASE  
 TEST YEAR ENDING JUNE 30, 1996**

**SCHEDULE NO. 1  
 DOCKET NO. 960984-SU**

	<u>PER UTILITY</u>	<u>STAFF ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER STAFF</u>
UTILITY PLANT IN SERVICE	\$ 781,227	\$ 7,532 A	\$ 788,759
LAND/NON-DEPRECIABLE ASSETS	46,800	0	46,800
NON-USED AND USEFUL PLANT	0	0	0
CIAC	(630,494)	1,150 B	(629,344)
ACCUMULATED DEPRECIATION	(352,175)	14,273 C	(337,902)
AMORTIZATION OF CIAC	267,798	18,490 D	286,288
WORKING CAPITAL ALLOWANCE	0	10,752 E	10,752
<b>WASTEWATER RATE BASE</b>	<b>\$ 113,156</b>	<b>\$ 52,197</b>	<b>\$ 165,353</b>

**NORTH PENINSULA UTILITIES CORPORATION  
ADJUSTMENTS TO RATE BASE  
TEST YEAR ENDING JUNE 30, 1996**

**SCHEDULE NO. 1A  
DOCKET NO. 960984-SU**

	<b>WASTEWATER</b>
<b>A. UTILITY PLANT IN SERVICE</b>	
1. To reflect staff calculated utility plant.	\$ 2,471
2. To reflect averaging adjustment.	(1,235)
3. To include pro forma plant required by DEP.	6,296
	<u>\$ 7,532</u>
<b>B. CONTRIBUTIONS IN AID OF CONSTRUCTION</b>	
1. To reflect an averaging adjustment.	<u>\$ 1,150</u>
<b>C. ACCUMULATED DEPRECIATION</b>	
1. To reflect staff calculated accumulated depreciation.	\$ (3,832)
2. To reflect averaging adjustment.	18,105
	<u>\$ 14,273</u>
<b>D. AMORTIZATION OF CIAC</b>	
1. To reflect staff calculated accumulated amortization.	\$ 33,055
2. To reflect averaging adjustment.	(14,565)
	<u>\$ 18,490</u>
<b>E. WORKING CAPITAL ALLOWANCE</b>	
1. To reflect 1/8 of operation and maintenance expenses.	<u>\$ 10,752</u>

**NORTH PENINSULA UTILITIES CORPORATION  
 SCHEDULE OF CAPITAL STRUCTURE  
 TEST YEAR ENDING JUNE 30, 1996**

**SCHEDULE NO 2  
 DOCKET NO 960984-SU**

	PER UTILITY	STAFF ADJUST TO UTIL BAL	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
LONG-TERM DEBT	\$ 295,000	(129,647)	165,353	100.00%	9.75%	9.75%
COMMON EQUITY	(172,438)	172,438	0	0.00%	11.88%	0.00%
CUSTOMER DEPOSITS	0	0	0	0.00%	6.00%	0.00%
TOTAL	\$ 122,562	42,791	165,353	100.00%		9.75%

**RANGE OF REASONABLENESS**

**LOW HIGH**

**RETURN ON EQUITY**

**10.88% 12.88%**

**OVERALL RATE OF RETURN**

**9.75% 9.75%**

**NORTH PENINSULA UTILITIES CORPORATION  
 SCHEDULE OF WASTEWATER OPERATING INCOME  
 TEST YEAR ENDING JUNE 30, 1996**

**SCHEDULE NO. 3  
 DOCKET NO. 960984-SU**

	<b>TEST YEAR PER UTILITY</b>	<b>STAFF ADJ. TO UTILITY</b>	<b>STAFF ADJUSTED TEST YEAR</b>	<b>ADJUST. FOR INCREASE</b>	<b>TOTAL PER STAFF</b>
<b>OPERATING REVENUES</b>	\$ 143,811	\$ (122) A	\$ 143,689	\$ (16,153) E	\$ 127,536
<b>OPERATING EXPENSES:</b>					
<b>OPERATION AND MAINTENANCE</b>	143,318	(57,304) B	86,014	0	86,014
<b>DEPRECIATION (NET)</b>	1,239	6,260 C	7,499	0	7,499
<b>AMORTIZATION</b>	0	0	0	0	0
<b>TAXES OTHER THAN INCOME</b>	18,866	(238) D	18,628	(727) F	17,901
<b>INCOME TAXES</b>	0	0	0	0	0
<b>TOTAL OPERATING EXPENSES</b>	\$ 163,423	\$ (51,282)	\$ 112,141	\$ (727)	\$ 111,414
<b>OPERATING INCOME/(LOSS)</b>	\$ (19,612)		\$ 31,548		\$ 16,122
<b>WASTEWATER RATE BASE</b>	\$ 113,156		\$ 165,353		\$ 165,353
<b>RATE OF RETURN</b>	<u>-17.33%</u>		<u>19.08%</u>		<u>9.75%</u>

NORTH PENINSULA UTILITIES CORPORATION  
 ADJUSTMENTS TO OPERATING INCOME  
 TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 3A  
 DOCKET NO. 960984-SU

<b>A. OPERATING REVENUES</b>	<b>WASTEWATER</b>
1. To remove non-utility interest income.	\$ (122)
<b>B. OPERATION AND MAINTENANCE EXPENSES</b>	
1. (711) Sludge Removal Expense	
a. To reclassify sludge removal cost from acct # 730.	\$ 5,075
2. (715) Purchased Power	
a. To reclassify utility used water cost to acct # 730.	(2,871)
b. To remove out of period purchased power expense.	(744)
c. To include June 1996 purchased power expense.	869
	\$ (2,746)
3. (718) Chemicals	
a. To reclassify chemical expense from acct # 730.	\$ 624
4. (730) Contractual Services	
a. To reclassify utility used water expense from acct # 715.	\$ 2,871
b. To reclassify sludge removal expense to acct # 711.	(5,075)
c. To reclassify chemical expense to acct # 718.	(624)
d. To reclassify fence repair from acct # 775.	385
e. To amortize \$19,890 of legal expenses over 4 years.	(14,918)
	\$ (17,361)
5. (750) Transportation Expenses	
a. To reclassify transportation expense from acct. No. 775.	\$ 934
b. To remove non-utility portion of transportation expenses.	(2,394)
	\$ (1,460)
6. (775) Miscellaneous Expenses	
a. To reclassify interest expense to acct # 427.	\$ (33,892)
b. To reclassify transportation expense to acct. No. 750.	(934)
c. To disallow \$150 charitable contribution.	(150)
d. To disallow non-verifiable entertainment expense.	(4,637)
e. To reclassify fence repair cost to acct # 730.	(385)
f. To include permit fee amortized over 5 year life.	712
g. To remove non-utility portion of telephone expense.	(2,150)
	\$ (41,436)
	<b>O &amp; M TOTAL</b>
	\$ (57,304)
<b>C. DEPRECIATION NET OF CIAC</b>	
1. To reflect test year net depreciation.	\$ 5,840
2. To include 1 year of depreciation expense on pro forma plant.	420
	\$ 6,260
<b>D. TAXES OTHER THAN INCOME</b>	
1. To reflect 1995 ad valorem taxes at November amounts.	\$ (238)
<b>E. OPERATING REVENUES</b>	
1. To reflect staff's recommended revenue increase	\$ (16,153)
<b>F. TAXES OTHER THAN INCOME</b>	
1. To reflect the additional regulatory assessment fee associated with staff's recommended revenue requirement	\$ (727)

**NORTH PENINSULA UTILITIES CORPORATION  
ANALYSIS OF WASTEWATER OPERATION AND  
MAINTENANCE EXPENSE  
TEST YEAR ENDING JUNE 30, 1996**

**SCHEDULE NO. 3B  
DOCKET NO. 960984-SU**

	TOTAL PER UTIL.	STAFF ADJUST.	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$ 0	\$ 0	\$ 0
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	0	5,075 [1]	5,075
(715) PURCHASED POWER	13,257	(2,746)[2]	10,511
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	0	624 [3]	624
(720) MATERIALS AND SUPPLIES	1,286	0	1,286
(730) CONTRACTUAL SERVICES	72,153	(17,361)[4]	54,792
(740) RENTS	2,504	0	2,504
(750) TRANSPORTATION EXPENSE	4,073	(1,460)[5]	2,613
(755) INSURANCE EXPENSE	1,757	0	1,757
(765) REGULATORY COMMISSION EXPENSE	0	0	0
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	48,288	(41,436)[6]	6,852
	<u>\$ 143,318</u>	<u>\$ (57,304)</u>	<u>\$ 86,014</u>