

STATE OF FLORIDA

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DIVISION OF WATER & WASTEWATER
CHARLES H. HILL
DIRECTOR
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Public Service Commission

May 15, 1997

H. Richard Bowles
Crystal River Utilities, Inc.
P. O. Box 520247
Longwood, Florida 32752

Re: Docket No. 961535-WU - Application for transfer of Certificate No. 53-W in Palm Beach County from Lake Osborne Utilities Company, Inc. to Crystal River Utilities, Inc.

Dear Mr. Bowles:

Please find enclosed various documents that illustrate the rate setting principles adopted for Lake Osborne Utilities Company, Inc. First, a one-page schedule that attempts to show a rate base determination for the year ended 12/31/96 is attached. This document shows how the operating ratio for Lake Osborne was derived. The consequent income condition is then compared with Crystal River's \$125,000 purchase price and estimated return on investment requirement.

A copy of Order No. PSC-96-0357-FOF-WU that approved use of the operating ratio formula is also attached. Finally, the accounting and rate details that were attached to the staff recommendation in Docket No. 950641-WU are enclosed.

As discussed, further review of the revenue production aspects concerning this transfer is needed before preparation of a staff recommendation. Our concern relates to Crystal River's ability to operate this system under adverse financial conditions. Crystal River's ability to operate this system from a technical perspective is not presently disputed.

Respectfully,
Norvell D. Walker
Norvell D. Walker
Accounting Analyst

NDW:ndw
Enclosure

cc: Division of Legal Services (Crosby)
Division of Records and Reporting

- ACK _____
- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG _____
- LEG _____
- LIN _____
- OPC _____
- RCH _____
- SEC 1 _____
- WAS _____
- OTH _____

DOCUMENT NUMBER-DATE

04943 MAY 1997

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PSC-RECORDS/REPORTING

Rate Base Determination for Lake Osborne
 Docket No. 950641 (6/30/95)

	per books	adjust	bal		
Plant in Service	157,545	(39,222)	118,323		
accum depr	(109,624)	5,936	(103,688)	accum depr	(109,624)
CIAC	(19,903)	0	(19,903)	exclude plant	11,748
accum amort	9,932	896	10,828	guideline rates	(5,812)
working capital	37,950	(32,390)	5,560	net bal	<u>(103,688)</u>
rate base	<u>37,950</u>	<u>(32,390)</u>	<u>11,886</u>	accum amort	9,932
			<u>17,446</u>	adjust	896
				net bal	<u>10,828</u>

a) per order 96-0367: adjustment to reflect correction made in Commission Order No. 11967 was -\$39,222 other adjustments concern reclassification of meter installation costs. (-245 and + 346)

Reported Balances per transfer application (12/31/96?)

Plant in Service	158,582
accum depr	(121,457)
CIAC	(19,904)
accum amort	<u>11,922</u>
	<u>29,143</u>

due to remarkable agreement with order before adjustments, "books" were apparently not adjusted to agree with prior rate decision - is audit needed?

	tax details	12/95	Plant
		12/94	158,582
tax return detail -plant at 12/94		diff	<u>157,444</u>
adjustments - prior docket	157,444		1,138
mtce costs	(39,222)		
meter costs	(245)		
6/95 bal	346	12/95	accum depr
	<u>118,323</u>	12/94	117,508
		diff	<u>113,557</u>
			<u>3,951</u>

Revenue Test

revenues actual	91,571	
adjust	2,560	
adjusted balance	94,131	
increase	12,804	13.60%
annual revenues (?)	<u>106,935</u>	

purchase agreement amount

amount	125,000
cash	17,000
debt at 8.25%	108,000
revenues	
COD (at 8.25%)	8,910
COE (say 12.5%)	2,125
ROR	<u>11,035</u>

	operations	w/depr	w/o depr
operations	95,091	95,091	
depr	3,200	0	
taxes OTI	4,952	4,952	
Net Income	<u>103,243</u>	<u>100,043</u>	
	<u>3,692</u>	<u>6,892</u>	

Basis for calculation of projected balance at December 31, 1996

	balance	Add	
Plant in Service	118,323	1,138	119,461
accum depr	(103,688)	(5,826)	(109,514)
CIAC	(19,903)	0	(19,903)
accum amort	10,828	971	11,799
	<u>5,560</u>	<u>(3,717)</u>	<u>1,843</u>

tax return - added in 1995
 depr per #950641 * 18 months (a)
 no change
 amort per #950641 * 18 months

Operating Expenses	
rate docket - expenses	95,091
less purchased water	(58,169)
net expenses	36,922
factor	10%
revenue impact	3,692

(a) - depr includes \$1,138 * depr rate * 1.5 years