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ROBERT M. C. BINE
OF COUNSEL

June 11, 1998

VIA HAND DELIVERY

Ms. Connie L. McCaskill
Florida Public Service Commission
Regulatory Analyst
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0873

Re: North Fort Myers Utility, Inc.
Disposition of Gross-up Monies for Fiscal Year
Ended May 31, 1995 and 1996
Our File No. 16319.29

Dear Connie:

I am attaching hereto a letter prepared by Bob Nixon along with schedules showing what the revised Annual Report information would reflect if the adjustments (which Mr. Nixon has outlined in his letter) are carried over into a revision to the Annual Report. As we at our recent meeting discussed, we do not believe it is worthwhile to go through the cost of revising the annual report to reflect these changes unless that is absolutely necessary for the staff to recognize those expenses which the Utility contends are below the line.

While we still maintain our general position on each of the issues in this case (as outlined in our previous correspondence and as accepted by the Commission in our previous gross-up filings for the years 1987 through 1993), we are willing to make the simple adjustments outlined in Mr. Nixon's June 8th letter in order to attempt to resolve this matter short of hearing. We believe this is a more than reasonable middle-ground in order to avoid a fully contested proceeding before the PSC and/or additional litigation at DOAH based on changes in the "Commission Policies" utilized for this case as compared to previous cases with similar issues.

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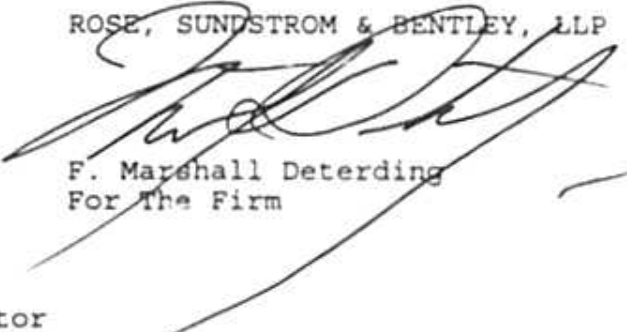
June 11, 1998
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It is my understanding that each of the adjustments outlined herein has previously been discussed at length in prior correspondence and information submitted to the staff. Should you be unable to locate those detailed explanations of each adjustment or should you need any further explanation of the adjustments outlined herein, please let me know. Otherwise, I believe Mr. Nixon's attached schedules fully comply with the information requested by the staff in order to fully evaluate our position on these issues.

Should you have any questions in this regard, please let me know.

Sincerely,

ROSE, SUNDBSTROM & BENTLEY, LLP



F. Marshall Deterding
For The Firm

FMD/tmg

cc: Blanca S. Bayo, Director
Ms. Jackie Gilchrist
Ralph Jaeger, Esquire
Ms. Ann Casseaux
Steve Reilly, Esquire
Mr. Tony Reeves
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June 8, 1998

F. Marshall Deterding, Esquire
Rose, Sundstrom & Bentley
2548 Blairstone Pines Drive
Tallahassee, FL 32301

BY FEDERAL EXPRESS

Re: North Fort Myers Utility, Inc. - Staff Requested Analysis
of Below the Line Adjustments on Rates of Return Shown in
Annual Reports

Dear Marty:

Enclosed is an analysis of the Annual Report information requested
by Staff at our last meeting for 1994 and 1995.

I have reclassified officers' salaries, legal expense, and
amortization of the plant loss below the line, consistent with the
treatment we have always given these expenses in all prior gross-up
reports. As you know, the PSC has issued gross-up refund orders
accepting this treatment from 1987 through 1993.

With regard to the General Manager's salary, I have left 40 percent
of his compensation above the line in recognition that this amount of his
time is devoted to day-to-day operations.

The other adjustment relates to reclassification of the deferred tax
benefit to below the line. As you know, these tax benefits arise from
interest in excess of rate base, non-used and useful depreciation, and
other expenses in excess of those being recovered in rates.

The impact of these adjustments is that the revised rate of return
is still substantially less than that which is authorized (10.80%).

Finally, I have enclosed a schedule which shows the impact of these
adjustments on the proposed gross-up refunds for 1995 and 1996. As you
will note, these changes result in a refund of \$73,367 for 1995 and
\$51,131 for 1996, for a total refund of \$124,498.

F. Marshall Deterding, Esq.
June 8, 1998
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I believe that the enclosed schedules represent a reasonable basis for settlement of these gross-up years and would avoid the need for our amending the 1994 and 1995 Annual Reports.

Should you have questions regarding the enclosed schedules, please contact me.

Very truly yours,

CRONIN, JACKSON, NIXON & WILSON



Robert C. Nixon

RCN/apf

Enclosures

cc: T. Reeves (w/encl.)

North Ft. Myers Utility, Inc.
 Impact of Revising Annual Reports to Reclassify Above the Line (ATL) Expenses to
 Below the Line (BTL) Expenses as Shown on Gross-up Refund Reports
 Calendar Years Ended December 31,

	Annual Report	
	1994	1995
Operating income per Annual Reports as filed	\$ (254,824)	\$ (131,325)
Reclass 60% of General Manager salary BLT (1)	107,058	63,694
Reclass officers' salaries BTL (2)	178,430	173,907
Reclass legal expense BTL (3)	152,480	136,418
Reclass amortization of plant loss BTL (4)	19,524	19,524
Reclass deferred tax benefit BTL (5)	<u>(132,288)</u>	<u>(130,098)</u>
	<u>325,204</u>	<u>263,445</u>
Revised operating income	<u>\$ 70,380</u>	<u>\$ 132,120</u>
Rate base per Annual Reports as filed	<u>\$ 2,151,281</u>	<u>\$ 3,141,456</u>
Rate of return:		
Per Annual Reports as filed	<u>(11.85) %</u>	<u>(4.18) %</u>
As revised per above	<u>3.27 %</u>	<u>4.21 %</u>
Authorized rate of return	<u>10.80 %</u>	<u>10.80 %</u>
Adjustments:		
1. Total "engineering" & testing (A)	\$ 213,669	\$ 143,739
Less: Testing which should be ATL	<u>(35,239)</u>	<u>(37,582)</u>
General Manager's salary	178,430	106,157
Percentage related to BTL activities	<u>0.60</u>	<u>0.60</u>
BTL General Manager's salary	<u>\$ 107,058</u>	<u>\$ 63,694</u>
2. Officers' salaries in ATL expenses	<u>\$ 178,430</u>	<u>\$ 173,907</u>
3. Legal expense in ATL expense	<u>\$ 152,480</u>	<u>\$ 136,418</u>
4. Amortization of plant abandonment loss in ATL expenses	<u>\$ 19,524</u>	<u>\$ 19,524</u>
5. Deferred tax benefit in ATL income	<u>\$ (132,288)</u>	<u>\$ (130,098)</u>
(A) Included in Account 735, Contract Services - Other:		
Testing	\$ 35,239	\$ 37,582
General Manager's salary	178,430	106,157
Other contract maintenance services	<u>4,097</u>	<u>9,475</u>
Total per Annual Report	<u>\$ 217,766</u>	<u>\$ 153,214</u>

North Ft. Myers Utility, Inc
 Revised Gross-up Refund
 Fiscal Years Ended May 31, 1995 and 1996

	Year Ended 05/31/95	Year Ended 05/31/96
Amended above the line loss before CIAC as filed	\$ (28,641)	\$ (25,594)
Adjustments:		
Reclassify "testing to above the line (ATL) (1)	(69,542)	(45,100)
Reclassify 40% of General Manager's salary ATL (2)	<u>(45,987)</u>	<u>(56,645)</u>
Revised loss before CIAC	(144,170)	(127,339)
Taxable CIAC	619,015	1,434,249
	<u>474,845</u>	<u>1,306,910</u>
Less: CIAC not grossed-up	-	(477,842)
First year depreciation on CIAC	<u>(22,120)</u>	<u>(25,196)</u>
Net taxable CIAC	452,725	803,872
Combined effective tax rate	37.63 %	37.63 %
Tax on CIAC	<u>170,360</u>	<u>302,497</u>
Factor for gross-up	<u>1.6033</u>	<u>1.6033</u>
Gross-up required to pay tax	273,138	484,993
Gross-up collected	<u>(355,431)</u>	<u>(546,104)</u>
Excess gross-up collected	(82,293)	(61,111)
Less: 50% of accounting & legal fees	<u>8,926</u>	<u>9,980</u>
Proposed gross-up refund	<u>\$ (73,367)</u>	<u>\$ (51,131)</u>
Total refund both years	<u>\$ (124,498)</u>	
(1) Tax expenses classified as "engineering & testing":		
General Manager's salary	\$ 114,969	\$ 141,613
Testing	46,807	26,996
Plant supplies	<u>22,735</u>	<u>18,104</u>
Total classified as "engineering & testing" for tax	184,511	186,713
Less: General Manager's salary	<u>(114,969)</u>	<u>(141,613)</u>
Total "testing" reclassified ATL	<u>\$ 69,542</u>	<u>\$ 45,100</u>
(2) General Manager's salary (fiscal year)	\$ 114,969	\$ 141,613
Percentage of time devoted to ATL activities	<u>0.40</u>	<u>0.40</u>
Total related to ATL activities	<u>\$ 45,987</u>	<u>\$ 56,645</u>