

REQUEST TO ESTABLISH DOCKET
(PLEASE TYPE)

Date 8/12/98
~~07/31/98~~

Docket No. 981022 - WIS

- 1. Division Name/Staff Name Water and Wastewater/Iwenjiora *[Signature]*
- 2. OPR WAW
- 3. OCR LEG, AFAD
- 4. Suggested Docket Title Disposition of CIAC Gross-up Funds Collected During the Years 12/31/87 Through 12/31/96 by Ortega Utility Company in Duval County.

5. Suggested Docket Mailing List (attach separate sheet if necessary)

- A. Provide NAMES ONLY for regulated companies or ACRONYMS ONLY regulated industries, as shown in Rule 25-22.104, F.A.C.
- B. Provide COMPLETE name and address for all others. (Match representatives to clients.)

1. Parties and their representatives (if any)

<u>Mr. Alan W. Potter, Sr., President</u>	<u>Mr. F. Marshall Deterding</u>
<u>Ortega Utility Company</u>	<u>Rose, Sundstrom & Bentley</u>
<u>905 North Street</u>	<u>2548 Blairstone Pines Drive</u>
<u>Jacksonville, Florida 32211-5793</u>	<u>Tallahassee, Florida 32302-1567</u>
_____	_____
_____	_____
_____	_____

2. Interested Persons and their representatives (if any)

<u>Mr. Jim L. Bowen, CPA</u>	_____
<u>Smoak, Davis & Nixon LLP</u>	_____
<u>1514 Nira Street</u>	_____
<u>Jacksonville, Florida 32207</u>	_____
_____	_____
_____	_____

6. Check one:

- Documentation is attached.
- Documentation will be provided with recommendation.

JUL 16 1998

LAW OFFICES

ROSE, SUNDSTROM & BENTLEY, LLP

2548 BLAIRSTONE PINES DRIVE
TALLAHASSEE, FLORIDA 32301

(850) 877-6555

Florida Public Service Commission
Division of Water and Wastewater

CHRIS H. BENTLEY, P.A.
F. MARSHALL DETERDING
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MAILING ADDRESS
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TALLAHASSEE, FLORIDA 32302-1567

TELECOPIER (850) 656-4029

July 16, 1998

ROBERT M. C. ROSE
OF COUNSEL

VIA HAND DELIVERY

Lila Jaber, Esquire
Division of Legal Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Ortega Utility Company
CIAC Gross-up Reports 1987-1996
Our File No. 33066.01

Dear Lila:

I have been asked by Ortega Utility Company to contact you concerning the ongoing analysis of CIAC gross-up for that Company for the years 1987 through 1996. After detailed analysis of the gross-up collections and filing proposed dispositions of those funds, the Utility has received substantial inquiry from the staff and has now provided complete responses to those inquiries.

One point that must be emphasized is that during the Utility's last rate case in Docket No. 940847-WS, the Public Service Commission established rates for Ortega Utility Company on a going-forward basis to include CIAC gross-up funds as zero cost capital. Also, CIAC gross-up was amortized with an income amount flowed back to customers over the life of the contributed plant. As such, the general body of rate payers of the Utility are receiving full benefit of those monies from the establishment of those rates in 1995. To now return the benefit of those monies to the Developer through the refunds proposed by the staff would be requiring the Utility to pay those monies twice and, therefore, wholly inappropriate. In addition, as noted in the numerous correspondence provided to the staff by Jim Bowen, CPA on behalf of the Utility, there are numerous additional concerns with the staff adjustments to below the line expenses including operation and maintenance, depreciation, interest, and NOLs.

Lila Jaber, Esquire
July 16, 1998
Page 2

We believe that at this point in time it is appropriate to meet with the staff and discuss our concerns and the staff's position on these issues so that we can move forward with the final decision with regard to these issues.

Mr. Nixon and Bowen are currently out on vacation, however, they should both be back in the last week of July

I look forward to hearing from you concerning the scheduling of a mutually agreeable meeting in order to discuss these matters in detail.

Sincerely,

ROSE, SUNDSTROM & BENTLEY, LLP



F. Marshall Deterding
For The Firm

FMD/tmg

cc: Ms. Jennifer Iwenjiora
Connie McCaskill, CPA
Alan W. Potter, Sr.
Jim Bowen, CPA
Robert C. Nixon, CPA

ortega\jaber.ltr

SMOAK, DAVIS & NIXON LLP

CERTIFIED PUBLIC ACCOUNTANTS

1514 NIRA STREET

JACKSONVILLE, FLORIDA 32207

(904) 396-5831

(904) 399-8985 FAX

BEN W. HIGHTOWER, C.R.A.
R. LAVON BURNAM, C.R.A.
JIM L. BOWEN, C.R.A.
JEFFREY L. SHELTON, C.R.A.
EDWARD R. SCHMITZER, C.R.A., P.A.
CALVIN K. STEPHENS, C.R.A., P.A.

PAUL R. SMOAK, C.R.A.
(1989-1985)
JEWELL A. DAVIS, C.R.A.
(1997-1982)
FRANCIS C. NIXON, C.R.A.
(1907-1980)

July 2, 1998

COPY

Ms. Jennifer J. Iwenjiora
Division of Water and Wastewater
Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Ortega Utility Company
CIAC Gross-up Reports 1987-1996

Dear Ms. Iwenjiora:

You requested additional CIAC Gross-Up information in your letter dated April 17, 1998 in order to finalize your calculations. I am providing that information as follows:

1. A copy of the 1986 Federal Income Tax Return is enclosed.
2. All CIAC collections for 1992 - 1996 were grossed-up. MMI Hotel Group paid \$3,926 in gross-up in 1995 related to contributed property of \$6,760 which was accepted and recorded in 1996. The gross-up receivable of \$72,452 from Ortega Bluff at December 31, 1994 was collected in 1995 after net credits of \$5,940 were given for a correction in the gross-up rate. Flourney Construction received a refund of \$12,464 in CIAC and \$7,424 in gross-up in 1994. These amounts were originally collected in 1992. The refund related to a reduction in plant capacity charges for Collins Place Apartments and was netted against other collections in the gross-up report.
3. Nondeductible expenses in 1994 through 1996 relate to key man officer life insurance required by certain bank debt and penalties on underpayment of estimated income taxes. These amounts were not deductible for federal income tax purposes.
4. The gain on disposition of utility property of \$46,851 in 1990 related to a Komatsu Wheel loader and Komatsu Excavator (see attached Form 4797). This equipment was sold when the utility started to subcontract work which was previously done by the utility. This was reported on line 4 of Schedule M-1 of the tax return as income subject to tax not recorded on books this year.

ADMINISTRATION
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July 2, 1998
Ms. Jennifer J. Iwenjiora
Division of Water and Wastewater
Florida Public Service Commission
Page Two

5. Gross sale per amended tax return for 1988 is reconciled to the gross-up report as follows:

Gross sales per amended tax return	545,731
Amount included in other income below-the-line in the gross-up report (part of 14,507) (11,950 + 1,932 + 625 = 14,507)	<u>(11,950)</u>
Gross Sales Per Gross-Up Report	<u><u>533,781</u></u>

This information should cover all the items which you requested in your letter dated April 17, 1998. If you have questions about this information, do not hesitate to call.

I received certain schedules and workpapers from you today which had been previously requested. I will prepare a response to your preliminary analysis of CIAC Gross-Up Refund after I have reviewed this information.

Very truly yours,

SMOAK, DAVIS & NIXON LLP

Jim L. Bowen
Certified Public Accountant

cc: Ms. Connie McCaskill (Florida Public Service Commission)
Mr. Alan W. Potter, Sr. (Ortega Utility Company)
Mr. Marty Deterding (Rose, Sundstrom & Bentley)
Mr. Robert C. Nixon (Cronin, Jackson, Nixon & Wilson)

Commissioners:
JULIA L. JOHNSON, CHAIRMAN
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.



DIVISION OF WATER &
WASTEWATER
CHARLES HILL
DIRECTOR
(850) 413-6900

Public Service Commission

June 26, 1998

Mr. Jim L. Bowen, CPA
Smoak, Davis, and Nixon LLP
1514 Nira Street
Jacksonville, Florida 32207

Dear Mr. Bowen:

Re: Ortega Utility Company - CIAC Gross-up Refund for the period January 1, 1987 through December 31, 1996.

In accordance with your request, enclosed are legible copies of staff's preliminary refund schedules 1-4, Comparative schedules for the years 1987 - 1996 reflecting staff's above-the-line income calculation, and staff's interest and depreciation calculation schedules for 1987 - 1996. Should you have any questions, please contact me at (850) 413-6980.

Sincerely,


Jennifer J. Iwenjiora
Regulatory Analyst

Enclosure (4)

JJI/jji

cc: Division of Water and Wastewater (Hill, McCaskill)
Division of Legal Services (Jaber)
Division of Auditing & Financial Analysis (A. Causseaux)
Mr. Alan W. Potter, Sr.

SMOAK, DAVIS & NIXON LLP

CERTIFIED PUBLIC ACCOUNTANTS

1514 NIRA STREET

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PAUL R. SMOAK, C.P.A.
(1889-1965)
JEWELL A. DAVIS, C.P.A.
(1897-1982)
FRANCIS C. NIXON, C.P.A.
(1907-1980)

May 18, 1998

Mr. Charles Hill
Director, Division of Water & Wastewater
Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Ortega Utility Company – CIAC Gross-Up
Refund 1987-1996

RECEIVED
MAY 20 1998
Florida Public Service Commission
Division of Water & Wastewater

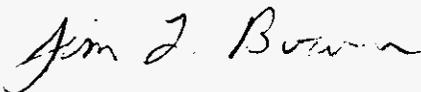
Dear Mr. Hill:

I have reviewed the preliminary analysis of the refund calculation of CIAC Gross-Up for Ortega Utility Company. I have also discussed certain aspects of the calculation with Jennifer Iwenjiora and requested support for certain adjustments.

On behalf of Mr. Potter who is out of town this week, I request an additional thirty days to provide the additional information requested by Ms. Iwenjiora and complete the review of the refund calculation.

Yours very truly,

Smoak Davis & Nixon LLP



Jim L. Bowen, Certified Public Accountant

Copy: Jennifer Iwenjiora
Alan W. Potter, Sr

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ADMINISTRATION
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State of Florida

Commissioners:
JULIA L. JOHNSON, CHAIRMAN
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.



DIVISION OF WATER &
WASTEWATER
CHARLES HILL
DIRECTOR
(850) 413-6900

Public Service Commission

April 17, 1998

Mr. Alan W. Potter, Sr., President
Ortega Utility Company
905 North Street
Jacksonville, Florida 32211-5793

Dear Mr. Potter:

Re: Ortega Utility Company - CIAC Gross-up Refund for the period January 1, 1987 through December 31, 1996.

Pursuant to Order No. PSC-96-0686-FOF-WS, all current Contributions-in-aid-of Construction (CIAC) gross-up cases or any CIAC gross-up cases filed prior to any change in Commission policy, shall be processed under the provisions of Order Nos. 16791 and 23541. Accordingly, we have reviewed the CIAC Gross-up Reports submitted by Ortega Utility Company (Ortega or utility). We are in the process of finalizing our CIAC gross-up refund analysis. Copies of our preliminary analysis of the refund calculation is attached (Schedules 1 - 4).

We made several adjustments to the utility's gross-up refund proposal. These adjustments are discussed below.

A. Operations and Other Deductions: In Ortega's gross-up refund reports, the utility reduced the operations and other deduction expenses to the level approved in its last rate case. In contrast, we believe that all operating expenses except non-utility and non-used and useful expenses should be included above-the-line. Those expenses are utility related and are used in determining whether the utility is exceeding its authorized rate of return for earnings surveillance purposes. The fact that the utility may not be earning within its authorized range should not determine the level of above-the-line expenses for gross-up purposes. The utility has the opportunity to request compensatory rates whenever its revenues fall short of covering its expenses. Therefore, we believe that unless there is evidence that the amounts in the annual reports are unreasonable or an annual report for the tax year does not exist, the above-the-line amounts for CIAC gross-up refund purposes, should reasonably mirror the tax return amounts and the amounts reflected in the utility's annual reports for those years.

B. Interest Expense: In calculating the above-the-line interest expense, the utility reduced its rate base by removing the 1987 rate case pro forma plant additions. Conversely, we do not agree with this adjustment. In order to determine the appropriate adjustment, we need to know was the pro forma plant recognized in the plant-in-service account or CWIP, and included in the rate base calculation for each year. If it was in CWIP we can exclude it, because we don't usually allow CWIP in the rate base calculation. However, whatever year the CWIP was placed into service, it should be included in rate base. For instance in 1991 the utility excluded \$774,973. However, based on the annual report the most the utility should exclude is \$11,444.75 as CWIP and \$6,432 of plant held for future use, plus any other non-used and useful plant. In addition, working capital should also be removed.

In addition, the utility adjusted retained earnings because it stated that it would distort actual excess debt in system that supports losses incurred to date. This adjustment does not reflect the amount reported in the annual report. For CIAC gross-up refund purposes, we believe that retained earnings should reflect the actual balance. Further, as mentioned above, the utilities' annual reports contain the financial information the Commission relies upon to determine the utility's achieved rate of return. Accordingly, we adjusted the above-the-line interest calculation to reflect the retained earnings amounts as reported in the annual reports filed with the Commission.

C. Depreciation Expense: For 1987 through 1993, the utility reduced above-the-line depreciation expense related to utility plant additions that were disallowed as "premature" pro forma additions in its 1987 rate case. In Docket No. 871262-WS, Order No. 21137, issued April 27, 1989 (1987 rate case), the Commission noted that pursuant to Section 367.081(2), F.S., we only consider investment in property required by a duly authorized governmental agency which will be "constructed in the public interest within a reasonable time in the future, not to exceed 24 months." The estimated completion date was beyond the statutory period, therefore the pro forma plant additions were excluded in the rate case. However, for gross-up purposes it is appropriate to include depreciation for the years that the plant was in service. Therefore, we have included tax depreciation expense that relates to these additions. Since for tax purposes, depreciation expense can only be taken on existing plant, we believe that it is reasonable to conclude that the pro forma plant additions were in service in the years that tax depreciation is reflected. As a result, we have increased above-the-line depreciation expense to reflect the amount related to the additional plant.

Another difference was our inclusion of capacity fees in computing the first year depreciation expense for the years 1994 through 1996. The utility did not include the cash CIAC contributions in its 1994 through 1996 calculation of first year depreciation. However, for the year 1987 through 1993, the utility included capacity fees in calculating first year depreciation. By definition (Rule 25-30.515(3), F.A.C.), CIAC charges are intended for plant and are to be utilized for the acquisition, or construction of utility property; therefore, we believe it is appropriate to assume that the cash CIAC was converted into property in determining the amount of first year depreciation expense. As a result, we have increased the first year depreciation expense for the years 1994 through 1996.

D. Meter Fees and Gross-up Interest: The utility included meter fees and gross-up

interest income in its calculation of above-the-line taxable income. However, meter fees were taxable prior to the 1986 amendment of Section 118(b) of the Internal Revenue Code; therefore, for gross-up purposes, meter fees are included below-the-line. Further, interest on gross-up has been consistently excluded from the amount of taxable CIAC and placed below-the-line for gross-up refund purposes. The exclusion of these revenues is consistent with Commission practice. As a result, we have decreased the utility's above-the-line taxable income.

E. CIAC not Grossed-up: In determining taxable CIAC subject to gross-up refund, we removed ineligible CIAC and CIAC that was not grossed-up. We believe that only those contributors that actually paid the gross-up tax on the taxable CIAC that was collected in that year should be included in the pro rata refund distribution.

F. Removal of Nonutility Income: For CIAC gross-up refund dispositions purposes, we classify nonutility income below-the-line.

Before we can finalize our calculations, the following CIAC gross-up information should be provided for the period of January 1, 1986 through December 31, 1996:

1. NOL Carryforward - The utility's gross-up report indicates that the 1986 NOL carryforward relates only to its below-the-line operations. Conversely, we do not agree. For example in 1986, according to utility's gross-up report, \$27,840 of purchased sewage treatment and \$21,211.46 of miscellaneous O&M and wage cost was place below-the-line. However, consistent with our discussion in "A" above, we believe that \$49,051 combined total plus the removal of the \$4,450 meter fees as above-the-line revenue would result in the entire \$52,206 NOL carryforward being classified above-the-line. Nevertheless, please provide a copy of the 1986 tax return.
2. CIAC and Gross-up Collections - For the years 1992 through 1996, please indicate the amount of CIAC collections that was ineligible for gross-up or was not grossed-up. Was all the gross-up billed and/or collected in 1994 related to CIAC that was collected in 1994? 1995? 1996? When did Ortega Bluff pay the \$72,452 gross-up receivable? According to the 1994 annual Report (schedule B, p.F-22) Flournoy Construction (Flournoy) received a \$12,464 refund, however, the schedule does not reflect that Flournoy paid any CIAC in 1994. When was CIAC collected from this developer? Was gross-up collected in association with this collection?
3. Nondeductible Expenses - For 1994 through 1996, why was above-the-line expenses decreased to reflect these nondeductible expenses?
4. Gain on Disposition of Utility property - For 1990, please provide IRS Form 4797 and provide an explanation and/or schedule for including the entire \$46,851 gain above-the-line.

5. Reconciliation of Amended Tax Return to Gross-up Report - For 1988, gross receipts/sales (line 1) reported on the Amended tax return does not agree with the amount reported on the gross-up report. Therefore, please explain and/or reconcile.

We should be able to finalize our analysis and review once this information has been submitted. If you disagree with our preliminary refund calculations, please provide us with supporting documentation and a revised proposed refund calculation.

Please respond by May 18, 1998. Should you have any questions, please contact Jennifer J. Iwenjiora in our office.

Sincerely,



Jennifer J. Iwenjiora
Regulatory Analyst

Enclosures

JJI/jji

cc: Division of Water and Wastewater (McCaskill)
Division of Legal Services (Jaber)
Division of Auditing & Financial Analysis (A. Causseaux)



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: March 3, 1998
TO: Ann Causseaux, Bureau Chief of Financial Analysis
FROM: Jennifer J. Iwenjola, Regulatory Analyst
RE: Ortega Utility Company's Gross-up Disposition Analysis

In the utility's rate case Order No. PSC-95-1376-FOF-WS, Docket No. 940847-WS, issued November 6, 1995, the Commission allowed an adjustment involving the treatment of \$461,477 of gross-up collections. Staff's argued that the utility did not have enough capital to support its rate base. Further, staff stated that negative working capital and the omission of CIAC gross-up almost equalled the difference. The utility had full use of the gross-up collected, whereby, gross-up was used to pay for losses from non-jurisdictional operations; to postpone debt, and for investment in plant; there were no gross-up refunds; and, there was no flow back of the tax-on-tax or benefits of tax depreciation. As a result, an amount was included in the capital structure at zero cost.

Question : For the years 1987 through 1994, how do we determine the amount of gross-up (reflected as deferred taxes in the rate case) that should be reflected in the capital structure to reconcile the rate base to the capital structure? According to the utility's gross-up reports, rate base has exceeded its capital structure. How should we correct this situation based on what was done in the rate case?

cc: Trish Merchant, Public Utilities Supervisor, WAW
Connie L. McCaskill, Public Utilities Supervisor, WAW

State of Florida

Commissioners:

SUSAN F. CLARK
J. TERRY DEASON, CHAIRMAN
JULIA L. JOHNSON
DIANE K. KIESLING
LUIS J. LAUREDO



DIVISION OF WATER &
WASTEWATER
CHARLES HILL
DIRECTOR
(904) 488-8482

Public Service Commission

January 28, 1994

A handwritten signature in black ink, appearing to read "Samuel", written over a horizontal line.

Mr. Alan W. Potter, President
Ortega Utility Company
Encon Bldg., Suite 3
6957 Lillian Road
Jacksonville, Florida 32211-5850

Dear Mr. Potter:

RE: Disposition of CIAC Gross-up Refunds for 1987 Through 1992.

We have reviewed the CIAC gross-up reports as filed for each year 1987 through 1992. Based on our review of the files, staff believes the utility has collected gross-up in excess of the amount of taxes related to the collection of taxable CIAC. A copy of our preliminary analysis of the refund calculation is attached. This calculation is consistent with the calculation adopted by the Commission in Order No. PSC-92-0961-FOF-WS. However, before we can finalized our calculations, the following CIAC gross-up information must be provided for the period of January 1, 1987 through December 31, 1992:

1. Signed copies of the utility's federal and state income tax returns, (Federal and State tax returns filed in connection with CIAC gross-up may be given confidential treatment if filed in accordance with rule 25-22.006, Florida Statutes. Also, provide reconciliation for the taxable income as reported on the Income Tax Returns with the taxable income reflected in the schedules of the CIAC gross-up reports.
2. Workpapers which show the treatment of CIAC on the tax return.
3. Schedule showing the actual tax rate calculation used by the utility to arrive at the combined effective rates.
4. According to the CIAC report (exhibit A, schedule 4, page 8 of 9) for the years ended December 31, 1987, 1988, and 1989 all of the CIAC collected was not grossed-up. Please explain why gross-up was not collected.

Mr. Potter's Letter
January 28, 1994
Page 2

Until data addressing these questions have been received, our calculations cannot be finalized. If you disagree with our preliminary calculations, please provide us with supporting documentation. Company responses to the above questions should be provided no later than February 28, 1994.

Should you have any questions, please contact Jennifer J. Iwenjiora in our office.

Sincerely,



Charles H. Hill, Director
Division of Water and Wastewater

CHH/jji

Enc. (1)

cc: Division of Water and Wastewater (Hill, Mc Caskill, Meador)
Division of Auditing & Financial Analysis (Hicks)

STAFF CALCULATED GROSS-UP REFUND

SOURCE: (Line references are from CIAC Reports)

ORTEGA

	1987	1988	1989	1990	1991	1992
1 Form 1120, Line 30 (Line 15)	\$ 102,026	\$ 61,800	\$ 557,124	\$ 285,774	\$ 103,009	\$ 353,532
2 Less CIAC (Line 7)	(67,438)	(41,387)	(260,260)	(45,288)	(9,663)	(121,610)
3 Less Gross-up collected (Line 19)	(34,445)	(20,195)	(154,121)	(26,828)	(5,758)	(72,420)
4 Add First Year's Depr on CIAC (Line 8)	2,529	1,552	9,760	3,275	362	4,560
5 Add/Less Other Effects (Lines 20 & 21)	(144)	(218)	(4,598)	(1,201)	(227)	(4,138)
6						
7 Adjusted Income Before CIAC and Gross-up	\$ 2,528	\$ 1,552	\$ 147,905	\$ 215,732	\$ 87,723	\$ 159,924
8						
9 Taxable CIAC (Line 7) *amt. grossed-up	\$ 56,793	\$ 33,637	\$ 249,060	\$ 45,288	\$ 9,663	\$ 121,610
10						
11 Taxable CIAC Resulting in a Tax Liability	\$ 56,793	\$ 33,637	\$ 249,060	\$ 45,288	\$ 9,663	\$ 121,610
12 Less first years depr. (Line 8)	(2,130)	(1,261)	(9,340)	(1,698)	(362)	(4,560)
13						
14 Net Taxable CIAC	\$ 54,663	\$ 32,376	\$ 239,720	\$ 43,590	\$ 9,301	\$ 117,050
15 Effective state and federal tax rate	36.91%	20.48%	37.63%	36.34%	26.01%	33.71%
16						
17 Net Income tax on CIAC	\$ 20,176	\$ 6,631	\$ 90,207	\$ 15,841	\$ 2,419	\$ 39,458
18 Less ITC Realized	(14,141)	0	0	0	0	(132)
19						
20 Net Income Tax	\$ 6,035	\$ 6,631	\$ 90,207	\$ 15,841	\$ 2,419	\$ 39,326
21 Expansion Factor for gross-up taxes	1.585037248	1.257545272	1.603334937	1.570845115	1.351533991	1.508523
22						
23 Gross-up Required to pay tax effect	\$ 9,566	\$ 8,339	\$ 144,632	\$ 24,884	\$ 3,269	\$ 59,324
24 Less CIAC Gross-up collected (Line 19)	(34,445)	(20,195)	(154,121)	(26,828)	(5,758)	(72,420)
25						
26 PROPOSED REFUND (excluding interest)	\$ (24,879)	\$ (11,856)	\$ (9,489)	\$ (1,944)	\$ (2,489)	\$ (13,096)
27						
28						
29 TOTAL REFUND	\$ (63,753)					
30						

DIVERSIFIED UTILITY SERVICES, INC.

767 Blanding Boulevard, Suite 106

Orange Park, Florida 32065

Phone (904) 276-2301

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MAY 05 1993

Florida Public Service Commission
Division of Water and Wastewater

April 30, 1993

Ms. Sherry S. Meador
Division of Water & Wastewater
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32399-0850

Re: Extension of time to file 1992 Gross-up Report for Ortega Utility Company.

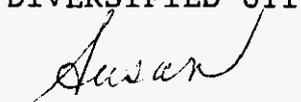
Dear Ms. Meador:

This is to confirm our telephone conversation, April 28, 1993, regarding the extension of time for the 1992 Gross-up Report for Ortega Utility Company.

It is my understanding that the 1992 Gross-up Report can be filed by May 12, 1993, which is the due date on the 1987 through 1991 Gross-up Reports, per your letter of extension dated April 14, 1993.

If you have any questions or require any additional information, please contact me at (904) 276-2301.

Very truly yours,
DIVERSIFIED UTILITY SERVICES, INC.



B. Susan Capley
Treasurer

BSC/am

MHS MAIL 4/24/92 5:15pm
TO: ACAUSSEA @ PSC (Ann Causseaux)
FROM: SMEADOR @ PSC (Sherri Meador)
FWD: ACAUSSEA @ PSC (Ann Causseaux) -> Smeador
CC:
SUBJECT: <None>
MESSAGE-ID: 53AEFB298175B9D1 VIA-HOST: PSC.PSC

MESSAGE:

Question, on the gross up reports, the top part has "total CIAC" and then "CIAC taxable because of Amendment to Section 118" do these totals include the gross-up amounts or are they just the ciac base amount. This company made up their "own" report form, and listed the "line 7 - ciac taxable because of amendment to section 118 as ciac AND gross-up. It makes about 40,000 difference in the refund amount.

Guess who - Ortega

==== Comments by Acaussea===== 4/27/92 7:32am =====
Does not include gross-up--just looking for the CIAC.

ORTEGA UTILITY COMPANY

905 North Street
Jacksonville, Florida 32211-5793
Phone: 904/725-4616

CERTIFIED MAIL NO. P 334 927 219
RETURN RECEIPT REQUESTED

April 21, 1997

RECEIVED

APR 24 1997

Florida Public Service Commission
Division of Water and Wastewater

Ms. Connie L. McCaskill
Supervisor/Limited Filings
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0873

RE: Report required by Order No. 16971 - Status of Gross-Up for Tax Effect of Contributions in Aid of Construction for the year ended December 31, 1996.

Dear Ms. McCaskill:

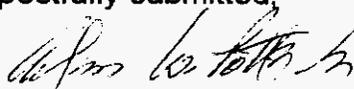
We are enclosing herewith the above referenced analysis of CIAC Gross-up collected and the accountant's calculations which established no refund required covering the year ended December 31, 1996.

On September 20, 1996, Order No. PSC-96-1180-FOF-WS was issued that cancelled the authority to gross up contributions in aid of construction. Prior to that order, the CIAC gross-up rates used by Ortega Utility Company were 58.079% for assets and 60.333% for cash. All necessary refunds per Order No. PSC-96-1180-FOF-WS were made as required. You will note on the enclosed report that the balance in the CIAC escrow account as of December 31, 1996 was zero.

Federal and State income tax returns will be made available for an audit if required. Copies of the tariff pages regarding gross-up are attached.

Questions pertaining to this filing may be directed to either myself or Mr. Jim Bowen, CPA, Smoak, Davis, and Nixon, 1514 Nira Street, Jacksonville, Florida 32207; Phone 904-396-5831.

Respectfully submitted,



Alan W. Potter Sr.
President

ORTEGA UTILITY COMPANY

CIAC Gross-Up Report
Tax Effect of CIAC

Tax Year Ended December 31, 1996

Page 1 of 4

CIAC - total per return		8,236
CIAC - meter connection fees		(525)
CIAC - Gross-Up		<u>(356)</u>
		7,355
Less above-the-line loss (see schedule below)	(1)	-0-
Less tax depreciation on CIAC (first year)	(2)	<u>(254)</u>
Net taxable CIAC		7,101
Effective marginal tax rate	(3)	<u>22.64%</u>
		1,608
Expansion factor (tax on tax effect)	(4)	<u>1.2927</u>
Tax Effect of CIAC		<u>2,079</u>
CIAC Gross-Up collected		<u>356</u>
Refund proposed		<u>-0-</u>

Above-The-Line

(1) <u>Taxable Income - Excluding CIAC</u>		
Federal taxable income		(18,998)
Florida income taxes		1,026
CIAC (excluding connection fees)		(7,355)
CIAC Gross-Up		(356)
Tax depreciation on CIAC		<u>55,257</u>
		<u>29,574</u>

(2) <u>Tax Depreciation on CIAC (First Year)</u>		
Contributed property additions - 1996		6,760
Depreciation rate		<u>.0375</u>
		<u>254</u>

(3) Effective Marginal Tax Rate
The company's effective marginal tax rate on CIAC is 22.64% (see page 2)

(4) Expansion Factor
Expansion factor = $\frac{1}{1 - \text{Tax Rate}}$ = $\frac{1}{1 - .2264}$ = 1.2927

ORTEGA UTILITY COMPANY

CIAC Gross-Up Report
Above-The-Line Tax Liability

Tax Year Ended December 31, 1996

Page 2 of 4

	<u>Including CIAC</u>	<u>Excluding CIAC</u>	<u>Difference</u>
Federal taxable income	(18,998)	(18,998)	-0-
Florida income taxes	1,026	1,026	-0-
CIAC (excluding connection fees)		(7,355)	7,355
CIAC Gross-Up		(356)	356
Tax depreciation on CIAC			
Total - all contributed property	55,257	55,257	-0-
Current year additions	(254)		(254)
Adjusted taxable income	<u>37,031</u>	<u>29,574</u>	<u>7,457</u>
 <u>Florida Taxable Income (Above-The-Line)</u>			
Regular taxable income	37,031	29,574	7,457
Alternative minimum tax preferences	58,807	58,807	-0-
Alternative minimum exemption	(32,780)	(32,780)	-0-
Alternative minimum taxable income	<u>63,058</u>	<u>55,601</u>	<u>7,457</u>
 <u>Florida Income Tax (Above-The-Line)</u>			
Alternative minimum tax at 3.3%	2,081	1,835	246
Emergency excise tax	760	760	-0-
	<u>2,841</u>	<u>2,595</u>	<u>246</u>
 <u>Federal Taxable Income (Above-The-Line)</u>			
Alternative minimum taxable income	63,058	55,601	7,457
Florida income tax	(2,841)	(2,595)	(246)
Alternative minimum taxable income	<u>60,217</u>	<u>53,006</u>	<u>7,211</u>
 <u>Federal Income Tax (Above-The-Line)</u>			
Alternative minimum tax (20%)	12,043	10,601	1,442
	<u>12,043</u>	<u>10,601</u>	<u>1,442</u>
Total Income Taxes (Above-The Line)	<u>14,884</u>	<u>13,196</u>	<u>1,688</u>
Effective Combined Tax Rates	<u>23.60%</u>	<u>23.73%</u>	<u>22.64%</u>

(1)

(1) Effective marginal tax rate on CIAC

ORTEGA UTILITY COMPANY

CIAC Gross-Up Report
Schedule of Income Tax Return Information

Tax Year Ended December 31, 1996

Page 3 of 4

Form 1120 - Page 1

Sales	1,396,617
Interest Income	1,804
Other Income - Taxable CIAC	8,236
Other Income	<u>11,844</u>
Total Income	<u>1,418,501</u>
Compensation of Officers	97,509
Salaries	178,562
Bad Debts	8,088
Rents	4,338
Taxes	159,032
Interest	143,495
Depreciation	209,911
Employee Benefits	49,332
Other Deductions	<u>587,232</u>
Total Deductions	<u>1,437,499</u>
Federal Taxable Income	<u>(18,998)</u>

Form 1120 - Schedule M-1

Net Income Per Books	53,002
Federal Income Tax - Current Year	1,406
Taxable CIAC	8,236
Life Insurance on Officer	10,638
Federal Income Tax - Refund Claim	(6,459)
Stockholder Interest Accrued	35,429
Stockholder Interest Paid	(33,387)
Deferred Income Taxes	25,869
Amortization of ITC	(1,809)
Amortization - CIAC Gross-Up	(20,642)
Depreciation - Tax Over Book	(94,281)
Gain on Disposal of Equipment	<u>3,000</u>
	<u>(18,998)</u>

Tax Computation

Federal Taxable Income	(18,998)
Add Back Florida Income Tax	1,026
Alternative Minimum Tax Preferences	58,807
Alternative Minimum Exemption	<u>(32,780)</u>
Florida Alternative Minimum Taxable Income	<u>8,055</u>
Alternative Minimum Tax (3.3%)	266
Florida Emergency Excise Tax	<u>760</u>
Total Florida Income Tax	<u>1,026</u>
Florida Alternative Minimum Taxable Income	8,055
Florida Income Tax	<u>(1,026)</u>
Federal Alternative Minimum Taxable Income	<u>7,029</u>
Federal Alternative Minimum Tax (20%)	<u>1,406</u>

ORTEGA UTILITY COMPANY

CIAC Gross-Up Report
CIAC Tax Impact Account

Tax Year Ended December 31, 1996

Page 4 of 4

Balance in escrow account 12-31-95	25,130
CIAC Gross-Up billed in 1996 (Net)	356
Interest	648
Estimated tax payments (96)	(11,094)
Transfers - operating account (net)	<u>(15,040)</u>
Balance in escrow account 12-31-96	<u><u>-0-</u></u>

SIXTH REVISED SHEET NO. 20.0
CANCELS FIFTH REVISED SHEET NO. 20.0

COMPANY NAME ORTEGA UTILITY COMPANY
WATER TARIFF

HELD FOR FUTURE USE

EFFECTIVE DATE: October 20, 1996

TYPE OF FILING: Cancellation of Gross-up Tariff Authority

ALAN W. POTTER SR.
ISSUING OFFICER

PRESIDENT
TITLE

SIXTH REVISED SHEET NO. 21.0
CANCELS FIFTH REVISED SHEET NO. 21.0

COMPANY NAME ORTEGA UTILITY COMPANY
WATER TARIFF

HELD FOR FUTURE USE

EFFECTIVE DATE: October 20, 1996

TYPE OF FILING: Cancellation of Gross-up Tariff Authority

ALAN W. POTTER SR.
ISSUING OFFICER

PRESIDENT
TITLE

SIXTH REVISED SHEET NO. 18.0
CANCELS FIFTH REVISED SHEET NO. 18.0

COMPANY NAME ORTEGA UTILITY COMPANY
WASTEWATER TARIFF

HELD FOR FUTURE USE

EFFECTIVE DATE: October 20, 1996

TYPE OF FILING: Correction of Revision Level

ALAN W. POTTER SR.
ISSUING OFFICER

PRESIDENT
TITLE

SIXTH REVISED SHEET NO. 19.0
CANCELS FIFTH REVISED SHEET NO. 19.0

COMPANY NAME ORTEGA UTILITY COMPANY
WASTEWATER TARIFF

HELD FOR FUTURE USE

EFFECTIVE DATE: October 20, 1996

TYPE OF FILING: Correction of Revision Level

ALAN W. POTTER SR.
ISSUING OFFICER

PRESIDENT
TITLE

ORTEGA UTILITY COMPANY

905 North Street
Jacksonville, Florida 32211-5793
Phone: 904 / 725-4616

July 16, 1996

RECEIVED

JUL 18 1996

Florida Public Service Commission
Division of Water and Wastewater

Ms. Connie L. McCaskill
Supervisor/Limited Filings
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0873

RE: Report required by Order No. 16971 - Status of Gross-Up for Tax Effect of Contributions in Aid of Construction for the year ended December 31, 1995.

Dear Ms. McCaskill:

We are enclosing herewith the above referenced analysis of CIAC Gross-up collected and the accountant's calculations which established no refund required covering the year ended December 31, 1995.

The current CIAC Gross-up rates used by Ortega Utility Company are 58.079% for assets and 60.333% for cash. Federal and State income tax returns will be made available for an audit if required. Copies of the tariff pages regarding gross-up are attached.

Questions pertaining to this filing may be directed to either myself or Mr. Jim Bowen, CPA, Smoak, Davis, and Nixon, 1514 Nira Street, Jacksonville, Florida 32207; Phone 904-396-5831.

Respectfully submitted,



Alan W. Potter Sr.
President

AWP S/mgh

Enclosures

REC'D
JUL 18 1996
DIVISION OF WATER AND WASTEWATER
FLORIDA PUBLIC SERVICE COMMISSION

ORTEGA UTILITY COMPANY

CIAC Gross-Up Report
Tax Effect of CIAC

Tax Year Ended December 31, 1995

Page 1 of 5

CIAC - total per return		249,745
CIAC - meter connection fees		(4,709)
CIAC - Gross-Up		<u>(88,151)</u>
		156,885
Less above-the-line loss (see schedule below)	(1)	-0-
Less tax depreciation on CIAC (first year)	(2)	<u>(3,657)</u>
Net taxable CIAC		153,228
Effective marginal tax rate	(3)	<u>41.90%</u>
		64,203
Expansion factor (tax on tax effect)	(4)	<u>1.7212</u>
Tax Effect of CIAC		<u><u>110,506</u></u>
CIAC Gross-Up collected		<u><u>88,151</u></u>
Refund proposed		<u><u>-0-</u></u>

Above-The-Line

(1) <u>Taxable Income - Excluding CIAC</u>		
Federal taxable income		173,960
Florida income taxes		7,508
CIAC (excluding connection fees)		(156,885)
CIAC Gross-Up		<u>(88,151)</u>
Tax depreciation on CIAC		55,139
Below-the-line-operating expenses (page 4)		48,799
Below-the-line interest expense (page 4)		<u>39,663</u>
		<u><u>80,033</u></u>

(2) <u>Tax Depreciation on CIAC (First Year)</u>		
Contributed property additions - 1995		97,527
Depreciation rate		<u>.0375</u>
		<u><u>3,657</u></u>

(3) Effective Marginal Tax Rate
The company's effective marginal tax rate on CIAC is 41.90% (see page 2)

(4) Expansion Factor
Expansion factor = $\frac{1}{1 - \text{Tax Rate}}$ = $\frac{1}{1 - .4190}$ = 1.7212

ORTEGA UTILITY COMPANY

CIAC Gross-Up Report
Above-The-Line Tax Liability

Tax Year Ended December 31, 1995

Page 2 of 5

	<u>Including CIAC</u>	<u>Excluding CIAC</u>	<u>Difference</u>
Federal taxable income	173,960	173,960	-0-
Florida income taxes	7,508	7,508	-0-
CIAC (excluding connection fees)		(156,885)	156,885
CIAC Gross-Up		(88,151)	88,151
Tax depreciation on CIAC			
Total - all contributed property	55,139	55,139	-0-
Current year additions	(3,657)		(3,657)
Below-the-line operating expenses (page 4)	48,799	48,799	-0-
Below-the-line interest expense (page 4)	39,663	39,663	-0-
Adjusted taxable income	<u>321,412</u>	<u>80,033</u>	<u>241,379</u>
 <u>Florida Taxable Income (Above-The-Line)</u>			
Adjusted taxable income	321,412	80,033	241,379
Exemption	(5,000)	(5,000)	-0-
	<u>316,412</u>	<u>75,033</u>	<u>241,379</u>
 <u>Florida Income Tax (Above-The-Line)</u>			
Income tax at 5.5%	17,403	4,127	13,276
EET credit (net)	(2,198)	(2,198)	-0-
	<u>15,205</u>	<u>1,929</u>	<u>13,276</u>
 <u>Federal Taxable Income (Above-The-Line)</u>			
Adjusted taxable income	321,412	80,033	241,379
Florida income tax	(15,205)	(1,929)	(13,276)
	<u>306,207</u>	<u>78,104</u>	<u>228,103</u>
 <u>Federal Income Tax (Above-The-Line)</u>			
15% rate on 50,000	7,500	7,500	-0-
25% rate on 50,000 to 75,000	6,250	6,250	-0-
34% rate on 75,000 to 100,000	8,500	1,055	7,445
39% rate on 100,000 to 335,000	80,421	-0-	80,421
	<u>102,671</u>	<u>14,805</u>	<u>87,866</u>
 <u>Total Income Taxes (Above-The Line)</u>			
	<u>117,876</u>	<u>16,734</u>	<u>101,142</u>
 <u>Effective Combined Tax Rates</u>			
	<u>36.67%</u>	<u>20.91%</u>	<u>41.90%</u>

(1)

(1) Effective marginal tax rate on CIAC

ORTEGA UTILITY COMPANY

CIAC Gross-Up Report
Schedule of Income Tax Return Information

Tax Year Ended December 31, 1995

Page 3 of 5

Form 1120 - Page 1

Sales	1,297,962
Interest Income	623
Other Income - Taxable CIAC	249,745
Other Income	7,731
Total Income	<u>1,556,061</u>
Compensation of Officers	90,604
Salaries	206,971
Bad Debts	11,962
Rents	5,486
Taxes	162,566
Interest	174,757
Depreciation	220,761
Employee Benefits	33,965
Other Deductions	475,029
Total Deductions	<u>1,382,101</u>
Federal Taxable Income	<u>173,960</u>

Form 1120 - Schedule M-1

Net Income Per Books	61,871
Federal Income Tax	51,094
Taxable CIAC	249,745
Life Insurance on Officer	10,638
Penalties	2,240
Stockholder Interest Accrued	39,418
Stockholder Interest Paid	(79,081)
Deferred Income Taxes	(33,231)
Amortization of ITC	(1,809)
Amortization - CIAC Gross-Up	(19,748)
Depreciation - Tax Over Book	(107,177)
	<u>173,960</u>

Tax Computation

Federal Taxable Income	173,960
Add Back Florida Income Tax	7,508
Florida Exemption	(5,000)
Florida Taxable Income	<u>176,468</u>
Florida Income Tax - 5.5%	9,706
Florida EET Credit (Net)	(2,198)
Total Florida Income Tax	<u>7,508</u>
Federal Income Tax (Various Rates)	<u>51,094</u>

ORTEGA UTILITY COMPANY

CIAC Gross-Up Report
Below-The-Line Operating Expenses and Interest

Tax Year Ended December 31, 1995

Page 4 of 5

<u>Below-The-Line Operating Expenses</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Authorized Per Rate Case:			
Operating revenues	538,156	831,429	1,369,585
Operating expenses	<u>436,353</u>	<u>694,520</u>	<u>1,130,873</u>
Operating income	<u>101,803</u>	<u>136,909</u>	<u>238,712</u>
Realized Per Annual Report:			
Operating revenues	545,147	752,815	1,297,962
Operating expenses	<u>452,200</u>	<u>655,849</u>	<u>1,108,049</u>
Operating income	<u>92,947</u>	<u>96,966</u>	<u>189,913</u>
Below-the-line operating expenses limited to operating income not realized	<u>8,856</u>	<u>39,943</u>	<u>48,799</u>

Note: The company had a rate case for the test year ended June 30, 1994 which resulted in Order No. 95-1376 which was issued November 6, 1995. The order provided for an annual increase in operating revenues of \$529 for water and \$90,086 for sewer. The new rates were not in effect until December 1, 1995. Certain operating expenses in 1995 were not covered by the rate structure in effect prior to December 1, 1995 and are considered below-the-line operating expenses.

<u>Below-The-Line Interest Expense</u>	
Stockholder Loans:	
Interest paid and deducted per tax return	79,081
Interest accrued and expensed per annual report	<u>(39,418)</u>
Below-the line- interest expense	<u>39,663</u>

Note: The company deducted interest on stockholder loans when paid for income tax purposes. Therefore a portion of interest deducted in 1995 relates to amounts accrued in prior annual reports when revenues were not adequate to provide authorized operating income and fund payment of stockholder interest or principal.

ORTEGA UTILITY COMPANY

CIAC Gross-Up Report
CIAC Tax Impact Account

Tax Year Ended December 31, 1995

Page 5 of 5

Balance in escrow account 12-31-94	666
CIAC Gross-Up billed in 1995 (Net)	88,151
Interest	225
Bank charges	(15)
Federal estimated tax payments (95)	(68,000)
Transfers - operating account (net)	<u>4,103</u>
Balance in escrow account 12-31-95	<u><u>25,130</u></u>

COMPANY NAME ORTEGA UTILITY COMPANY
WATER TARIFF

TAX GROSS-UP OF CIAC

Prior to the Federal Tax Reform Act of 1986, Section 118(b) of the Internal Revenue Code provided for the exclusion of certain types of Contributions In Aid Of Construction (CIAC) from the taxable income of a corporate utility. Such amounts were, therefore, tax exempt.

However, pursuant to the Federal Tax Reform Act of 1986, Section 118(b) was amended to reclassify CIAC (both cash and property) as a taxable source of revenue, effective January 1, 1987. The net result of this action is that a utility which is a corporation must now pay income taxes on the CIAC it collects.

Since the amount of this additional tax liability is directly attributable to the contributors (developers, builders, etc.) of the CIAC, those utilities that are authorized by the Florida Public Service Commission to collect the tax effect of CIAC are required to collect the amount from those contributors.

By Orders Nos. 16971, 23541, PSC-92-0961-FOF-WS, PSC-92-0961A-FOF-WS, and PSC-94-1265-FOF-WS, the Commission established specific guidelines for a utility to administer in the calculation, collection, and reporting of CIAC tax liabilities as well as in the refunding of excess tax collections:

1) The tax gross-up to be collected shall be determined by using the marginal rate of federal and state corporate income tax related to the value of all property and cash contributions included in the taxable income of the Utility, including the tax applicable to the tax gross-up, or "tax on tax" effect. The first year's tax depreciation on all property contributions shall be used to reduce the tax gross-up collected.

The tax gross-up amount to be collected shall be determined using the following formula:

Full Gross-Up:

Depreciable Plant:

For utilities using straight-line depreciation for tax purposes, the gross-up formula shall be:

$$\left((CP - (CP * (1/TL) * 5)) * CTR \right) * (1/(1-CTR))$$

For utilities using an accelerated rate of depreciation for tax purposes, the gross-up formula shall be:

$$\left((CP - (CP * AR)) * CTR \right) * (1/(1-CTR))$$

EFFECTIVE DATE: DECEMBER 15, 1994

ALAN W. POTTER SR.
ISSUING OFFICER

TYPE OF FILING: CIAC GROSS-UP

PRESIDENT
TITLE

COMPANY NAME ORTEGA UTILITY COMPANY
WATER TARIFF

For land (and cash), the gross-up formula shall be:

$$\frac{CL * CTR}{1 - CTR}$$

Where:

CP	=	Contributed plant
TL	=	Tax life for contributed plant
AR	=	Accelerated tax depreciation rate
CTR	=	Combined federal and state income tax rate
CL	=	Contributed land (and cash)

2) The CIAC tax gross-up amounts, as determined by using the appropriate formula, shall be deposited as received into a fully funded interest bearing escrow account, hereinafter referred to as the "CIAC Tax Account." Monies in the CIAC Tax Account may be withdrawn periodically for the purpose of paying that portion of the estimated Federal and State income tax liability which is directly attributable to the CIAC conveyed to the utility. Annually, following the preparation and filing of the utility's annual Federal and State income tax returns, a determination shall be made by the Commission as to the actual Federal and State income tax liability that is directly attributable to the receipt of CIAC. CIAC tax gross-up monies received during the tax year that are in excess of the actual amount of CIAC tax liability, including interest earned on such excess monies, shall be refunded on a pro rata basis to the contributors of the CIAC. The utility shall maintain adequate records to account for the receipt, deposit, and withdrawal of monies in the CIAC Tax Account. A detailed statement of the CIAC tax account and the annual determination of actual tax liability attributable to the receipt of CIAC shall be submitted no later than 120 days after the date of filing of the tax return for the applicable year. The Utility shall submit all information in accordance with the requirements established by the Commission.

3) The amount of CIAC tax monies collected by a utility shall not be treated as CIAC for ratemaking purposes.

All developer agreements in which CIAC tax monies are required shall indicate the amount of such monies separately from any other CIAC amounts required, as well as the Tax Gross-Up formula utilizing the appropriate values. The agreement shall reflect that the authority for the collection of CIAC gross-up derives from this tariff.

EFFECTIVE DATE: DECEMBER 15, 1994

ALAN W. POTTER SR.
ISSUING OFFICER

TYPE OF FILING: CIAC GROSS-UP

PRESIDENT
TITLE

COMPANY NAME ORTEGA UTILITY COMPANY
WASTEWATER TARIFF

TAX GROSS-UP OF CIAC

Prior to the Federal Tax Reform Act of 1986, Section 118(b) of the Internal Revenue Code provided for the exclusion of certain types of Contributions In Aid Of Construction (CIAC) from the taxable income of a corporate utility. Such amounts were, therefore, tax exempt.

However, pursuant to the Federal Tax Reform Act of 1986, Section 118(b) was amended to reclassify CIAC (both cash and property) as a taxable source of revenue, effective January 1, 1987. The net result of this action is that a utility which is a corporation must now pay income taxes on the CIAC it collects.

Since the amount of this additional tax liability is directly attributable to the contributors (developers, builders, etc.) of the CIAC, those utilities that are authorized by the Florida Public Service Commission to collect the tax effect of CIAC are required to collect the amount from those contributors.

By Orders Nos. 16971, 23541, PSC-92-0961-FOF-WS, PSC-92-0961A-FOF-WS, and PSC-94-1265-FOF-WS, the Commission established specific guidelines for a utility to administer in the calculation, collection, and reporting of CIAC tax liabilities as well as in the refunding of excess tax collections:

1) The tax gross-up to be collected shall be determined by using the marginal rate of federal and state corporate income tax related to the value of all property and cash contributions included in the taxable income of the Utility, including the tax applicable to the tax gross-up, or "tax on tax" effect. The first year's tax depreciation on all property contributions shall be used to reduce the tax gross-up collected.

The tax gross-up amount to be collected shall be determined using the following formula:

Full Gross-Up:

Depreciable Plant:

For utilities using straight-line depreciation for tax purposes, the gross-up formula shall be:

$$((CP - (CP * (1/TL) * .5)) * CTR) * (1/(1-CTR))$$

For utilities using an accelerated rate of depreciation for tax purposes, the gross-up formula shall be:

$$((CP - (CP * AR)) * CTR) * (1/(1-CTR))$$

EFFECTIVE DATE: DECEMBER 15, 1994

ALAN W. POTTER SR.
ISSUING OFFICER

TYPE OF FILING: CIAC GROSS-UP

PRESIDENT
TITLE

COMPANY NAME ORTEGA UTILITY COMPANY
WASTEWATER TARIFF

For land (and cash), the gross-up formula shall be:

$$(CL * CTR) * (1/(1-CTR))$$

Where:

CP	=	Contributed plant
TL	=	Tax life for contributed plant
AR	=	Accelerated tax depreciation rate
CTR	=	Combined federal and state income tax rate
CL	=	Contributed land (and cash)

2) The CIAC tax gross-up amounts, as determined by using the appropriate formula, shall be deposited as received into a fully funded interest bearing escrow account, hereinafter referred to as the "CIAC Tax Account." Monies in the CIAC Tax Account may be withdrawn periodically for the purpose of paying that portion of the estimated Federal and State income tax liability which is directly attributable to the CIAC conveyed to the utility. Annually, following the preparation and filing of the utility's annual Federal and State income tax returns, a determination shall be made by the Commission as to the actual Federal and State income tax liability that is directly attributable to the receipt of CIAC. CIAC tax gross-up monies received during the tax year that are in excess of the actual amount of CIAC tax liability, including interest earned on such excess monies, shall be refunded on a pro rata basis to the contributors of the CIAC. The utility shall maintain adequate records to account for the receipt, deposit, and withdrawal of monies in the CIAC Tax Account. A detailed statement of the CIAC tax account and the annual determination of actual tax liability attributable to the receipt of CIAC shall be submitted no later than 120 days after the date of filing of the tax return for the applicable year. The Utility shall submit all information in accordance with the requirements established by the Commission.

3) The amount of CIAC tax monies collected by a utility shall not be treated as CIAC for ratemaking purposes.

All developer agreements in which CIAC tax monies are required shall indicate the amount of such monies separately from any other CIAC amounts required, as well as the Tax Gross-Up formula utilizing the appropriate values. The agreement shall reflect that the authority for the collection of CIAC gross-up derives from this tariff.

EFFECTIVE DATE: DECEMBER 15, 1994

ALAN W. POTTER SR.
ISSUING OFFICER

TYPE OF FILING: CIAC GROSS-UP

PRESIDENT
TITLE

ORTEGA UTILITY COMPANY

905 North Street
Jacksonville, Florida 32211-5793
Phone 904/725-4616

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FLORIDA PUBLIC
SERVICE COMMISSION

Florida Public Service Commission
Division of Water and Wastewater

November 13, 1995

Ms. Connie L. McCaskill, Supervisor/Limited Filings
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

RE: Report required by Order No. 16971 - Status of Gross-Up for Tax Effect of
Contributions in Aid of Construction for the year ended December 31, 1994.

Dear Ms. McCaskill:

We are enclosing herewith the above referenced report covering the year ended
December 31, 1994.

Questions pertaining to this filing may be directed to either myself or Mr. Jim L. Bowen,
CPA, Smoak, Davis, and Nixon, 1514 Nira Street, Jacksonville, Florida 32207; Phone
904-396-5831.

Very truly yours,


Alan W. Potter, Sr.
President

AWP S/mgh

Enclosures

NOTICE

January 31, 1995

TO: Mr. Alan Potter, President
~~Ortega Utility Company~~ Ortega Utility Company
~~Incon building, Suite 3~~ 905 North Street
~~6957 Lillian Road~~ Jacksonville, Florida 32211-5793

FROM: CHARLES H. HILL, DIRECTOR, DIVISION OF WATER AND WASTEWATER

RE: REPORT REQUIRED BY ORDER NO. 16971 - STATUS OF GROSS UP FOR TAX EFFECT OF CONTRIBUTIONS IN AID OF CONSTRUCTION

Orders Nos. 16971 and 24129 required utilities who have requested and obtained approval to gross up the tax effect of CIAC to submit the following information:

- (1) a detailed statement of the CIAC tax impact account;
- (2) signed copies of the utility's Federal and State income tax returns or complete the attached CIAC report (provided signed copies of your tax return are available to staff upon request for review and audit); and
- (3) workpapers which show the treatment of CIAC on the tax returns.

In addition, please provide the following information:

- (1) the actual above-the-line tax liability before the effect of CIAC is taken into consideration;
- (2) the actual above-the-line tax liability after the effect of CIAC is taken into consideration;
- (3) the amount of CIAC collected for the reporting period;
- (4) the amount of gross-up collected for the reporting period;
- (5) calculation of the amount of over or under collection of CIAC gross-up;
- (6) the proposed amount of refund and interest, if any; and
- (7) the proposed method of refund.

Please send the above information to the following address:

Connie L. McCaskill, Supervisor/Limited Filings
Florida Public Service Commission
101 East Gaines Street
Tallahassee, FL 32399-0873

If you are not currently grossing up for CIAC or have never grossed up, please check the box below and sign and return this page only. Facsimile copies do not satisfy the filing requirements.

The report is a public document under the statutes. Requests for confidential treatment must be made in accordance with the provisions of Rule 25-22.006, Florida Administrative Code, Confidential Information. Only (1) copy of the tax return should be filed, directly with the Division of Records and Reporting. The report is due no later than 120 days after Federal and State tax returns for 1994 have been filed.

If you have any questions, call Connie McCaskill at (904) 488-8482.

This utility does not gross up.

Dated this 13th day of Nov., 1995

Company Official and Title

ALAN W. POTTER SR., PRESIDENT

CIAC REPORT
 FOR TAX RETURN YEAR ENDED December 31, 19 94

COMPANY: ORTEGA UTILITY COMPANY

	<u>TOTAL</u> <u>COMPANY</u>	<u>NON</u> <u>JURISDICTIONAL</u>	<u>JURISDICTIONAL</u>
1. Total CIAC	\$	\$	\$
2. Total Connection Fees	()	()	()
3. Total Installation Fees	()	()	()
4. Total Prepaid Connection Fees (not in (2))	()	()	()
5. Total Tap-in Fees	()	()	()
6. Total Jack & Bore Fees	()	()	()
7. CIAC Taxable Because of Amendment to Section 118	\$	\$	\$
8. Depreciation on (7)	()	()	()
9. Taxable Income Effect of (7)	<u>\$</u>	<u>\$</u>	<u>\$</u>
10. Form 1120, Line 11	\$	\$	\$
11. LESS: Form 1120, Line 27	()	()	()
12. Form 1120, Line 28	\$	\$	\$
13. LESS: Form 1120, Line 29a	()	()	()
14. LESS: Form 1120, Line 29b	()	()	()
15. Form 1120, Line 30	\$	\$	\$
16. LESS: Net CIAC Taxable Because of TRA '36 (from Line (9))	()	()	()
17. PLUS(LESS): Other CIAC Effects of TRA '36 (attached)	_____	_____	_____
18. Adjusted Form 1120, Line 30	<u>\$</u>	<u>\$</u>	<u>\$</u>
Current Combined Federal & State Tax Rate _____%			
19. CIAC Gross-up Collections	\$	\$	\$
20. CIAC Gross-up Refunds	()	()	()
21. Interest on gross-up collections, net of tax	_____	_____	_____
22. Net CIAC Gross-up To Be Applied To Line (9)	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ (1)</u>

CIAC Gross-up Rate Used _____% Assets: 58.079%; Cash 60.333%

- (1) See attached 4 page schedule for analysis of CIAC Gross-up collected and calculated proposed refund for the year ended December 31, 1994.
- (2) Tax returns will be made available for audit if required.
- (3) Copies of tariff pages regarding gross-up are attached hereto.

ORTEGA UTILITY COMPANY

CIAC Gross-Up Report
Tax Effect of CIAC

Tax Year Ended December 31, 1994

Page 1 of 4

CIAC - total per return		268,765
CIAC - meter connection fees		(4,425)
CIAC - Gross-Up		<u>(100,481)</u>
		163,859
Less above-the-line loss (see schedule below)	(1)	-0-
Less tax depreciation on CIAC (first year)	(2)	<u>(3,493)</u>
Net taxable CIAC		160,366
Effective marginal tax rate	(3)	<u>42.12%</u>
		67,546
Expansion factor (tax on tax effect)	(4)	<u>1.7277</u>
Tax Effect of CIAC		<u>116,699</u>
CIAC Gross-Up collected		<u>100,481</u>
Refund proposed		<u>-0-</u>

Above-The-Line

(1) <u>Taxable Income - Excluding CIAC</u>		
Federal taxable income		288,923
Florida income taxes		<u>15,606</u>
		304,529
CIAC (excluding connection fees)		(163,859)
CIAC Gross-Up		<u>(100,481)</u>
Tax depreciation on CIAC		51,678
		<u>91,867</u>

(2) <u>Tax Depreciation on CIAC (First Year)</u>		
Contributed property additions - 1994		93,145
Depreciation rate		<u>.0375</u>
		<u>3,493</u>

(3) Effective Marginal Tax Rate
The company's effective marginal tax rate on CIAC is 42.12% (See Page 2 of 4)

(4) Expansion Factor
Expansion factor = $\frac{1}{1 - \text{Tax Rate}}$ = $\frac{1}{1 - .4212}$ = 1.7277

ORTEGA UTILITY COMPANY

CIAC Gross-Up Report
Schedule of Income Tax Return Information

Tax Year Ended December 31, 1994

Page 3 of 4

Form 1120 - Page 1

Sales	1,246,647
Interest Income	843
Other Income - Taxable CIAC	268,765
Other Income	<u>3,123</u>
Total Income	<u>1,519,378</u>
Compensation of Officers	86,509
Salaries	164,325
Bad Debts	7,594
Rents	4,599
Taxes	173,229
Interest	110,807
Depreciation	211,950
Advertising	238
Employee Benefits	29,725
Other Deductions	<u>441,479</u>
Total Deductions	<u>1,230,455</u>

Federal Taxable Income 288,923

Form 1120 - Schedule M-1

Net Income Per Books	62,669
Federal Income Tax	95,930
Taxable CIAC	268,765
Gain on Sale of Vehicle	500
Life Insurance on Officer	10,638
Penalties	5,610
Stockholder Interest Accrued	33,575
Stockholder Interest Paid	(7,412)
Deferred Income Taxes	(66,505)
Amortization of ITC	(997)
Depreciation - Tax Over Book	<u>(113,850)</u>
	<u>288,923</u>

Tax Computation

Federal Taxable Income	288,923
Add Back Florida Income Tax	15,606
Florida Exemption	<u>(5,000)</u>
Florida Taxable Income	<u>299,529</u>

Florida Income Tax - 5.5%	16,474
Florida EET Credit (Net)	<u>(868)</u>
Total Florida Income Tax	<u>15,606</u>

Federal Income Tax (Various Rates) 95,930

COMPANY NAME ORTEGA UTILITY COMPANY
WATER TARIFF

TAX GROSS-UP OF CIAC

Prior to the Federal Tax Reform Act of 1986, Section 118(b) of the Internal Revenue Code provided for the exclusion of certain types of Contributions In Aid Of Construction (CIAC) from the taxable income of a corporate utility. Such amounts were, therefore, tax exempt.

However, pursuant to the Federal Tax Reform Act of 1986, Section 118(b) was amended to reclassify CIAC (both cash and property) as a taxable source of revenue, effective January 1, 1987. The net result of this action is that a utility which is a corporation must now pay income taxes on the CIAC it collects.

Since the amount of this additional tax liability is directly attributable to the contributors (developers, builders, etc.) of the CIAC, those utilities that are authorized by the Florida Public Service Commission to collect the tax effect of CIAC are required to collect the amount from those contributors.

By Orders Nos. 16971, 23541, PSC-92-0961-FOF-WS, PSC-92-0961A-FOF-WS, and PSC-94-1265-FOF-WS, the Commission established specific guidelines for a utility to administer in the calculation, collection, and reporting of CIAC tax liabilities as well as in the refunding of excess tax collections:

1) The tax gross-up to be collected shall be determined by using the marginal rate of federal and state corporate income tax related to the value of all property and cash contributions included in the taxable income of the Utility, including the tax applicable to the tax gross-up, or "tax on tax" effect. The first year's tax depreciation on all property contributions shall be used to reduce the tax gross-up collected.

The tax gross-up amount to be collected shall be determined using the following formula:

Full Gross-Up:

Depreciable Plant:

For utilities using straight-line depreciation for tax purposes, the gross-up formula shall be:

$$((CP - (CP * (1/TL) * .5)) * CTR) * (1/(1-CTR))$$

For utilities using an accelerated rate of depreciation for tax purposes, the gross-up formula shall be:

$$((CP - (CP * AR)) * CTR) * (1/(1-CTR))$$

EFFECTIVE DATE: DECEMBER 15, 1994

ALAN W. POTTER SR.
ISSUING OFFICER

TYPE OF FILING: CIAC GROSS-UP

PRESIDENT
TITLE

COMPANY NAME ORTEGA UTILITY COMPANY
WATER TARIFF

For land (and cash), the gross-up formula shall be:

$$(CL * CTR) * (1 / (1 - CTR))$$

Where:

CP = Contributed plant
TL = Tax life for contributed plant
AR = Accelerated tax depreciation rate
CTR = Combined federal and state income tax rate
CL = Contributed land (and cash)

2) The CIAC tax gross-up amounts, as determined by using the appropriate formula, shall be deposited as received into a fully funded interest bearing escrow account, hereinafter referred to as the "CIAC Tax Account." Monies in the CIAC Tax Account may be withdrawn periodically for the purpose of paying that portion of the estimated Federal and State income tax liability which is directly attributable to the CIAC conveyed to the utility. Annually, following the preparation and filing of the utility's annual Federal and State income tax returns, a determination shall be made by the Commission as to the actual Federal and State income tax liability that is directly attributable to the receipt of CIAC. CIAC tax gross-up monies received during the tax year that are in excess of the actual amount of CIAC tax liability, including interest earned on such excess monies, shall be refunded on a pro rata basis to the contributors of the CIAC. The utility shall maintain adequate records to account for the receipt, deposit, and withdrawal of monies in the CIAC Tax Account. A detailed statement of the CIAC tax account and the annual determination of actual tax liability attributable to the receipt of CIAC shall be submitted no later than 120 days after the date of filing of the tax return for the applicable year. The Utility shall submit all information in accordance with the requirements established by the Commission.

3) The amount of CIAC tax monies collected by a utility shall not be treated as CIAC for ratemaking purposes.

All developer agreements in which CIAC tax monies are required shall indicate the amount of such monies separately from any other CIAC amounts required, as well as the Tax Gross-Up formula utilizing the appropriate values. The agreement shall reflect that the authority for the collection of CIAC gross-up derives from this tariff.

EFFECTIVE DATE: DECEMBER 15, 1994

ALAN W. POTTER SR.
ISSUING OFFICER

TYPE OF FILING: CIAC GROSS-UP

PRESIDENT
TITLE

COMPANY NAME ORTEGA UTILITY COMPANY
WASTEWATER TARIFF

TAX GROSS-UP OF CIAC

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$$((CP - (CP * AR)) * CTR) * (1/(1-CTR))$$

EFFECTIVE DATE: DECEMBER 15, 1994

ALAN W. POTTER SR.
ISSUING OFFICER

TYPE OF FILING: CIAC GROSS-UP

PRESIDENT
TITLE

COMPANY NAME ORTEGA UTILITY COMPANY
WASTEWATER TARIFF

For land (and cash), the gross-up formula shall be:

$$\frac{CL \cdot CTR}{1 - CTR}$$

Where:

CP	=	Contributed plant
TL	=	Tax life for contributed plant
AR	=	Accelerated tax depreciation rate
CTR	=	Combined federal and state income tax rate
CL	=	Contributed land (and cash)

2) The CIAC tax gross-up amounts, as determined by using the appropriate formula, shall be deposited as received into a fully funded interest bearing escrow account, hereinafter referred to as the "CIAC Tax Account." Monies in the CIAC Tax Account may be withdrawn periodically for the purpose of paying that portion of the estimated Federal and State income tax liability which is directly attributable to the CIAC conveyed to the utility. Annually, following the preparation and filing of the utility's annual Federal and State income tax returns, a determination shall be made by the Commission as to the actual Federal and State income tax liability that is directly attributable to the receipt of CIAC. CIAC tax gross-up monies received during the tax year that are in excess of the actual amount of CIAC tax liability, including interest earned on such excess monies, shall be refunded on a pro rata basis to the contributors of the CIAC. The utility shall maintain adequate records to account for the receipt, deposit, and withdrawal of monies in the CIAC Tax Account. A detailed statement of the CIAC tax account and the annual determination of actual tax liability attributable to the receipt of CIAC shall be submitted no later than 120 days after the date of filing of the tax return for the applicable year. The Utility shall submit all information in accordance with the requirements established by the Commission.

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EFFECTIVE DATE: DECEMBER 15, 1994

ALAN W. POTTER SR.
ISSUING OFFICER

TYPE OF FILING: CIAC GROSS-UP

PRESIDENT
TITLE

ORTEGA UTILITY COMPANY

905 NORTH STREET
JACKSONVILLE, FLORIDA 32211-5793

PHONE 904 / 725-4616

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JUN 6 1994

June 3, 1994

Florida Public Service Commission
Division of Water and Wastewater

Ms. Connie McCaskill, Supervisor Limited Filings
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32399-0873

Re: Report required by Order No. 16971 - Status of Gross-Up for
Tax Effect of Contributions in Aid of Construction for the
year ended December 31, 1993.

Dear Ms. McCaskill:

We are enclosing herewith the above referenced report covering
the year ended December 31, 1993.

As you may know, Ortega Utility Company has been in an under-
earning situation for several years. This has complicated our
financial situation and we are not in a position to make a refund
to the developers. Therefore, we again request that any refund
be applied as a contribution in aid of construction item, rather
than a required refund.

Questions pertaining to this filing may be directed to either
myself or Ray O. Avery, Diversified Utility Services, Inc., 767
Blanding Boulevard, Suite 106, Orange Park, Florida 32065.

Very truly yours,


Alan W. Potter, Sr.
President

AWP/amh

SEARCHED
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JUN 10 1994
FBI - JACKSONVILLE

NOTICE

January 20, 1994

TO: Mr. Alan Potter, President
Ortega Utility Company
Encon building, Suite 3
6957 Lillian Road
Jacksonville, FL 32211-5850

FROM: CHARLES H. HILL, DIRECTOR, DIVISION OF WATER AND WASTEWATER *CHA*

RE: REPORT REQUIRED BY ORDER NO. 16971 - STATUS OF GROSS UP FOR TAX EFFECT OF CONTRIBUTIONS IN AID OF CONSTRUCTION

Orders Nos. 16971 and 24129 required utilities who have requested and obtained approval to gross up the tax effect of CIAC to submit the following information:

- (1) a detailed statement of the CIAC tax impact account;
- (2) signed copies of the utility's Federal and State income tax returns or complete the attached CIAC report (provided signed copies of your tax return are available to staff upon request for review and audit); and
- (3) workpapers which show the treatment of CIAC on the tax returns.

In addition, please provide the following information:

- (1) the actual above-the-line tax liability before the effect of CIAC is taken into consideration;
- (2) the actual above-the-line tax liability after the effect of CIAC is taken into consideration;
- (3) the amount of CIAC collected for the reporting period;
- (4) the amount of gross-up collected for the reporting period;
- (5) calculation of the amount of over or under collection of CIAC gross-up;
- (6) the proposed amount of refund and interest, if any; and
- (7) the proposed method of refund.

Please send the above information to the following address:

Connie L. McCaskill, Supervisor/Limited Filings
Florida Public Service Commission
101 East Gaines Street
Tallahassee, FL 32399-0873

If you are not currently grossing up for CIAC or have never grossed up, please check the box below and sign and return this page only. Facsimile copies do not satisfy the filing requirements.

The report is a public document under the statutes. Requests for confidential treatment must be made in accordance with the provisions of Rule 25-22.006, Florida Administrative Code, Confidential Information. Only (1) copy of the tax return should be filed, directly with the Division of Records and Reporting.

The report is due thirty (30) days after Federal and State tax returns for 1993 have been filed.

If you have any questions, call Connie McCaskill at (904) 488-8482.

This utility does not gross up.

Dated this 3rd day of June, 1994

Alan Potter, Jr.
Company Official and Title

CIAC REPORT
 FOR TAX RETURN YEAR ENDED DECEMBER, 31, 19 93

COMPANY: ORTEGA UTILITY COMPANY

	<u>TOTAL</u> <u>COMPANY</u>	<u>NON</u> <u>JURISDICTIONAL</u>	<u>JURISDICTIONAL</u>
1. Total CIAC	\$	\$	\$
2. Total Connection Fees	()	()	()
3. Total Installation Fees	()	()	()
4. Total Prepaid Connection Fees (not in (2))	()	()	()
5. Total Tap-in Fees	()	()	()
6. Total Jack & Bore Fees	()	()	()
7. CIAC Taxable Because of Amendment to Section 118	\$	\$	\$
8. Depreciation on (7)	()	()	()
9. Taxable Income Effect of (7)	<u>\$</u>	<u>\$</u>	<u>\$</u>
10. Form 1120, Line 11	\$	\$	\$
11. LESS: Form 1120, Line 27	()	()	()
12. Form 1120, Line 28	\$	\$	\$
13. LESS: Form 1120, Line 29a	()	()	()
14. LESS: Form 1120, Line 29b	()	()	()
15. Form 1120, Line 30	\$	\$	\$
16. LESS: Net CIAC Taxable Because of TRA '86 (from Line (9))	()	()	()
17. PLUS(LESS): Other CIAC Effects of TRA '86 (attached)	_____	_____	_____
18. Adjusted Form 1120, Line 30	<u>\$</u>	<u>\$</u>	<u>\$</u>
Current Combined Federal & State Tax Rate _____ %			
19. CIAC Gross-up Collections	\$	\$	\$
20. CIAC Gross-up Refunds	()	()	()
21. Interest on gross-up collections, net of tax	_____	_____	_____
22. Net CIAC Gross-up To Be Applied To Line (9)	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ (1)</u>

CIAC Gross-up Rate Used 59.566 %

(1) SEE ATTACHED SCHEDULES OF EXHIBIT "A" FOR ANALYSIS OF C.I.A.C. GROSS-UP COLLECTED AND CALCULATED PROPOSED REFUND FOR THE YEAR ENDED DECEMBER 31, 1993.

(2) TAX RETURNS WILL BE MADE AVAILABLE FOR AUDIT IF REQUIRED.

(3) COPIES OF TARIFF PAGES REGARDING GROSS-UP ARE ATTACHED HERETO AS EXHIBIT "B".

(4) DUE TO COMPANY'S WEAKENING FINANCIAL POSITION, WE HEREBY REQUEST PERMISSION TO CHANGE THE PROPOSED REFUND AND ACCRUED INTEREST TO C.I.A.C. RATHER THAN MAKING A CASH REFUND.

ORTEGA UTILITY COMPANY
 SOURCE:(Line references are
 from CIAC reports)

STAFF CALCULATED
 GROSS-UP REFUND

	1993
1 Form 1120, Line 30 (Line 15)	\$ 361,495
2 Less CIAC (Line 7)	(216,808)
3 Less Gross-up collected (Line 19)	(126,724)
4 Add First Year's Depr. on CIAC (Line 8)	8,130
5 Add/Less Other Effects (Lines 20 & 21)	(817)
6	-----
7 Adjusted Income Before CIAC and Gross-up	25,276
8	
9 CIAC	216,808
10	
11 Less first years depr. (Line 8)	(8,130)
12	-----
13 Taxable income and CIAC before NOL	233,954
14	
15 Above-the-line NOL Carryforward	0
16	-----
17 Net taxable income and CIAC after NOL	233,954
18	
19 Remaining NOL Carryforward	0
20	
21 Net Taxable CIAC	224,938
22 Effective state and federal tax rate	37.08%
23	-----
24 Net income tax on CIAC	83,407
25 Less ITC realized	(12,993)
26	-----
27 Net income tax	70,414
28 Expansion factor for gross-up taxes	1.5807
29	-----
30 Gross-up required to pay tax effect	113,303
31 Less CIAC gross-up collected (Line 19)	126,723
32	-----
33 Proposed refund (excluding interest)	\$ 15,420
34	=====
35	
36	
37	

EXHIBIT "A"
PAGE 1 OF 9
ORTEGA UTILITY COMPANY
Schedule of Tax on CIAC and Proposed Refund
For the Taxable Year Ended December 31, 1993
(Unaudited)

	<u>1993</u>
Total taxable CIAC (Sch.No.2)	216,808.11
Less: First Year's Depreciation on CIAC (Sch.No.5)	8,130.30
Net Taxable CIAC	<u>224,938.41</u>
Above the Line N.O.L. carry Forward	<u>0.00</u>
Add above the line taxable income (loss) before CIAC (Sch.No.2) (3)	241,645.67
Taxable CIAC Plus Above Line Taxable Income (loss)	<u>466,584.08</u> =====
Net taxable CIAC	224,938.41
Effective state and federal tax rate	37.08
Total tax on CIAC before credits	<u>83,407.16</u>
Less: Investment Tax Credit	12,993.11
Net Income tax on CIAC	70,414.05
Expansion factor for gross-up taxes	1.5807
Total	<u>111,303.49</u>
Less CIAC gross-up collected	126,723.70
Proposed Refund	15,420.21 =====

Note: (1) Interest Net of tax was calculated as follows:

	<u>1993</u>
Interest earned on gross-up (Sch.No.2)	817.35
Effective Tax Rate	37.08
Tax on Interest	<u>303.07</u>
Total Interest per Above	817.35
Net Interest	<u>1120.42</u> =====

EXHIBIT "A"
PAGE 2 OF 9
ORTEGA UTILITY COMPANY
Above and below the line taxable income (loss)
For the Taxable Year Ended December 31, 1993
(Unaudited)

<u>Above the line taxable income (loss)</u>	1993
Gross receipts/sales	1,235,836.63
Deductions:	
Interest expense(Sch 3- 1of 5)	77,994.09
Depreciation(Sch 3- 2 of 5)	151,363.74
Operations(Sch 3- 4 of 5)	365,121.39
Other deductions(Sch 3- 5 of 5)	403,948.05
	998,427.27
Other Taxable Income:	
Meter Fees	2,106.31
Gain on Disposition of Utility Property	2,130.00
	241,645.67
Taxable income (loss) before CIAC	
CIAC:	
Taxable CIAC other than meters(Sch 4)	216,808.11
CIAC gross-up	126,723.70
Interest on CIAC gross-up to 12/31 of Yr. received	817.35
	344,349.16
Above the line taxable income(loss) Before first year's depreciation deduction	585,994.83
<u>Below the line taxable income (loss)</u>	
Income:	
Interest/dividends	747.12
Other	
Refund Workers Comp 1992	1,591.00
Rents	3,600.00
State Sales tax collections & Misc.	5.88
Total non jurisdictional income	5,196.88
Deductions:	
Interest(Sch 3- 1 of 5)	43,871.68
Depreciation(Sch 3- 2 of 5)	78,766.23
Other - Operations(Sch 3- 4 of 5)	99,244.20
Other - Other Deductions(Sch 3- 5 of 5)	50,634.28
Total non jurisdictional expenses	272,516.39
Below the line taxable income (loss)	(267,319.51)
Total taxable income (loss) (Line 28)	361,495.10
	=====
	Sch. No.2

EXHIBIT "A"
PAGE 3 OF 9
ORTEGA UTILITY COMPANY
Above and Below the Line Tax Expenses - Interest
(Unaudited)

1. <u>Interest Expense</u>	<u>1993</u>
Total long term debt	1,162,775.06
Capital stock	600,000.00
Earned Surplus	394,359.45*
 Total Debt and Capital	 2,157,134.51
 Total rate base	 2,158,947.30
Less: Plant investment in 1987 and later to benefit 1987 Test Yr. Customers which was disallowed in Rate Case (Sch. No.3, 3 of 5)	774,973.00
Less: Customer deposits	N/A
 Rate base related to long term debt	 1,383,974.30 =====
 Debt in excess of rate base	 773,160.21 =====
Percent of excess debt	0.36 =====
Total tax interest expense	120,908.83
Amortization of debt cost	956.74
Less: interest on customer deposits	N/A
 Interest on long term debt	 121,865.77
% debt & capital in excess of rate base from above	0.36
 Below the line interest expense	 43,871.68
 <u>Summary</u>	
Above the line interest, long term debt	77,994.09
Interest on customer deposits	N/A
 Total above the line interest	 77,994.09
Below the line interest, long term debt	43,871.68
 Total interest expense per return	 121,865.77 =====
Interest per annual report	150,507.21
Interest Allowed by F.P.S.C. but not IRS	(29,598.38)
 Net tax interest	 120,908.83 =====

*Actual earned surplus (deficit) per Annual Rpt.

Note: For above presentation, losses were not offset against earned surplus as it would distort actual excess debt in system that supports losses incurred to date.

EXHIBIT "A"
PAGE 4 OF 9
ORTEGA UTILITY COMPANY
Above and Below the Line Tax Expenses-Depreciation
(Unaudited)

2(a). <u>Components of depreciation</u>	<u>1993</u>
Plant depreciation	144,349.95
Depreciation on current year CIAC collections -See Sch. 5	8,130.30
Depreciation on prior years CIAC collections -See Sch. 5	34,759.71
Total depreciation (line 21b, 1120)	187,239.96
	=====
(b). <u>Above and below the line depreciation</u>	
Above the line:	
Plant depreciation	187,239.96
Plant used and useful	100%
Depreciation on Plant Used & Useful	187,239.96
Less:	
Tax Depreciation on plant placed in service subsequent to 12/31/87 Rate Case to meet regulatory requirements for service to existing customers which was disallowed by F.P.S.C. (See Sch.3, 3 of 5)	44,006.52
Subtotal	143,233.44
First year's depreciation on taxable CIAC	8,130.30
Total above the line depreciation	151,363.74
Below the line:	
Non jurisdictional deprec. deducted above	44,006.52
Depreciation on prior years CIAC collections	34,759.71
Total below the line depreciation	78,766.23
Total depreciation	230,129.97
	=====

EXHIBIT "A"
PAGE 5 OF 9
ORTEGA UTILITY COMPANY
Above and Below the Line Tax Expenses
(Unaudited)

2. Continued

Note: Depreciation on prior years CIAC has been classified below the line since the benefit of such depreciation will be returned to the rate payers through the normalization process.

Depreciation on Utility Plant for portion added since 12/31/87 (Rate Case Year) that Commission Disallowed as a Proforma:

C.W.I.P. at 12/31/87 (Rate Case Test Year) no depreciation allowed	171,572.00}		
Disallowed because of reduction to average balances	140,966.00}	312,538.00	-1987
1988 plant additions that we included in Proformas to serve existing customers in 1987 Rate Case which was disallowed in Rate Case	13,074.00	325,612.00	-1988
Subtotal 1988	<u>325,612.00</u>		
1989 plant additions that were included in proforma to serve existing customers in 1987 Rate Case which was disallowed in Rate Case	338,045.00	663,657.00	-1989
1990 plant additions that were included in proforma to serve existing customers which was disallowed in Rate Case	0.00	663,657.00	-1990
1991 plant additions that were included in proforma to serve existing customers which was disallowed in Rate Case*	111,316.00	774,973.00	-1991
Total	<u>774,973.00</u>		

Tax Depreciation for Items not Provided for in Rate Case

	Cost	1988	1989	1990
1988 Plant Additions	325,612.00	12,210.00	23,506.00	21,741.00
1989 Plant Additions	338,045.00	0.00	12,677.00	24,403.00
1990 Plant Additions	0.00	0.00	0.00	0.00
1991 Plant Additions	<u>111,316.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
	774,973.00	12,210.00	36,183.00	46,144.00
Accum. Depre.	139,705.00			
Net	<u>635,268.00</u>			

	1991	1992	1993	Total
1988 Plant Additions	20,113.00	18,602.00	17,261.44	113,433.44
1989 Plant Additions	20,881.00	20,881.00	19,312.51	98,154.51
1990 Plant Additions	0.00	0.00	0.00	0.00
1991 Plant Additions	<u>4,174.00</u>	<u>8,036.00</u>	<u>7,432.57</u>	<u>19,642.57</u>
	45,168.00	47,519.00	44,006.52	231,230.52

*Total capital expenditures applicable to 1987 included in Limited Proceeding-filed end of 1991 (1)	774,973.00
Less: Amount accounted for on prior gross-up report	<u>663,657.00</u>
Additions included for 1991	111,316.00

(1)Limited proceeding applied directly to those items disallowed in prior Rate Case.

Sch. No.3
Page 3 of 5

EXHIBIT "A"
PAGE 6 OF 9
ORTEGA UTILITY COMPANY

Above and Below the Line Expenses-Operation Exp.

3. Operation Expenses (line 12-25, 1993
1120 less interest depreciation)

Detail Expenses as filed:

Compensation of Officers	85,106.76
Salaries and Wages	173,091.21
Repairs & Maintenance	0.00
Bad Debts	11,908.86
Rents	(1) 13,752.91
Taxes - State Income & Excise Tax	17,720.58
Taxes - Other	149,422.14
Contributions	0.00
Advertising	19.96
Pension & Profit Sharing	0.00
Employee Benefit Programs	(2) <u>13,343.17</u>
Subtotal	<u>464,365.59</u>

Less Items above reclassified as

Below Line Items:

(1) Salaries not covered by rates based on 12/31/87 Rate Case Year	74,721.97
(2) Taxes & other misc. originally classed below line	0.00
(3) Rental Cost Increases not covered by rates based on 12/31/87 Rate Case Year	(1) 11,179.06
(4) Employee Benefits not covered by rates based on 12/31/87 Rate Case	(2) 13,343.17
(5) State Income & Emergency Excise Tax	<u>0.00</u>

Subtotal Non Jurisdictional Operation Expenses 99,244.20

Jurisdictional Operation Expenses 365,121.39
=====

EXHIBIT "A"
PAGE 7 OF 9
ORTEGA UTILITY COMPANY

Above and Below the Line Expenses-other deductions

4. <u>Detail of Other Deductions as filed:</u>	<u>1993</u>
Purchased water	13,122.00
Diesel & Propane	1,910.14
Electricity	137,553.54
Labor	0.00
Chemicals	23,745.15
Supplies O & M	10,981.22
Supplies - Office	13,919.56
Contract Services - Engineering	0.00
Contract Services - Other	111,518.53
Contract Services - Accounting & Legal	(1) 21,377.36
Insurance	45,345.98
Miscellaneous Expenses	7,514.53
Regulatory Commission Expense	0.00
Transportation Expense	11,116.27
Purchased Sewage Treatment	(2) 37,783.92
Amortization of Legal Expense	0.00
Amortization of Debt Expense	(3) 956.94
Amortization of Rate Case Expense	18,694.13
Subtotal	<u>455,539.27</u>

Less: Items Above Reclassed:

(1) Misc. Expense originally classed below line	500.00
(2) Amortization of debt cost Reclassified to interest	(3) 956.94
(3) Portion of purchased sewage treatment disallowed in last Rate Case	(2) 36,013.92
(4) Litigation Exp. for territory dispute & other that exceeded cost allowed in Rate Case	(1) 11,307.54
(5) Increase accounting cost not provided for in last Rate Case. Request made/denied	(1) <u>2,812.82</u>
Subtotal -non jurisdictional other deductions including reclassifications	<u>51,591.22</u>
Jurisdictional other deductions	403,948.05
	=====

Jurisdictional other deductions from above including reclassifications	51,591.22
---	-----------

Less: Debt expense reclassified as in interest	<u>956.94</u>
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Non jurisdictional other deductions	50,634.28
-------------------------------------	-----------

=====

Sch. No.3

Page 5 of 5

EXHIBIT "A"
PAGE 8 OF 9
ORTEGA UTILITY COMPANY
CIAC RECAP

<u>Taxable CIAC</u>	<u>1993</u>
<u>Meters:</u>	<u>2,106.31</u>
Taxable CIAC -Gross-up Collected	216,808.11
Taxable CIAC -Gross-up Not Collected	<u>0.00</u>
Taxable CIAC other than meters	<u>216,808.11</u>
Total Taxable	<u>218,914.42</u>
 <u>Non-Taxable CIAC</u>	
Tsf. from Advances for Construction	<u>0.00</u>
Total	0.00 =====
Total CIAC	218,914.42 =====
Note: Advances for Construction balance 12/31/93	26,340.00 =====
	Sch. No.4

EXHIBIT "A"
PAGE 9 OF 9
ORTEGA UTILITY COMPANY
Schedule of Depreciation on Taxable CIAC

<u>Year</u>	<u>CIAC Amount</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
1987	67,437.64	2,528.91	4,868.32	4,502.81	4,165.62	3,852.71	3,296.35	3,049.53
1988	41,386.68		1,552.00	2,987.70	2,763.39	2,556.46	2,364.42	2,022.98
1989	260,259.62			9,759.74	18,788.14	17,377.53	16,076.24	14,868.63
1990	87,328.81				3,274.83	6,304.27	5,830.74	5,394.30
1991	9,663.84					362.39	697.63	645.25
1992	121,609.95						4,560.37	8,779.02
1993	216,808.11							8,130.30
Current Year Depreciation		2,528.91	1,552.00	9,759.74	3,274.83	362.39	4,560.37	8,130.30
Prior Year Depreciation		0.00	4,868.32	7,490.51	25,717.15	30,090.97	28,265.38	34,759.71

Depreciation Rates (20 year property):

<u>Year</u>	<u>Rate</u>
1	.0375
2	.07219
3	.06677
4	.06177
5	.05713
6	.05285
7	.04888
8	.04522
9-20	.04461
21	.02231

THIRD REVISED SHEET NO. 20.0
CANCELS SECOND REVISED SHEET NO. 20.0

COMPANY NAME ORTEGA UTILITY COMPANY
WATER TARIFF

TAX IMPACT OF CIAC

Prior to the Congressional Tax Reform Act of 1986, Section 118(b) of the Internal Revenue Code provided for the exclusion of certain types of Contributions In Aid Of Construction (CIAC) from the taxable income of a corporate utility. Such amounts were, therefore, tax exempt.

However, pursuant to the Congressional Tax Reform Act of 1986, Section 118(b) was amended to reclassify CIAC (both cash and property) as taxable source of revenue, effective January 1, 1987. The net result of this action is that a utility which is a corporation must now pay income tax on the CIAC it collects.

Since the amount of this additional tax liability is directly attributable to the contributors (developers, builders, etc.) of the CIAC, the utility is required to collect this amount from those contributors.

Therefore, in accordance with Order No. 16971 issued on December 18, 1986 and 23541 issued on October 1, 1990, in Docket No. 860184-PU, the Public Service Commission adopted and ordered specific guidelines for a utility to administer in the calculation, collection, and reporting of CIAC tax liabilities as follows:

1) On and after January 1, 1987, utilities may collect from developers and others who convey cash and/or property to a utility as CIAC, an amount equal to the tax impact of the CIAC.

2) The tax impact amount to be collected shall be determined based upon use of the marginal rate of Federal and State corporate income tax related to the value of all property and cash contributions included in taxable income of the utility, including that tax applicable to the gross-up funds themselves, or "tax on tax" effect. The first year's tax depreciation benefits on all property contributions shall be utilized to reduce the tax impact collected.

The tax impact amount to be collected shall be determined using the following formula:

Full Gross Up:

Depreciable Plant: $(CP - (CP * (1/TL) * AR * .5))$
 $\quad \quad \quad \bullet (1/(1-CTR))$
Land (and Cash): $(CL * (1/(1-CTR)))$

Where:

CP = Contributed plant
TL = Tax life for contributed plant
AR = Accelerated tax rate
CTR = Combined federal and state income tax rate
CL = Contributed land

EFFECTIVE DATE: DECEMBER 4, 1991

ALAN W. POTTER
ISSUING OFFICER

TYPE OF FILING: CIAC (FINAL AUTHORITY)

PRESIDENT
TITLE

THIRD REVISED SHEET NO. 21.0
CANCELS SECOND REVISED SHEET NO. 21.0

COMPANY NAME ORTEGA UTILITY COMPANY
WATER TARIFF

3) The CIAC tax impact amounts, as determined in Paragraph (2), shall be deposited as received into a fully funded interest bearing escrow account, hereinafter referred to as the "CIAC Tax Impact Account." Monies in the CIAC Tax Impact Account may be withdrawn periodically for the purpose of paying that portion of the estimated Federal and State income tax expense which is directly attributable to the CIAC conveyed to the utility. Annually, following the preparation and filing of the utility's annual Federal and State income tax returns, a determination shall be made by the Commission as the actual Federal and State income tax expense that is directly attributable to the receipt of CIAC. CIAC tax impact monies received during the tax year that are in excess of the actual amount of CIAC tax expense, including interest earned on such excess monies, shall be refunded on a pro rata basis to the contributors of the CIAC. The utility shall maintain adequate records to account for the receipt, deposit, and withdrawal of monies in the CIAC Tax Impact escrow account. A detailed statement of the CIAC Tax Impact Account, including the annual determination of actual tax expense attributable to the receipt of CIAC, shall be submitted as a part of the utility's annual report. The utility shall submit all information in accordance with the requirements established by the Commission.

4) The amount of CIAC tax impact monies collected by a utility shall not be treated as CIAC for ratemaking purposes.

All developer agreements in which CIAC tax monies are required shall indicate the amount of such monies separately from any other CIAC amount required, as well as the Tax Impact formula utilizing the appropriate values. The agreement should also contain an explanation of the charge for the benefit of the contributor.

EFFECTIVE DATE: DECEMBER 4, 1991

ALAN W. POTTER
ISSUING OFFICER

TYPE OF FILING: CIAC (FINAL AUTHORITY)

PRESIDENT
TITLE

RECEIVED

JUL 6 1993

NOTICE

February 15, 1993

Florida Public Service Commission
Division of Water and Wastewater

TO: Mr. Alan W. Potter, President
Ortega Utility Company
Encon Bldg., Suite 3
6957 Lillian Road
Jacksonville, Florida 32211-5850

FROM: CHARLES H. HILL, DIRECTOR, DIVISION OF WATER AND WASTEWATER

RE: REPORT REQUIRED BY ORDER NO. 16971 - STATUS OF GROSS UP FOR TAX EFFECT OF CONTRIBUTIONS IN AID OF CONSTRUCTION

Orders Nos. 16971 and 24129 required utilities who have requested and obtained approval to gross up the tax effect of CLAC to submit the following information:

- (1) a detailed statement of the CLAC tax impact account;
- (2) signed copies of the utility's Federal and State income tax returns or complete the attached CLAC report (provided signed copies of your tax return are available to staff upon request for review and audit); and
- (3) workpapers which show the treatment of CLAC on the tax returns.

In addition, please provide the following information:

- (1) the actual above-the-line tax liability before the effect of CLAC is taken into consideration;
- (2) the actual above-the-line tax liability after the effect of CLAC is taken into consideration;
- (3) the amount of CLAC collected for the reporting period;
- (4) the amount of gross-up collected for the reporting period;
- (5) calculation of the amount of over or under collection of CLAC gross-up;
- (6) the proposed amount of refund and interest, if any; and
- (7) the proposed method of refund.

Please send the above information to the following address:

Connie L. McCaskill, Supervisor/Limited Filings
Florida Public Service Commission
101 East Gaines Street
Tallahassee, FL 32399-0873

If you are not currently grossing up for CLAC or have never grossed up, please check the box below and sign and return this page only.

Facsimile copies do not satisfy the filing requirements.

The report is a public document under the statutes. Requests for confidential treatment must be made in accordance with the provisions of Rule 25-22.006, Florida Administrative Code, Confidential Information. Only (1) copy of the tax return should be filed, directly with the Division of Records and Reporting.

The report is due thirty (30) days after Federal and State tax returns for 1992 have been filed.

If you have any questions, call Connie McCaskill or Sherri Meador at (904) 488-8482.

This utility does not gross up.

Dated this 15th day of July, 1993


Company Official and Title

ORTEGA UTILITY COMPANY

6957 LILLIAN ROAD
JACKSONVILLE, FLORIDA 32211

PHONE 904 / 725-4616

June 30, 1993

Ms. Connie McCaskill, Supervisor Limited Filings
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32399-0873

Re: Report required by Order No. 16971 - Status of Gross-Up for
Tax Effect of Contributions in Aid of Construction for the
year ended December 31, 1992.

Dear Ms. McCaskill:

We are enclosing herewith the above referenced report covering
the year ended December 31, 1992.

As you may know, Ortega Utility Company has been in an under-
earning situation for several years. This has complicated our
financial situation and we are not in a position to make a refund
to the developers. Therefore, we again request that any refund
be applied as a contribution in aid of construction item, rather
than a required refund.

Questions pertaining to this filing may be directed to either
myself or Ray O. Avery, Diversified Utility Services, Inc., 767
Blanding Boulevard, Suite 106, Orange Park, Florida 32065.

Very truly yours,


Alan W. Potter, Sr.
President

AWP/amh

CIAC REPORT
 FOR TAX RETURN YEAR ENDED DECEMBER, 31, 19 92

COMPANY: ORTEGA UTILITY COMPANY

	<u>TOTAL</u> <u>COMPANY</u>	<u>NON</u> <u>JURISDICTIONAL</u>	<u>JURISDICTIONAL</u>
1. Total CIAC	\$	\$	\$
2. Total Connection Fees	()	()	()
3. Total Installation Fees	()	()	()
4. Total Prepaid Connection Fees (not in (2))	()	()	()
5. Total Tap-in Fees	()	()	()
6. Total Jack & Bore Fees	()	()	()
7. CIAC Taxable Because of Amendment to Section 118	\$	\$	\$
8. Depreciation on (7)	()	()	()
9. Taxable Income Effect of (7)	<u>\$</u>	<u>\$</u>	<u>\$</u>
10. Form 1120, Line 11	\$	\$	\$
11. LESS: Form 1120, Line 27	()	()	()
12. Form 1120, Line 28	\$	\$	\$
13. LESS: Form 1120, Line 29a	()	()	()
14. LESS: Form 1120, Line 29b	()	()	()
15. Form 1120, Line 30	\$	\$	\$
16. LESS: Net CIAC Taxable Because of TRA '86 (from Line (9))	()	()	()
17. PLUS(LESS): Other CIAC Effects of TRA '86 (attached)	_____	_____	_____
18. Adjusted Form 1120, Line 30	<u>\$</u>	<u>\$</u>	<u>\$</u>
Current Combined Federal & State Tax Rate _____ %			
19. CIAC Gross-up Collections	\$	\$	\$
20. CIAC Gross-up Refunds	()	()	()
21. Interest on gross-up collections, net of tax	_____	_____	_____
22. Net CIAC Gross-up To Be Applied To Line (9)	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ (1)</u>

CIAC Gross-up Rate Used 59.566 %

- (1) SEE ATTACHED SCHEDULES OF EXHIBIT "A" FOR ANALYSIS OF C.I.A.C. GROSS-UP COLLECTED AND CALCULATED PROPOSED REFUND FOR THE YEAR ENDED DECEMBER 31, 1992.
- (2) TAX RETURNS WILL BE MADE AVAILABLE FOR AUDIT IF REQUIRED.
- (3) COPIES OF TARIFF PAGES REGARDING GROSS-UP ARE ATTACHED HERETO AS EXHIBIT "B".
- (4) DUE TO COMPANY'S WEAKENING FINANCIAL POSITION, WE HEREBY REQUEST PERMISSION TO CHANGE THE PROPOSED REFUND AND ACCRUED INTEREST TO C.I.A.C. RATHER THAN MAKING A CASH REFUND.

ORTEGA UTILITY COMPANY
 SOURCE: (Line references are
 from CIAC reports)

STAFF CALCULATED
 GROSS-UP REFUND

	1992

1 Form 1120, Line 30 (Line 15)	\$ 353,532
2 Less CIAC (Line 7)	(121,610)
3 Less Gross-up collected (Line 19)	(72,420)
4 Add First Year's Depr. on CIAC (Line 8)	4,560
5 Add/Less Other Effects (Lines 20 & 21)	(4,138)
6	-----
7 Adjusted Income Before CIAC and Gross-up	159,924
8	
9 CIAC	121,610
10	
11 Less first years depr. (Line 8)	(4,560)
12	-----
13 Taxable income and CIAC before NOL	276,974
14	
15 Above-the-line NOL Carryforward	0
16	-----
17 Net taxable income and CIAC after NOL	276,974
18	
19 Remaining NOL Carryforward	0
20	
21 Net Taxable CIAC	117,050
22 Effective state and federal tax rate	33.71%
23	-----
24 Net income tax on CIAC	39,458
25 Less ITC realized	(232)
26	-----
27 Net income tax	39,226
28 Expansion factor for gross-up taxes	1.5807
29	-----
30 Gross-up required to pay tax effect	62,005
31 Less CIAC gross-up collected (Line 19)	72,420
32	-----
33 Proposed refund (excluding interest)	\$ 10,415
34	=====
35	
36	
37	

EXHIBIT "A"
PAGE 1 OF 9
ORTEGA UTILITY COMPANY
Schedule of Tax on CIAC and Proposed Refund
For the Taxable Year Ended December 31, 1992
(Unaudited)

	<u>1992</u>
Total taxable CIAC (Sch.No.2)	121,609.95
Less: First Year's Depreciation on CIAC (Sch.No.5)	4,560.37
Net Taxable CIAC	<u>117,049.58</u>
Above the Line N.O.L. carry Forward	<u>0.00</u>
Add above the line taxable income (loss) before CIAC (Sch.No.2) (3)	155,363.74
Taxable CIAC Plus Above Line Taxable Income (loss)	<u>272,413.32</u> =====
Net taxable CIAC	117,049.58
Effective state and federal tax rate	33.71
Total tax on CIAC before credits	<u>39,457.41</u>
Less: Investment Tax Credit	231.56
Net Income tax on CIAC	39,225.85
Expansion factor for gross-up taxes	1.5807
Total	<u>62,004.30</u>
Less CIAC gross-up collected	72,420.33
Proposed Refund	10,416.03 =====

Note: (1) Interest Net of tax was calculated as follows:

	<u>1992</u>
Interest earned on gross-up (Sch.No.2)	4138.07
Effective Tax Rate	33.71
Tax on Interest	<u>1394.94</u>
Total Interest per Above	4138.07
Net Interest	<u>2743.13</u> =====

EXHIBIT "A"
PAGE 2 OF 9
ORTEGA UTILITY COMPANY
Above and below the line taxable income (loss)
For the Taxable Year Ended December 31, 1992
(Unaudited)

<u>Above the line taxable income (loss)</u>	<u>1992</u>
Gross receipts/sales	1,034,775.55
Deductions:	
Interest expense(Sch 3- 1of 5)	67,775.65
Depreciation(Sch 3- 2 of 5)	99,116.01
Operations(Sch 3- 4 of 5)	325,436.03
Other deductions(Sch 3- 5 of 5)	394,434.12
	<u>886,761.81</u>
Other Taxable Income:	
Meter Fees	7,350.00
Gain on Disposition of Utility Property	0.00
Taxable income (loss) before CIAC	<u>155,363.74</u>
CIAC:	
Taxable CIAC other than meters(Sch 4)	121,609.95
CIAC gross-up	72,420.33
Interest on CIAC gross-up to 12/31 of Yr. received	4,138.07
	<u>198,168.35</u>
Above the line taxable income(loss) Before first year's depreciation deduction	353,532.09
<u>Below the line taxable income (loss)</u>	
Income:	
Interest/dividends	658.26
Other- Write off 1975 A/P	3,078.66
Refund Workers Comp 1991	152.00
Rents	3,300.00
State Sales tax collections & Misc.	5.39
Reimburse 1991 Expenses	306.06
Total non jurisdictional income	<u>7,500.37</u>
Deductions:	
Interest(Sch 3- 1 of 5)	47,098.34
Depreciation(Sch 3- 2 of 5)	75,784.38
Other - Operations(Sch 3- 4 of 5)	101,832.08
Other - Other Deductions(Sch 3- 5 of 5)	18,521.40
Total non jurisdictional expenses	<u>243,236.20</u>
Below the line taxable income (loss)	(235,735.83)
Total taxable income (loss) (Line 28)	113,655.19
	=====
	Sch. No.2

EXHIBIT "A"
PAGE 3 OF 9
ORTEGA UTILITY COMPANY
Above and Below the Line Tax Expenses - Interest
(Unaudited)

<u>1. Interest Expense</u>	<u>1992</u>
Total long term debt	1,170,634.17
Capital stock	600,000.00
Earned Surplus	394,359.45*
 Total Debt and Capital	 2,164,993.62
 Total rate base	 2,049,241.00
Less: Plant investment in 1987 and later to benefit 1987 Test Yr. Customers which was disallowed in Rate Case (Sch. No.3, 3 of 5)	774,973.00
Less: Customer deposits	N/A
 Rate base related to long term debt	 1,274,268.00 =====
 Debt in excess of rate base	 890,725.62 =====
Percent of excess debt	0.41 =====
Total tax interest expense	112,582.25
Amortization of debt cost	2,294.74
Less: interest on customer deposits	N/A
 Interest on long term debt	 114,873.99
% debt & capital in excess of rate base from above	0.41
 Below the line interest expense	 47,098.34
 <u>Summary</u>	
Above the line interest, long term debt	67,775.65
Interest on customer deposits	N/A
 Total above the line interest	 67,775.65
Below the line interest, long term debt	47,098.34
 Total interest expense per return	 114,873.99 =====
Interest per annual report	131,246.92
Interest Allowed by F.P.S.C. but not IRS	(18,664.67)
 Net tax interest	 112,582.25 =====

*Actual earned surplus (deficit) per Annual Rpt. (212,389.74)
=====

Note: For above presentation, losses were not offset against earned surplus as it would distort actual excess debt in system that supports losses incurred to date.

EXHIBIT "A"
PAGE 4 OF 9
ORTEGA UTILITY COMPANY
Above and Below the Line Tax Expenses-Depreciation
(Unaudited)

2(a). <u>Components of depreciation</u>	<u>1992</u>
Plant depreciation	142,074.64
Depreciation on current year CIAC collections -See Sch. 5	4,560.37
Depreciation on prior years CIAC collections -See Sch. 5	28,265.38
Total depreciation (line 21b, 1120)	<u>174,900.39</u>
	=====
(b). <u>Above and below the line depreciation</u>	
Above the line:	
Plant depreciation	142,074.64
Plant used and useful	100%
Depreciation on Plant Used & Useful	<u>142,074.64</u>
Less:	
Tax Depreciation on plant placed in service subsequent to 12/31/87 Rate Case to meet regulatory requirements for service to existing customers which was disallowed by F.P.S.C. (See Sch.3, 3 of 5)	47,519.00
Subtotal	<u>94,555.64</u>
First year's depreciation on taxable CIAC	4,560.37
Total above the line depreciation	<u>99,116.01</u>
Below the line:	
Non jurisdictional deprec. deducted above	47,519.00
Depreciation on prior years CIAC collections	28,265.38
Total below the line depreciation	<u>75,784.38</u>
Total depreciation	<u>174,900.39</u>
	=====

EXHIBIT "A"
PAGE 5 OF 9
ORTEGA UTILITY COMPANY
Above and Below the Line Tax Expenses
(Unaudited)

2. Continued

Note: Depreciation on prior years CIAC has been classified below the line since the benefit of such depreciation will be returned to the rate payers through the normalization process.

Depreciation on Utility Plant for portion added since 12/31/87 (Rate Case Year) that Commission Disallowed as a Proforma:

C.W.I.P. at 12/31/87 (Rate Case Test Year) no depreciation allowed	171,572.00		
Disallowed because of reduction to average balances	140,966.00	312,538.00	-1987
1988 plant additions that were included in Proformas to serve existing customers in 1987 Rate Case which was disallowed in Rate Case	13,074.00	325,612.00	-1988
Subtotal 1988	<u>325,612.00</u>		
1989 plant additions that were included in proforma to serve existing customers in 1987 Rate Case which was disallowed in Rate Case	338,045.00	663,657.00	-1989
1990 plant additions that were included in proforma to serve existing customers which was disallowed in Rate Case	0.00	663,657.00	-1990
1991 plant additions that were included in proforma to serve existing customers which was disallowed in Rate Case*	111,316.00	774,973.00	-1991
Total	<u>774,973.00</u>		

Tax Depreciation for Items not Provided for in Rate Case

	<u>Cost</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>Total</u>
1988 Plant Additions	325,612.00	12,210.00	23,506.00	21,741.00	20,113.00	18,602.00	96,172.00
1989 Plant Additions	338,045.00	0.00	12,677.00	24,403.00	20,881.00	20,881.00	78,842.00
1990 Plant Additions	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1991 Plant Additions	111,316.00	0.00	0.00	0.00	4,174.00	8,036.00	12,210.00
	<u>774,973.00</u>	<u>12,210.00</u>	<u>36,183.00</u>	<u>46,144.00</u>	<u>45,168.00</u>	<u>47,519.00</u>	<u>187,224.00</u>
Accum. Deprec.	139,705.00						
Net	635,268.00						

*Total capital expenditures applicable to 1987 included in Limited Proceeding-filed end of 1991 (1) 774,973.00
Less: Amount accounted for on prior gross-up report 663,657.00
Additions included for 1991 111,316.00

(1) Limited proceeding applied directly to those items disallowed in prior Rate Case.

EXHIBIT "A"
PAGE 6 OF 9
ORTEGA UTILITY COMPANY
Above and Below the Line Expenses-Operation Exp.

3. Operation Expenses (line 12-25, 1120 less interest depreciation)	<u>1992</u>
 <u>Detail Expenses as filed:</u>	
Compensation of Officers	86,437.44
Salaries and Wages	170,067.70
Repairs & Maintenance	0.00
Bad Debts	4,994.32
Rents	(1) 14,557.70
Taxes - State Income & Excise Tax	0.00
Taxes - Other	134,216.86
Contributions	0.00
Advertising	175.00
Pension & Profit Sharing	0.00
Employee Benefit Programs	(2) <u>16,819.09</u>
 Subtotal	 <u>427,268.11</u>
 Less Items above reclassified as Below Line Items:	
(1) Salaries not covered by rates based on 12/31/87 Rate Case Year	73,029.14
(2) Taxes & other misc. originally classed below line	0.00
(3) Rental Cost Increases not covered by rates based on 12/31/87 Rate Case Year	(1) 11,983.85
(4) Employee Benefits not covered by rates based on 12/31/87 Rate Case	(2) 16,819.09
(5) State Income & Emergency Excise Tax	<u>0.00</u>
 Subtotal Non Jurisdictional Operation Expenses	 <u>101,832.08</u>
 Jurisdictional Operation Expenses	 325,436.03 =====

EXHIBIT "A"
PAGE 7 OF 9
ORTEGA UTILITY COMPANY

Above and Below the Line Expenses-other deductions

4. <u>Detail of Other Deductions as filed:</u>	<u>1992</u>
Purchased water	6,099.58
Diesel & Propane	2,337.26
Electricity	123,230.55
Labor	0.00
Chemicals	20,326.06
Supplies O & M	11,698.36
Supplies - Office	12,348.87
Contract Services - Engineering	0.00
Contract Services - Other	113,116.37
Contract Services - Accounting & Legal	(1) 20,989.21
Insurance	43,644.32
Miscellaneous Expenses	8,144.34
Regulatory Commission Expense	0.00
Transportation Expense	10,947.31
Purchased Sewage Treatment	(2) 8,426.93
Amortization of Legal Expense	2,045.04
Amortization of Debt Expense	(3) 2,294.76
Amortization of Rate Case Expense	<u>29,601.30</u>
Subtotal	415,250.26
Less: Items Above Reclassed:	
(1) Misc. Expense originally classed below line	300.00
(2) Amortization of debt cost Reclassified to interest	(3) 2,294.74
(3) Portion of purchased sewage treatment disallowed in last Rate Case	(2) 6,656.93
(4) Litigation Exp. for territory dispute & other that exceeded cost allowed in Rate Case	(1) 9,357.21
(5) Increase accounting cost not provided for in last Rate Case. Request made/denied	(1) <u>4,502.00</u>
Subtotal -non jurisdictional other deductions including reclassifications	<u>20,816.14</u>
Jurisdictional other deductions	394,434.12 =====
Jurisdictional other deductions from above including reclassifications	20,816.14
Less: Debt expense reclassified as in interest	<u>2,294.74</u>
Non jurisdictional other deductions	18,521.40 =====

EXHIBIT "A"
PAGE 8 OF 9
ORTEGA UTILITY COMPANY
CIAC RECAP

<u>Taxable CIAC</u>	<u>1992</u>
<u>Meters:</u>	<u>7,350.00</u>
Taxable CIAC -Gross-up Collected	121,609.95
Taxable CIAC -Gross-up Not Collected	<u>0.00</u>
Taxable CIAC other than meters	<u>121,609.95</u>
Total Taxable	<u>128,959.95</u>
<u>Non-Taxable CIAC</u>	
Tsf. from Advances for Construction	<u>0.00</u>
Total	0.00 =====
Total CIAC	128,959.95 =====
Note: Advances for Construction balance 12/31/92	26,340.00 =====
	Sch. No.4

ORTEGA UTILITY COMPANY

6957 LILLIAN ROAD
JACKSONVILLE, FLORIDA 32211

PHONE 904 / 725-4616

RECEIVED

JUN 05 1992

Fla. Public Service Commission
Division of Water and Sewer

June 4, 1992

Ms. Connie McCaskill, Supervisor Limited Filings
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32399-0873

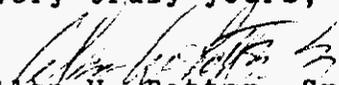
Re: Report required by Order No. 16971 - Status of Gross-Up for
Tax Effect of Contributions in Aid of Construction for the
year ended December 31, 1991.

Dear Ms. McCaskill:

We are enclosing herewith the above referenced report covering
the year ended December 31, 1991.

Questions pertaining to this filing may be directed to either
myself or Ray O. Avery, Diversified Utility Services, Inc., 767
Blanding Boulevard, Suite 106, Orange Park, Florida 32065.

Very truly yours,


Alan W. Potter, Sr.
President

AWP/amh

RECEIVED
JUN 5 1992
MAY 10 1992

NOTICE

March 31, 1992

TO: Mr. Alan W. Potter, President
Ortega Utility Company
7703 Blanding Blvd.
Jacksonville, Florida 32244-5113

FROM: CHARLES H. HILL, DIRECTOR, DIVISION OF WATER AND WASTEWATER *CH/H*

RE: REPORT REQUIRED BY ORDER NO. 16971 - STATUS OF GROSS UP FOR TAX EFFECT OF CONTRIBUTIONS IN AID OF CONSTRUCTION

Orders Nos. 16971 and 24129 required utilities who have requested and obtained approval to gross up the tax effect of CLAC to submit the following information:

- (1) a detailed statement of the CLAC tax impact account;
- (2) signed copies of the utility's Federal and State income tax returns or complete the attached CLAC report (provided signed copies of your tax return are available to staff upon request for review and audit); and
- (3) workpapers which show the treatment of CLAC on the tax returns.

In addition, please provide the following information:

- (1) the actual above-the-line tax liability before the effect of CLAC is taken into consideration;
- (2) the actual above-the-line tax liability after the effect of CLAC is taken into consideration;
- (3) the amount of CLAC collected for the reporting period;
- (4) the amount of gross-up collected for the reporting period;
- (5) calculation of the amount of over or under collection of CLAC gross-up;
- (6) the proposed amount of refund and interest, if any; and
- (7) the proposed method of refund.

Please send the above information to the following address:

Connie L. McCaskill, Supervisor/Limited Filings
Florida Public Service Commission
101 East Gaines Street
Tallahassee, FL 32399-0873

If you are not currently grossing up for CLAC or have never grossed up, please check the box below and sign and return this page only.

Facsimile copies do not satisfy the filing requirements.

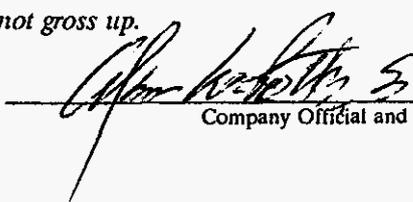
The report is a public document under the statutes. Requests for confidential treatment must be made in accordance with the provisions of Rule 25-22.006, Florida Administrative Code, Confidential Information.

The report is due thirty (30) days after Federal and State tax returns have been filed.

If you have any questions, call Connie McCaskill or Sherri Meador at (904) 488-8482.

This utility does not gross up.

Dated this 4th day of June, 1992



Company Official and Title

ALAN W. POTTER SR.
PRESIDENT

CIAC REPORT

FOR TAX RETURN YEAR ENDED DECEMBER, 31, 19 91

COMPANY: ORTEGA UTILITY COMPANY

	<u>TOTAL</u> <u>COMPANY</u>	<u>NON</u> <u>JURISDICTIONAL</u>	<u>JURISDICTIONAL</u>
1. Total CIAC	\$	\$	\$
2. Total Connection Fees	()	()	()
3. Total Installation Fees	()	()	()
4. Total Prepaid Connection Fees (not in (2))	()	()	()
5. Total Tap-in Fees	()	()	()
6. Total Jack & Bore Fees	()	()	()
7. CIAC Taxable Because of Amendment to Section 118	\$	\$	\$
8. Depreciation on (7)	()	()	()
9. Taxable Income Effect of (7)	<u>\$</u>	<u>\$</u>	<u>\$</u>
10. Form 1120, Line 11	\$	\$	\$
11. LESS: Form 1120, Line 27	()	()	()
12. Form 1120, Line 28	\$	\$	\$
13. LESS: Form 1120, Line 29a	()	()	()
14. LESS: Form 1120, Line 29b	()	()	()
15. Form 1120, Line 30	\$	\$	\$
16. LESS: Net CIAC Taxable Because of TRA '86 (from Line (9))	()	()	()
17. PLUS(LESS): Other CIAC Effects of TRA '86 (attached)	_____	_____	_____
18. Adjusted Form 1120, Line 30	<u>\$</u>	<u>\$</u>	<u>\$</u>
Current Combined Federal & State Tax Rate _____ %			
19. CIAC Gross-up Collections	\$	\$	\$
20. CIAC Gross-up Refunds	()	()	()
21. Interest on gross-up collections, net of tax	_____	_____	_____
22. Net CIAC Gross-up To Be Applied To Line (9)	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ (1)</u>

CIAC Gross-up Rate Used 59.566 %

(1) SEE ATTACHED SCHEDULES OF EXHIBIT "A" ATTACHED HERETO FOR ANALYSIS OF C.I.A.C. GROSS-UP COLLECTED AND CALCULATED PROPOSED REFUND FOR THE YEAR ENDED DECEMBER 31, 1991.

(2) TAX RETURNS WILL BE MADE AVAILABLE FOR AUDIT IF REQUIRED.

(3) COPIES OF TARIFF PAGES REGARDING GROSS-UP ARE ATTACHED HERETO AS EXHIBIT "B".

(4) DUE TO COMPANY'S WEAKENING FINANCIAL POSITION, WE HEREBY REQUEST PERMISSION TO CHANGE THE PROPOSED REFUND AND ACCRUED INTEREST TO C.I.A.C. RATHER THAN MAKING A CASH REFUND.

EXHIBIT "A"
PAGE 1 OF 9
ORTEGA UTILITY COMPANY
Schedule of Tax on CIAC and Proposed Refund
For the Taxable Year Ended December 31, 1991
(Unaudited)

	<u>1991</u>
Total taxable CIAC (Sch.No.2)	15,647.99
Less: First Year's Depreciation on CIAC (Sch.No.5)	362.39
Net Taxable CIAC	<u>15,285.60</u>
Above the Line N.O.L. carry Forward	<u>0.00</u>
Add above the line taxable income (loss) before CIAC (Sch.No.2) (3)	87,361.05
Taxable CIAC Plus Above Line Taxable Income (loss)	<u>102,646.65</u> =====
Net taxable CIAC	15,285.60
Effective state and federal tax rate	26.01
Total tax on CIAC before credits	<u>3,975.78</u>
Less: Investment Tax Credit	0.00
Net Income tax on CIAC	3,975.78
Less: CIAC gross-up (Sch.No.2)	5,757.63
Interest on gross-up, net of tax (note 1)	167.60
Total	<u>1,949.45</u> =====
Proposed Refund	1,949.45 =====

Note: (1) Interest Net of tax was calculated as follows:

	<u>1991</u>
Interest earned on gross-up (Sch.No.2)	226.52
Effective Tax Rate	.2601
Tax on Interest	<u>58.92</u>
Total Interest per Above	226.52
Net Interest	<u>167.60</u> =====

EXHIBIT "A"
PAGE 2 OF 9
ORTEGA UTILITY COMPANY
Above and below the line taxable income (loss)
For the Taxable Year Ended December 31, 1991
(Unaudited)

<u>Above the line taxable income (loss)</u>	<u>1991</u>
Gross receipts/sales	919,261.00
Deductions:	
Interest expense(Sch 3- 1of 5)	97,928.46
Depreciation(Sch 3- 2 of 5)	92,996.48
Operations(Sch 3- 4 of 5)	313,691.15
Other deductions(Sch 3- 5 of 5)	332,860.36
	<hr/>
	837,476.45
Other Taxable Income:	
Meter Fees	5,576.50
Gain on Disposition of Utility Property	0.00
	<hr/>
Taxable income (loss) before CIAC	87,361.05
CIAC:	
Taxable CIAC other than meters(Sch 4)	9,663.84
CIAC gross-up	5,757.63
Interest on CIAC gross-up to 12/31 of Yr. received	226.52
	<hr/>
	15,647.99
Above the line taxable income(loss) Before first year's depreciation deduction	103,009.04
<u>Below the line taxable income (loss)</u>	
Income:	
Interest/dividends	14,448.33
Other- Subcontract Revenue Assoc. Co.	0.00
10% Public Service Revenue	0.00
Rents	3,900.00
State Sales tax collections & Misc.	5.88
Reimburse 1990 Expenses	7,260.82
	<hr/>
Total non jurisdictional income	25,615.03
Deductions:	
Interest(Sch 3- 1 of 5)	80,123.28
Depreciation(Sch 3- 2 of 5)	75,258.97
Other - Operations(Sch 3- 4 of 5)	100,580.10
Other - Other Deductions(Sch 3- 5 of 5)	49,645.13
	<hr/>
Total non jurisdictional expenses	305,607.48
Below the line taxable income (loss)	(279,992.45)
Total taxable income (loss) (Line 28)	(176,983.41)
	=====
	Sch. No.2

EXHIBIT "A"
PAGE 3 OF 9
ORTEGA UTILITY COMPANY
Above and Below the Line Tax Expenses - Detail
(Unaudited)

<u>1. Interest Expense</u>	<u>1991</u>
Total long term debt	1,252,441.12
Capital stock	589,000.00
Earned Surplus	394,359.45*
 Total Debt and Capital	 2,235,800.57
 Total rate base	 2,005,842.29
Less: Plant investment in 1987 and later to benefit 1987 Test Yr. Customers which was disallowed in Rate Case (Sch. No.3, 3 of 5)	774,973.00
Less: Customer deposits	N/A
 Rate base related to long term debt	 1,230,869.29 =====
 Debt in excess of rate base	 1,004,931.28 =====
Percent of excess debt	0.45 =====
Total tax interest expense	175,757.00
Amortization of debt cost	2,294.74
Less: interest on customer deposits	N/A
 Interest on long term debt	 178,051.74
% debt & capital in excess of rate base from above	0.45
 Below the line interest expense	 80,123.28
 <u>Summary</u>	
Above the line interest, long term debt	97,928.46
Interest on customer deposits	N/A
 Total above the line interest	 97,928.46
Below the line interest, long term debt	80,123.28
 Total interest expense per return	 178,051.74 =====
Interest per annual report	164,802.32
Interest Allowed by I.R.S. but not F.P.S.C.	10,954.68
 Net tax interest	 175,757.00 =====

*Actual earned surplus (deficit) per Annual Rpt. (204,086.65)
Note: For above presentation, losses were not
offset against earned surplus as it would
distort actual excess debt in system that
supports losses incurred to date.

Sch.No.3
Page 1 of 5

EXHIBIT "A"
PAGE 4 OF 9
ORTEGA UTILITY COMPANY
Above and Below the Line Tax Expenses
(Unaudited)

2(a). <u>Components of depreciation</u>	<u>1991</u>
Plant depreciation	137,802.09
Depreciation on current year CIAC collections -See Sch. 5	362.39
Depreciation on prior years CIAC collections -See Sch. 5	30,090.97
Total depreciation (line 21b, 1120)	168,255.45
	=====
(b). <u>Above and below the line depreciation</u>	
Above the line:	
Plant depreciation	137,802.09
Plant used and useful	100%
Depreciation on Plant Used & Useful	137,802.09
Less:	
Tax Depreciation on plant placed in service subsequent to 12/31/87 Rate Case to meet regulatory requirements for service to existing customers which was disallowed by F.P.S.C. (See Sch.3, 3 of 5)	45,168.00
Subtotal	92,634.09
First year's depreciation on taxable CIAC	362.39
Total above the line depreciation	92,996.48
Below the line:	
Non jurisdictional deprec. deducted above	45,168.00
Depreciation on prior years CIAC collections	30,090.97
Total below the line depreciation	75,258.97
Total depreciation	168,255.45
	=====

EXHIBIT "A"
PAGE 5 OF 9
ORTEGA UTILITY COMPANY
Above and Below the Line Tax Expenses
(Unaudited)

2. Continued

Note: Depreciation on prior years CIAC has been classified below the line since the benefit of such depreciation will be returned to the rate payers through the normalization process.

Depreciation on Utility Plant for portion added since 12/31/87 (Rate Case Year) that Commission Disallowed as a Proforma:

C.W.I.P. at 12/31/87 (Rate Case Test Year) no depreciation allowed	171,572.00)		
Disallowed because of reduction to average balances	140,966.00)	312,538.00	-1987
1988 plant additions that we included in Proformas to serve existing customers in 1987 Rate Case which was disallowed in Rate Case	13,074.00	325,612.00	-1988
Subtotal 1988		<u>325,612.00</u>	
1989 plant additions that were included in proforma to serve existing customers in 1987 Rate Case which was disallowed in Rate Case	338,045.00	663,657.00	-1989
1990 plant additions that were included in proforma to serve existing customers which was disallowed in Rate Case	0.00	663,657.00	-1990
1991 plant additions that were included in proforma to serve existing customers which was disallowed in Rate Case*	111,316.00	774,973.00	-1991
Total		<u>774,973.00</u>	

Tax Depreciation for Items not Provided for in Rate Case

	<u>Cost</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>Total</u>
1988 Plant Additions	325,612.00	12,210.00	23,506.00	21,741.00	20,113.00	77,570.00
1989 Plant Additions	338,045.00	0.00	12,677.00	24,403.00	20,881.00	57,961.00
1990 Plant Additions	0.00	0.00	0.00	0.00	0.00	0.00
1991 Plant Additions	<u>11,316.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>4,174.00</u>	<u>4,174.00</u>
	774,973.00	12,210.00	36,183.00	46,144.00	45,168.00	139,705.00
Accum. Deprec.	<u>139,705.00</u>					
Net	635,268.00					

*Total capital expenditures applicable to 1987 included in Limited Proceeding-filed end of 1991 (1) 774,973.00
Less: Amount accounted for on prior gross-up report 663,657.00
Additions included for 1991 111,316.00

(1) Limited proceeding applied directly to those items disallowed in prior Rate Case.

EXHIBIT "A"
PAGE 6 OF 9
ORTEGA UTILITY COMPANY
Above and Below the Line Expenses

3. Operation Expenses (line 12-25, 1120 less interest depreciation)	<u>1991</u>
 <u>Detail Expenses as filed:</u>	
Compensation of Officers	82,416.45
Salaries and Wages	166,138.62
Repairs & Maintenance	0.00
Bad Debts	4,259.83
Rents	(1) 15,530.46
Taxes - State Income & Excise Tax	0.00
Taxes - Other	134,687.41
Contributions	0.00
Advertising	0.00
Pension & Profit Sharing	0.00
Employee Benefit Programs	(2) <u>11,238.48</u>
 Subtotal	 <u>414,271.25</u>
 Less Items above reclassified as Below Line Items:	
(1) Salaries not covered by rates based on 12/31/87 Rate Case Year	65,080.07
(2) Taxes & other misc. originally classed below line	11,304.94
(3) Rental Cost Increases not covered by rates based on 12/31/87 Rate Case Year	(1) 12,956.61
(4) Employee Benefits not covered by rates based on 12/31/87 Rate Case	(2) 11,238.48
(5) State Income & Emergency Excise Tax	<u>0.00</u>
 Subtotal Non Jurisdictional Operation Expenses	 <u>100,580.10</u>
 Jurisdictional Operation Expenses	 313,691.15 =====

EXHIBIT "A"
PAGE 7 OF 9
ORTEGA UTILITY COMPANY
Above and Below the Line Expenses

<u>4. Detail of Other Deductions as filed:</u>	<u>1991</u>
Management Services	0.00
Diesel & Propane	3,665.89
Electricity	107,882.05
Labor	0.00
Chemicals	19,675.77
Supplies O & M	17,615.61
Supplies - Office	10,996.33
Contract Services - Engineering	411.66
Contract Services - Other	85,156.69
Contract Services - Accounting & Legal	(1) 18,891.16
Insurance	38,541.00
Miscellaneous Expenses	9,668.48
Regulatory Commission Expense	0.00
Transportation Expense	10,125.13
Purchased Sewage Treatment	(2) 35,105.80
10% Public Service Tax	0.00
Amortization of Debt Expense	(2) 2,294.74
Amortization of Rate Case Expense	<u>24,769.92</u>
Subtotal	384,800.23
Less: Items Above Reclassed:	
(1) Misc. Expense originally classed below line	4,674.97
(2) Amortization of debt cost Reclassified to interest	(3) 2,294.74
(3) Portion of purchased sewage treatment disallowed in last Rate Case	(2) 33,336.00
(4) Litigation Exp. for territory dispute & other that exceeded cost allowed in Rate Case	(1) 4,370.91
(5) Increase accounting cost not provided for in last Rate Case. Request made/denied	(1) <u>7,263.25</u>
Subtotal -non jurisdictional other deductions including reclassifications	<u>51,939.87</u>
Jurisdictional other deductions	332,860.36 =====
Jurisdictional other deductions from above including reclassifications	51,939.87
Less: Debt expense reclassified as in interest	<u>2,294.74</u>
Non jurisdictional other deductions	49,645.13 =====

EXHIBIT "A"
PAGE 8 OF 9
ORTEGA UTILITY COMPANY
CIAC RECAP

<u>Taxable CIAC</u>	<u>1991</u>
<u>Meters:</u>	<u>5,576.50</u>
Taxable CIAC -Gross-up Collected	9,663.84
Taxable CIAC -Gross-up Not Collected	<u>0.00</u>
Taxable CIAC other than meters	<u>9,663.84</u>
Total Taxable	<u>15,240.34</u>
<u>Non-Taxable CIAC</u>	
Tsf. from Advances for Construction	<u>1,950.00</u>
Total	1,950.00 =====
Total CIAC	17,190.34 =====
Note: Advances for Construction balance 12/31/91	26,340.00 =====
	Sch. No.4

EXHIBIT "A"
PAGE 9 OF 9
ORTEGA UTILITY COMPANY
Schedule of Depreciation on Taxable CIAC

<u>Year</u>	<u>CIAC Amount</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1991</u>
1987	67,437.64	2,528.91	4,868.32	4,502.81	4,165.62	3,852.71	3,296.35	3,049.53
1988	41,386.68		1,552.00	2,987.70	2,763.39	2,556.46	2,364.42	2,022.98
1989	260,259.62			9,759.74	18,788.14	17,377.53	16,076.24	14,868.63
1990	87,328.81				3,274.83	6,304.27	5,830.74	5,394.30
1991	9,663.84					362.39	697.63	645.25
Current Year Depreciation		2,528.91	1,552.00	9,759.74	3,274.83	362.39		
Prior Year Depreciation		0.00	4,868.32	7,490.51	25,717.15	30,090.97		

Depreciation Rates (20 year property):

<u>Year</u>	<u>Rate</u>
1	.0375
2	.07219
3	.06677
4	.06177
5	.05713
6	.05285
7	.04888
8	.04522
9-20	.04461
21	.02231

Sch. No.5

ORTEGA UTILITY COMPANY

6957 LILLIAN ROAD
JACKSONVILLE, FLORIDA 32211

PHONE 904 / 725-4616

June 3, 1991

RECEIVED
FLORIDA PUBLIC SERVICE
COMMISSION
91 JUN -4 PM 1:37
A.S. [unclear]
FINANCIAL ANALYSIS D.

CERTIFIED MAIL RECEIPT NO. P 845 209 531
RETURN RECEIPT REQUESTED

Ms. Ann P. Causseaux, Chief of Tax
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32399-0865

Re: Report required by Order No. 16971 - Status of Gross-Up for
Tax Effect of Contributions in Aid of Construction for the
year ended December 31, 1990.

Dear Ms. Causseaux:

We are enclosing herewith the above referenced report
covering the year ended December 31, 1990.

Questions pertaining to this filing can be directed to
either myself or Ray O. Avery, Diversified Utility Services, Inc.
767 Blanding Boulevard, Suite 106, Orange Park, Florida 32065.

Please advise if you have any questions in this regard.

Very truly yours,
ORTEGA UTILITY COMPANY



Alan W. Potter, Sr.
President

AWP:ROA/cr
Enclosure

ORIGINAL FILE COPY
AFAD TAX BUREAU

FLORIDA PUBLIC SERVICE COMMISSION

NOTICE

March 16, 1991

TO: Ortega Utility Company
Encon Building, Suite 3
6957 Lillian Road
Jacksonville, Florida 32211-5850

FROM: ANN CAUSSEAUX, DIVISION OF AUDITING & FINANCIAL ANALYSIS

RE : 1990 REPORT ON THE GROSS-UP OF CONTRIBUTIONS IN AID OF CONSTRUCTION

Our records indicate that you obtained the permission of this Commission to gross-up contributions in aid of construction. Order No. 16971 states that, for years when you have permission to gross-up, you are to file a report with this Commission after the filing of your tax return. That report is to contain:

- (1) the amount of contributions in aid of construction collected during the year;
- (2) the amount of gross-up collected during the year;
- (3) the interest earned on the gross-up; and
- (4) the net tax liability for the year directly related to the collection of the contributions and the gross-up.

According to our files you must submit the above information for the year(s) 1990 ONLY. Please send the information to the following address ON OR BEFORE JUNE 3, 1991.

Ann P. Causseaux, Chief of Tax
Florida Public Service Commission
101 E. Gaines Street
Tallahassee, FL 32399

An extension of the 1990 due date may be obtained by stating reason for request in writing to:

Connie McCaskill
Florida Public Service Commission
101 E. Gaines Street
Tallahassee, FL 32399

This report is a public document under the statutes. Requests for confidential treatment must be made in accordance with the provisions of Rule 25-22.006, F.A.C., Confidential Information.

If I or my staff can be of further help to you please call me, Rhonda Hicks, Jane Brand or Susan Howard at (904) 488-8147.

Dated this 31st day of May, 1990 [Signature] X
Company Official & Title

AC/sh
Attachment

CIAC REPORT
FOR TAX RETURN YEAR ENDED December 31, 1990

COMPANY: Ortega Utility Company

	<u>TOTAL</u> <u>COMPANY</u>	<u>NON</u> <u>JURISDICTIONAL</u>	<u>JURISDICTIONAL</u>
1. Total CIAC	\$	\$	\$
2. Total Connection Fees	()	()	()
3. Total Installation Fees	()	()	()
4. Total Prepaid Connection Fees (not in (2))	()	()	()
5. Total Tap-in Fees	()	()	()
6. Total Jack & Bore Fees	()	()	()
7. CIAC Taxable Because of Amendment to Section 118	\$	\$	\$
8. Depreciation on (7)	()	()	()
9. Taxable Income Effect of (7)	<u>\$</u>	<u>\$</u>	<u>\$</u>
10. Form 1120, Line 11	\$	\$	\$
11. LESS: Form 1120, Line 27	()	()	()
12. Form 1120, Line 28	\$	\$	\$
13. LESS: Form 1120, Line 29a	()	()	()
14. LESS: Form 1120, Line 29b	()	()	()
15. Form 1120, Line 30	\$	\$	\$
16. LESS: Net CIAC Taxable Because of TRA '86 (from Line (9))	()	()	()
17. PLUS(LESS): Other CIAC Effects of TRA '86 (attached)	_____	_____	_____
18. Adjusted Form 1120, Line 30	<u>\$</u>	<u>\$</u>	<u>\$</u>
Current Combined Federal & State Tax Rate _____%			
19. CIAC Gross-up Collections	\$	\$	\$
20. CIAC Gross-up Refunds	()	()	()
21. Interest on gross-up collections, net of tax	_____	_____	_____
22. Net CIAC Gross-up To Be Applied To Line (9)	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ (1)</u>

CIAC Gross-up Rate Used 59.566%

- (1) See attached Schedules of Exhibit "A" attached hereto for analysis of C.I.A.C. Gross-up collected and calculated proposed refund for the year ended December 31, 1990.
- (2) Tax returns will be made available for audit if required.
- (3) Copies of Tariff pages regarding Gross-Up are attached hereto as Exhibit "B".

Ortega Utility Company
Schedule of Tax on CIAC and Proposed Refund
For the Taxable Year Ended December 31, 1990
(Unaudited)

	1990
Total taxable CIAC (Schedule No. 2)	115,357.80
Less: First Year's Depreciation on CIAC (Schedule No. 5)	3,274.83
Net Taxable CIAC	112,082.97
Above the Line N.O.L. Carry Forward	0.00
Less: above the line taxable income (loss) before CIAC (Schedule No. 2) (3)	170,416.67
Current Year Income (Loss) plus N.O.L.	170,416.67
Taxable CIAC Plus Above Line Taxable Income (Loss)	282,499.64
Net taxable CIAC	112,082.97
Effective state and federal tax rate	0.3634
Total tax on CIAC before credits	40,730.95
Less: Investment Tax Credit	0.00
Net income tax on CIAC	40,730.95
Less: CIAC gross-up (Schedule No. 2)	26,828.01
Interest on gross-up, net of tax (Note 1)	764.54
Total	(13,138.40)
Proposed Refund	0.00

Note: (1) Interest Net of tax was calculated as follows:

	1990
Interest earned on gross-up (Schedule No. 2)	1,200.98
Effective tax rate	0.3634
Tax on interest	436.44
Total interest per above	1,200.98
Net interest	764.54

Ortega Utility Company
Above and Below the Line Taxable Income (Loss)
For the Taxable Year Ended December 31, 1990
(Unaudited)

Above the line taxable income (loss)	1990
<hr/>	
Gross receipts/sales	966,212.77
<hr/>	
Deductions:	
Interest expense	119,409.48
Depreciation	106,531.28
Operations	325,172.99
Other deductions	298,211.25
	<hr/>
	849,325.00
<hr/>	
Other Taxable Income:	
Meter Fees	6,677.66
Gain on Disposition of Utility Property	46,851.24
	<hr/>
Taxable income (loss) before CIAC	170,416.67
<hr/>	
CIAC:	
Taxable CIAC Other Than Meters	87,328.81
CIAC gross-up	26,828.01
Interest on CIAC gross-up to 12/31 of Year Received	1,200.98
	<hr/>
	115,357.80
<hr/>	
Above the line taxable income (loss)	285,774.47
<hr/>	
Below the Line taxable income (loss)	
<hr/>	
Income:	
Interest/dividends	2,346.30
Other - Subcontract Revenue Assoc. Co.	0.00
- 10% Public Service Revenue	50.44
- Rents	2,932.26
- State Sales Tax Collections & Misc.	27.92
- Reimburse 1988 Expenses	1,615.86
	<hr/>
Total Non Jurisdictional Income	6,972.78
<hr/>	
Deductions:	
Interest	101,719.18
Depreciation	71,861.15
Other - Operations	36,342.12
Other - Other Deductions	71,817.86
	<hr/>
Total Non Jurisdictional Expenses	281,740.31
<hr/>	
Below the line taxable income (loss)	(274,767.53)
<hr/>	
Total taxable income (loss) (Line 28)	11,006.94
<hr/>	

Ortega Utility Company
Above and Below the Line Tax Expenses - Detail
(Unaudited)

	1990
1. Interest expense	
<hr/>	
Total Long term debt	1,110,529.64
Capital Stock	589,000.00
Earned Surplus	394,359.45 *
<hr/>	
Total Debt & Capital	2,093,889.09
<hr/>	
Total rate base	1,798,085.76
Less: Plant Investment in 1987 and later to benefit 1987 Test Year Customers Which was Disallowed in Rate Case (Schedule No. 3, 3 of 5)	663,657.00
Less: customer deposits	N/A
<hr/>	
Rate base related to long term debt	1,134,428.76
<hr/>	
Debt in excess of rate base	959,460.33
<hr/>	
Percent of excess debt	0.46
<hr/>	
Total tax interest expense	218,083.10
Amortization of Debt Cost	3,045.56
Less: interest on customer deposits	N/A
<hr/>	
Interest on long term debt	221,128.66
Percent debt & capital in excess of rate base from above	0.46
<hr/>	
Below the line interest expense	101,719.18
<hr/>	
Summary	
<hr/>	
Above the line interest, long term debt	119,409.48
Interest on customer deposits	N/A
<hr/>	
Total above the line interest	119,409.48
Below the line interest, long term debt	101,719.18
<hr/>	
Total interest expense per return	221,128.66
<hr/>	
Interest Per Annual Report	153,429.05
Interest (not Allowed)/Allowed by I.R.S. vs F.P.S.C.	64,654.05
<hr/>	
Net Tax Interest	218,083.10
<hr/>	

* - Actual Earned Surplus (deficit) per Annual Report
Note: For above presentation losses were not offset
against earned surplus as it would distort
actual excess debt in system that supports
losses incurred to date

Ortega Utility Company
Above and Below the Line Tax Expenses
(Unaudited)

	1990
2 (a). Components of depreciation	
Plant depreciation	149,400.45
Depreciation on current year CIAC collections	3,274.83
Depreciation on prior years CIAC collections	25,717.15
Total depreciation (line 21b, 1120)	<u>178,392.43</u>
(b). Above and below the line depreciation	
Above the line:	
Plant depreciation	149,400.45
Plant used and useful	100%
Depreciation on Plant Used & Useful	<u>149,400.45</u>
Less:	
Tax Depreciation on Plant Placed in Service Subsequent to 12/31/87 Rate Case to Meet Regulatory Requirements for Service to Existing Customers Which Was Disallowed by F.P.S.C. (See Schedule 3, 3 of 5)	46,144.00
Subtotal	<u>103,256.45</u>
First year's depreciation on Taxable CIAC	3,274.83
Total above the line depreciation	<u>106,531.28</u>
Below the line:	
Non Jurisdictional Depreciation Deducted Above	46,144.00
Depreciation on prior years CIAC collections	25,717.15
Total below the line depreciation	<u>71,861.15</u>
Total depreciation	<u>178,392.43</u>

Ortega Utility Company
Above and Below the Line Tax Expenses
(Unaudited)

2. Continued

Note: Depreciation on prior years CIAC has been classified below the line since the benefit of such depreciation will be returned to the rate payers through the normalization process.

Depreciation on Utility Plant for Portion added Since 12/31/87 (Rate Case Year)
that Commission Disallowed as a Proforma:

C.W.I.P. at 12/31/87 (Rate Case Test Year) no depreciation allowed	171,572.00 }	
Disallowed because of reduction to Average Balances	140,966.00 }	312,538.00 - 1987
1988 Plant Additions that we included in Proforma's to Serve Existing Customers in 1987 Rate Case Which was disallowed in Rate Case	13,074.00	325,612.00 - 1988

Subtotal 1988	325,612.00	
1989 Plant Additions that were included in Proforma to Serve Existing Customers in 1987 Rate Case Which was Disallowed in Rate Case	338,045.00	663,657.00 - 1989
1990 Plant Additions that were included in Proforma to Serve Existing Customers in 1987 Rate Case Which was Disallowed in Rate Case	0.00	0.00

Total	663,657.00	663,657.00 - 1990
	=====	

Tax Depreciation for Items not Provided for in Rate Case

	Cost	1988	1989	1990
1988 Plant Additions	325,612.00	12,210.00	23,506.00	21,741.00
1989 Plant Additions	338,045.00	0.00	12,677.00	24,403.00
1990 Plant Additions	0.00	0.00	0.00	0.00
	-----	-----	-----	-----
	663,657.00	12,210.00	36,183.00	46,144.00
	=====	=====	=====	=====

Ortega Utility Company
Above and Below the Line Expenses

	1990
3. Operation Expenses (line 12 through 25, 1120)	
Detail expenses as filed:	

Compensation of Officers	70,152.42
Salaries and Wages	138,300.91
Repairs & Maintenance	0.00
Bad Debts	2,902.73
Rents	15,046.20
Taxes - State Income & Excise Tax	1,463.38
Taxes - Other	111,243.08
Contributions	0.00
Advertising	0.00
Pension & Profit Sharing	0.00
Employee Benefit Programs	22,406.39

Subtotal	361,515.11

Less Items above Reclassed as Below line items:	
(1) License & Expenses Originally Classed Below Line	
(2) Rental Cost Increases Not Covered by Rates, 12/31/87 is Rate Case Year	12,472.35
(3) Employee Benefits Not Covered by Rates Based on 12/31/87 Rate Case	22,406.39
(4) State Income & Emergency Excise Tax	1,463.38

Subtotal Non Jurisdictional Operation Expenses	36,342.12

Jurisdictional Operation Expenses	325,172.99
	=====

Ortega Utility Company
Above and Below the Line Expenses

Detail of Other Deductions as filed:	1990
-----	-----
Management Services	0.00
Diesel & Propane	2,668.44
Electricity	97,116.47
Labor	0.00
Chemicals	12,960.89
Supplies O & M	18,815.99
Supplies - Office	10,655.80
Contract Services - secretarial & operations	85,635.91
Contract Services - Accounting & legal	16,413.95
Insurance	25,680.77
Miscellaneous expenses	8,747.22
Regulatory Commission expense	0.00
Transportation expense	10,730.24
Purchased sewage treatment	55,833.51
10% Public Service Tax	0.00
Amortization of Debt Expense	3,045.56
Amortization of Rate Case Expense	24,769.92

Subtotal	373,074.67

Less: Items Above Reclassified:	
(1) Expenses Associated with Below Line Subcontract Revenue (Revenue/1.15)	0.00
(2) Amortization of Debt Cost Reclassified to Interest	3,045.56
(3) 10% Public Service Tax Associated with Below Line Revenue	0.00
(4) Portion of Purchased Sewage Treatment Disallowed in Last Rate Case	54,064.00
(5) Expenses Associated with Below Line Revenue for 1989 Reimbursement of 1988 Expenses	1,615.86
(6) Litigation Expense for Territory Dispute & Other that Exceeded Cost Allowed in Rate Case	5,678.00
(7) Increase Accounting Cost Not Provided for in Last Rate Case. Request Was Made But Denied.	10,460.00
(8) Miscellaneous O & M & Wage Costs in excess of those covered by jurisdictional rates	0.00

Subtotal-Non Jurisdictional Other Deductions	74,863.42

Jurisdictional Other Deductions	298,211.25

Non Jurisdictional Other Deductions from above	74,863.42
Less: Debt Expense reclassified as in interest	3,045.56

Non Jurisdictional Other Deductions	71,817.86
	=====

Ortega Utility Company
CIAC Recap

	1990
Taxable CIAC	
<u>Meters:</u>	6,677.66
Taxable CIAC - Gross-Up Collected	45,287.76
Adjustment #2	0.00
Adj. Tax CIAC - Gross-Up Collected	45,287.76
Taxable CIAC - Gross-Up Not Collected	42,041.05
Taxable CIAC Other Than Meters	87,328.81
Total Taxable	94,006.47
Non-Taxable CIAC	
Collected Prior to 12/31/86	
Reimb. from K.S.C. applicable to 12/31/86	
Adj. for Rate Case Audit	
Adj. for Rate Case Audit	
Tsf. from Advances for Construction	37,842.00
Total	37,842.00
Total CIAC	131,848.47
Note: Advances for Construction	95,590.00

Ortega Utility Company
Schedule of Depreciation on Taxable CIAC

Year	CIAC Amount	1987	1988	1989	1990	1991	1992	1993
1987	67,437.64	2,528.91	4,868.32	4,502.81	4,165.62	3,852.71	3,296.35	3,049.53
1988	41,386.68		1,552.00	2,987.70	2,763.39	2,556.46	2,364.42	2,022.98
1989	260,259.62			9,759.74	18,788.14	17,377.53	16,076.24	14,868.63
1990	87,328.81				3,274.83	6,304.27	5,830.74	5,394.30

Current Year Depreciation		2,528.91	1,552.00	9,759.74	3,274.83			
Prior Year Depreciation		0.00	4,868.32	7,490.51	25,717.15			

ORTEGA UTILITY COMPANY
Water Division

TAX IMPACT OF CIAC

Prior to the Congressional Tax Reform Act of 1986, Section 118(b) of the Internal Revenue Code provided for the exclusion of certain types of Contributions In Aid Of Construction (CIAC) from the taxable income of a corporate utility. Such amounts were, therefore, tax exempt.

However, pursuant to the Congressional Tax Reform Act of 1986, Section 118(b) was amended to reclassify CIAC (both cash and property) as a taxable source of revenue, effective January 1, 1987. The net result of this action is that a utility which is a corporation must now pay income tax on the CIAC it collects.

Since the amount of this additional tax liability is directly attributable to the contributors (developers, builders, etc.) of the CIAC, the utility is authorized to collect this amount from those contributors.

Therefore, in accordance with Order No. 16971 issued on December 18, 1986 in Docket No. 860184-PU, this Commission adopted and approved specific guidelines for a utility to administer in the calculation, collection, and reporting of CIAC tax liabilities as follows:

1) On and after January 1, 1987, utilities may collect from developers and others who convey cash and/or property to a utility as CIAC, an amount equal to the tax impact of the CIAC.

2) The tax impact amount to be collected shall be determined using the following formula:

$$\text{TAX IMPACT} = \frac{R}{T.D - R} \times (F + P)$$

a) R = Applicable marginal rate of Federal and State Corporate Income Tax, if one is payable, on the value of contributions which must be included in taxable income of the utility. R shall be determined as follows:

$$R = ST + FT (1 - ST)$$

ST = Applicable marginal rate of State Corporate Income Tax.

FT = Applicable marginal rate of Federal Corporate Income Tax.

Alan W. Potter, President

EFFECTIVE DATE: May 18, 1988

SECOND REVISED SHEET NO. 21.0
Cancels First Revised Sheet No. 21.0

ORTEGA UTILITY COMPANY
Water Division

b) F = Dollar amount of charges paid to a utility as contributions in aid of construction which must be included in taxable income of the utility, and which had been previously excluded in taxable income pursuant to Section 118(b) of the Internal Revenue Code.

c) P = Dollar amount of property conveyed to utility which must be included in taxable income of the utility, and which had been previously excluded in taxable income pursuant to Section 118(b) of the Internal Revenue Code.

3) The CIAC tax impact amounts, as determined in Paragraph (2), shall be deposited as received into a fully funded interest bearing escrow account, hereinafter referred to as the "CIAC Tax Impact Account". Monies in the CIAC Tax Impact Account may be withdrawn periodically for the purpose of paying that portion of the estimated Federal and State income tax expense which is directly attributable to the CIAC conveyed to the utility. Annually, following the preparation and filing of the utility's annual Federal and State income tax returns, a determination shall be made by the Commission as to the actual Federal and State income tax expense that is directly attributable to the receipt of CIAC. CIAC tax impact monies received during the tax year that are in excess of the actual amount of CIAC tax expense, including interest earned on such excess monies, shall be refunded on a pro rata basis to the contributors of the CIAC. The utility shall maintain adequate records to account for the receipt, deposit, and withdrawal of monies in the CIAC Tax Impact escrow account. A detailed statement of the CIAC Tax Impact Account, including the annual determination of actual tax expense attributable to the receipt of CIAC, shall be submitted as a part of the utility's annual report. The utility shall submit all information in accordance with the requirements established by the Commission.

4) The amount of CIAC tax impact monies collected by a utility shall not be treated as CIAC for ratemaking purposes.

All developer agreements in which CIAC tax monies are required shall indicate the amount of such monies separately from any other CIAC amounts required, as well as the Tax Impact formula utilizing the appropriate values. The agreement should also contain an explanation of the charge for the benefit of the contributor.

Alan W. Potter, President

EFFECTIVE DATE: May 18, 1988

Pm 1-4-

ORTEGA UTILITY COMPANY

6957 LILLIAN ROAD - SUITE NO. 5
JACKSONVILLE, FLORIDA 32211

PHONE 904 / 725-4616

RECEIVED
FLORIDA PUBLIC SERVICE
COMMISSION

91 JAN -7 AM 11:51

AUDITING &
FINANCIAL ANALYSIS DIV

December 31, 1990

CERTIFIED MAIL NO. P 382 878 304
RETURN RECEIPT REQUESTED

Ms. Ann P. Causseaux, Chief of Tax
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32399-0865

Re: Report required by Order No. 16971 - Status of Gross-Up for Tax
Effect of Contributions in Aid of Construction for the years
1987, 1988, and 1989.

Dear Ms. Causseaux:

We are enclosing herewith the above referenced report covering
the years indicated.

Questions pertaining to this filing can be directed to either
myself or Ray O. Avery, Diversified Utility Services, Inc. 767
Blanding Boulevard, Suite 106, Orange Park, Florida 32065.

Please advise if you have any questions in this regard.

Very truly yours,
ORTEGA UTILITY COMPANY

Alan W. Potter, Sr.
President

AWP:ROA/am
Enclosure

**ORIGINAL FILE COPY
AFAD TAX BUREAU**

NOTICE

April 6, 1990

TO : WS182
ORTEGA UTILITY COMPANY
ENCON BUILDING, SUITE 3
6957 LILLIAN ROAD
JACKSONVILLE, FL 32211-5850

WS 16

This Report covers 1987, 1988 & 1989

FROM: TIM DEVLIN, DIRECTOR, DIVISION OF AUDITING AND FINANCIAL ANALYSIS 
RE : REPORT REQUIRED BY ORDER NO. 16971--STATUS OF GROSS UP FOR TAX EFFECT
OF CONTRIBUTIONS IN AID OF CONSTRUCTION

Order No. 16971 required utilities who have requested and obtained approval to gross up the tax effect of CIAC to submit the following information:

- (1) a detailed statement of the CIAC tax impact account;
- (2) signed copies of the utility's Federal and State income tax returns or complete the attached CIAC report (provided signed copies of your tax return are available to staff upon request for review and audit); and
- (3) workpapers which show the treatment of CIAC on the tax returns.

In addition, please provide copies of tariff pages regarding gross up.

Please send the above information to the following address:

Ann P. Causseaux, Chief of Tax
Florida Public Service Commission
101 E. Gaines Street
Tallahassee, FL 32399-0865

If the above information was not submitted for tax years 1987 and 1988, please submit the information for those years at this time.

If you are not currently grossing up for CIAC and have never grossed up, please check the box below and sign and return this page only.

Facsimile copies do not satisfy the filing requirements.

The report is a public document under the statutes. Requests for confidential treatment must be made in accordance with the provisions of Rule 25-22.006, F.A.C., Confidential Information.

The report is due thirty (30) days after Federal and State tax returns have been filed.

If you have any questions, call Jane Brand, Rhonda Hicks, Susan Howard or Ann Causseaux at (904) 488-8147.

This utility does not gross up.

Dated this 31st day of Dec. 1990

TD/sh
Attachments



Company Official & Title

CIAC REPORT

FOR TAX RETURN YEAR ENDED December, 31, 1989, 88 & 87

COMPANY: Ortega Utility Company

	<u>TOTAL</u> <u>COMPANY</u>	<u>NON</u> <u>JURISDICTIONAL</u>	<u>JURISDICTIONAL</u>
1. Total CIAC	\$	\$	\$
2. Total Connection Fees	()	()	()
3. Total Installation Fees	()	()	()
4. Total Prepaid Connection Fees (not in (2))	()	()	()
5. Total Tap-in Fees	()	()	()
6. Total Jack & Bore Fees	()	()	()
7. CIAC Taxable Because of Amendment to Section 118	\$	\$	\$
8. Depreciation on (7)	()	()	()
9. Taxable Income Effect of (7)	<u>\$</u>	<u>\$</u>	<u>\$</u>
10. Form 1120, Line 11	\$	\$	\$
11. LESS: Form 1120, Line 27	()	()	()
12. Form 1120, Line 28	\$	\$	\$
13. LESS: Form 1120, Line 29a	()	()	()
14. LESS: Form 1120, Line 29b	()	()	()
15. Form 1120, Line 30	\$	\$	\$
16. LESS: Net CIAC Taxable Because of TRA '86 (from Line (9))	()	()	()
17. PLUS(LESS): Other CIAC Effects of TRA '86 (attached)	_____	_____	_____
18. Adjusted Form 1120, Line 30	<u>\$</u>	<u>\$</u>	<u>\$</u>
Current Combined Federal & State Tax Rate _____ %			
19. CIAC Gross-up Collections	\$	\$	\$
20. CIAC Gross-up Refunds	()	()	()
21. Interest on gross-up collections, net of tax	_____	_____	_____
22. Net CIAC Gross-up To Be Applied To Line (9)	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ (1)</u>

CIAC Gross-up Rate Used _____ %

- (1) See attached Schedules of Exhibit "A" attached hereto for analysis of C.I.A.C. Gross-Up collected and calculated proposed refund for the years 1987, 1988 & 1989.
- (2) Tax returns will be made available for audit if required.
- (3) Copies of Tariff pages regarding Gross-Up are attached hereto as Exhibit "B".

Exhibit "A"
Page 1 of 9

schi-7a

Ortega Utility Company
Schedule of Tax on CIAC and Proposed Refund
For the Taxable Years Ended December 31, 1984 through 1989
(Unaudited)

	1984	1985	1986	1987	1988	1989	Total
Total taxable CIAC (Schedule No. 2)	0.00	0.00	0.00	102,026.21	61,800.43	418,978.48	582,805.12
Less: First Year's Depreciation on CIAC (Schedule No. 5)	0.00	0.00	0.00	2,528.91	1,552.00	9,759.74	13,840.65
Net Taxable CIAC	0.00	0.00	0.00	99,497.30	60,248.43	409,218.74	568,964.47
Above the Line N.O.L. Carry Forward				0.00	99,497.30	60,248.43	
Less: above the line taxable income (loss) before CIAC (Schedule No. 2) (3)	21,907.01	61,891.07	0.00	(0.15)	(0.00)	138,145.02	
Current Year Income (Loss) plus N.O.L.	21,907.01	61,891.07	0.00	(0.15)	99,497.30	198,393.45	
Taxable CIAC Plus Above Line Taxable Income (Loss)	0.00	0.00	0.00	99,497.30	60,248.43	651,502.19	
Net taxable CIAC	0.00	0.00	0.00	99,497.30	60,248.43	409,218.74	
Effective state and federal tax rate				0.3691	0.2048	0.3763	
Total tax on CIAC before credits				36,724.45	12,338.88	153,989.01	203,052.34
Less: Investment Tax Credit (\$22,761.40 x 65%)				14,794.91	0.00	0.00	14,794.91
Net income tax on CIAC				21,929.54	12,338.88	153,989.01	188,257.43
Less: CIAC gross-up (Schedule No. 2)				34,444.67	20,195.34	154,120.94	208,760.95
Interest on gross-up, net of tax (Note 1)				90.79	173.68	2,867.72	3,132.19
Proposed Refund				12,605.91	8,030.14	2,999.65	23,635.71

net. neg. + vs. 20

Note: (1) Interest Net of tax was calculated as follows:

	1984	1985	1986	1987	1988	1989
Interest earned on gross-up (Schedule No. 2)	0.00	0.00	0.00	143.90	218.41	4,597.92
Effective tax rate	0.0000	0.0000	0.0000	0.3691	0.2048	0.3763
Tax on interest	0.00	0.00	0.00	53.11	44.73	1,730.20
Total interest per above	0.00	0.00	0.00	143.90	218.41	4,597.92
Net interest	0.00	0.00	0.00	90.79	173.68	2,867.72

	1984	1985	1986	1987	1988	1989
Above the line taxable income (loss)						
Gross receipts/sales	331,233.72	394,863.67	454,310.64	437,434.73	533,780.93 *	849,649.62
Deductions:						
Interest expense (Schedule No. 3)	3,553.93	12,903.10	48,453.33	50,101.96	64,561.31	61,347.53
Depreciation (Schedule No. 3)	29,160.11	46,358.41	104,716.31	120,815.59	109,885.13	106,503.58
Operations (Schedule No. 3)	86,881.92	108,591.62	29,410.74	104,967.31	175,844.37	234,206.32
Other deductions (Schedule No. 3)	197,880.75	171,669.47	276,180.26	178,188.12	192,315.12	312,782.17
	317,476.71	339,522.60	458,760.64	454,072.98	542,605.93	714,839.60
Other Taxable Income:						
Meter Fees (Schedule No. 4)	8,150.00	6,550.00	4,450.00	11,001.10	8,825.00	3,335.00
Gain on Disposition of Utility Property	0.00	0.00	0.00	5,637.00	0.00	0.00
Taxable income (loss) before CIAC	21,907.01	61,891.07	0.00	(0.15)	(0.00)	138,145.02
CIAC:						
Taxable CIAC Other Than Meters (Sch. No. 4)	0.00	0.00	0.00	67,437.64	41,386.68 *	260,259.62 *
CIAC gross-up (Schedule No. 4)	0.00	0.00	0.00	34,444.67	20,195.34	154,120.94
Interest on CIAC gross-up to 12/31 of Year Received	0.00	0.00	0.00	143.90	218.41	4,597.92
	0.00	0.00	0.00	102,026.21	61,800.43	418,978.48
Above the line taxable income (loss)	21,907.01	61,891.07	0.00	102,026.06	61,800.43	557,123.50
Below the Line taxable income (loss)						
Income:						
Interest/dividends	1,142.47	1,043.67	878.77	0.00 ***	0.00 ***	236.04 ***
Other - Subcontract Revenue Assoc. Co.	41,300.99	34,862.10	12,758.36	0.00	0.00	0.00
- 10% Public Service Revenue	275.31	304.86	302.52	17,747.99	23,050.17	11,355.60
- Rents	0.00	0.00	0.00	5,000.00	0.00	1,800.00
- State Sales Tax Collections & Misc.	0.00	0.00	0.00	651.36	14,507.46	1,371.70
- Reimburse 1988 Expenses	0.00	0.00	0.00	0.00	0.00	9,906.27
Total Non Jurisdictional Income	42,718.77	36,210.63	13,939.65	23,399.35	37,557.63	24,669.61
Deductions:						
Interest (Schedule No. 3)	490.01	350.03	1,979.43	31,190.99	44,164.30	67,518.84
Depreciation (Schedule No. 3)	0.00	0.00	0.00	0.00	19,607.23	43,673.51
Other - Operations (Schedule No. 3)	1,175.40	3,273.33	4,021.15	0.00	3,916.15	36,021.02
Other - Other Deductions (Schedule No.3)	35,914.00	33,958.00	60,145.46	192,807.99	173,214.54	97,894.13
Total Non Jurisdictional Expenses	37,579.41	37,581.36	66,146.04	223,998.98	240,902.22	245,107.50
Below the line taxable income (loss)	5,139.36	(1,370.73)	(52,206.39)	(200,599.63)	(203,344.59)	(220,437.89)
Total taxable income (loss) (Line 28)	27,046.37	60,520.34	(52,206.39)	(98,573.57)	(141,544.16)	336,685.61

*-Proforma Adjustment made & Amended Annual Report Pages in Process.

***-Moved Portion of Accrued Interest Income Above Line that Applied to

Minimum Calculated Interest in Cases the Board on 88

Exhibit "A"
Page 3 of 9

Ortega Utility Company
Above and Below the Line Tax Expenses - Detail
(Unaudited)

	1984	1985	1986	1987	1988	1989
1. Interest expense						
Total Long term debt	80,220.19	224,377.94	755,062.46	1,166,191.43	1,537,876.42	1,664,095.17
Capital Stock	100,000.00	100,000.00	100,000.00	100,000.00	100,000.00	155,000.00
Earned Surplus	203,587.55	290,157.77	376,643.55 *	376,643.55 *	376,643.55 *	376,643.55
Total Debt & Capital	383,807.74	614,535.71	1,231,706.01	1,642,834.98	2,014,519.97	2,195,738.72
Total rate base	337,301.20	598,305.00	1,183,362.81	1,325,039.78	1,521,834.77	1,708,950.20
Less: Plant Investment in 1987 and later to benefit 1987 Test Year Customers Which was Disallowed in Rate Case (Schedule No. 3, 3 of 5)	0.00	0.00	0.00	312,538.00	325,612.00	663,657.00
Less: customer deposits	N/A	N/A	N/A	N/A	N/A	N/A
Rate base related to long term debt	337,301.20	598,305.00	1,183,362.81	1,012,501.78	1,196,222.77	1,045,293.20
Debt in excess of rate base	46,506.54	16,230.71	48,343.20	630,333.20	818,297.20	1,150,445.52
Percent of excess debt	0.12	0.03	0.04	0.38	0.41	0.52
Total tax interest expense	4,043.94	13,253.13	50,432.76	80,724.13	106,450.34	126,591.05
Amortization of Debt Cost	0.00	0.00	0.00	568.82	2,275.27	2,275.32
Less: Interest on customer deposits	N/A	N/A	N/A	N/A	N/A	N/A
Interest on long term debt	4,043.94	13,253.13	50,432.76	81,292.95	108,725.61	128,866.37
Percent debt & capital in excess of rate base from above	0.12	0.03	0.04	0.38	0.41	0.52
Below the line interest expense	490.01	350.03	1,979.43	31,190.99	44,164.30	67,518.84
Summary						
Above the line interest, long term debt	3,553.93	12,903.10	48,453.33	50,101.96	64,561.31	61,347.53
Interest on customer deposits	N/A	N/A	N/A	N/A	N/A	N/A
Total above the line interest	3,553.93	12,903.10	48,453.33	50,101.96	64,561.31	61,347.53
Below the line interest, long term debt	490.01	350.03	1,979.43	31,190.99	44,164.30	67,518.84
Total interest expense per return	4,043.94	13,253.13	50,432.76	81,292.95	108,725.61	128,866.37
Interest Per Annual Report	4,043.94	13,253.13	50,596.60	115,479.97	155,795.45	198,727.14
Interest not Allowed by I.R.S.	0.00	0.00	(163.84)	(34,755.84)	(49,345.11)	(72,136.06)
Net Tax Interest	4,043.94	13,253.13	50,432.76	80,724.13	106,450.34	126,591.08

* - Actual Earned Surplus (deficit) per Annual Report
Note: For above presentation losses were not offset
against earned surplus as it would distort
actual excess debt in system that supports
losses incurred to date.

161,880.01 (60,824.66) (128,206.38)

Exhibit "A"
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Ortega Utility Company
Above and Below the Line Tax Expenses
(Unaudited)

	1984	1985	1986	1987	1988	1989
2 (a). Components of depreciation						
Plant depreciation	29,160.11	46,358.41	104,716.31	118,286.68	120,543.13	132,926.84
Depreciation on current year CIAC collections				2,528.91	1,552.00	9,759.74
Depreciation on prior years CIAC collections				0.00	7,397.23	7,490.51
Total depreciation (line 21b, 1120)	29,160.11	46,358.41	104,716.31	120,815.59	129,492.36	150,177.09
(b). Above and below the line depreciation						
Above the line:						
Plant depreciation	29,160.11	46,358.41	104,716.31	118,286.68	120,543.13	132,926.84
Plant used and useful	100%	100%	100%	100%	100%	100%
Depreciation on Plant Used & Useful	29,160.11	46,358.41	104,716.31	118,286.68	120,543.13	132,926.84
Less:						
Tax Depreciation on Plant Placed in Service Subsequent to 12/31/87 Rate Case to Meet Regulatory Requirements for Service to Existing Customers Which Was Disallowed by F.P.S.C. (See Schedule 3, 3 of 5)					12,210.00	36,183.00
Subtotal	29,160.11	46,358.41	104,716.31	118,286.68	108,333.13	96,743.84
First year's depreciation on Taxable CIAC	0.00	0.00	0.00	2,528.91	1,552.00	9,759.74
Total above the line depreciation	29,160.11	46,358.41	104,716.31	120,815.59	109,885.13	106,503.58
Below the line:						
Non Jurisdictional Depreciation Deducted Above	0.00	0.00	0.00	0.00	12,210.00	36,183.00
Depreciation on prior years CIAC collections	0.00	0.00	0.00	0.00	7,397.23	7,490.51
Total below the line depreciation	0.00	0.00	0.00	0.00	19,607.23	43,673.51
Total depreciation	29,160.11	46,358.41	104,716.31	120,815.59	129,492.36	150,177.09

Continued

Schedule No. 3
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Exhibit "A"
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Ortega Utility Company
Above and Below the Line Tax Expenses
(Unaudited)

2. Continued

Note: Depreciation on prior years CIAC has been classified below the line since the benefit of such depreciation will be returned to the rate payers through the normalization process.

Depreciation on Utility Plant for Portion added Since 12/31/87 (Rate Case Year)

that Commission Disallowed as a Proforma:

C.W.I.P. at 12/31/87 (Rate Case Test Year) no depreciation allowed	171,572.00)	
Disallowed because of reduction to Average Balances	140,966.00)	312,538.00 - 1987
1988 Plant Additions that we included in Proforma's to Serve Existing Customers in 1987 Rate Case Which was disallowed in Rate Case	13,074.00	325,612.00 - 1988

Subtotal 1988	325,612.00	
1989 Plant Additions that were included in Proforma to Serve Existing Customers in 1987 Rate Case Which was Disallowed in Rate Case	338,045.00	663,657.00 - 1989

Total	663,657.00	=====

Tax Depreciation for Items not Provided for in Rate Case

	Cost	1988	1989
1988 Plant Additions	325,612.00	12,210.00	23,506.00
1989 Plant Additions	338,045.00	0.00	12,677.00
	-----	-----	-----
	663,657.00	12,210.00	36,183.00
	=====	=====	=====

Exhibit "A"

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Ortega Utility Company
Above and Below the Line Expenses

	1984	1985	1986	1987	1988	1989
3. Operation Expenses (line 12 through 25, 1120)						
Detail expenses as filed:						
Compensation of Officers	0.00	0.00	0.00	15,018.29	44,843.60	53,197.96
Salaries and Wages	0.00	0.00	0.00	17,716.05	66,961.37	102,310.44
Repairs & Maintenance	65,083.78	84,421.75	0.00	38,284.83	0.00	0.00
Bad Debts	0.00	0.00	0.00	0.00	0.00	0.00
Rents	1,751.40	1,927.80	2,618.65	2,573.85	6,490.00	17,690.47
Taxes - State Income & Excise Tax	1,175.40	3,273.33	4,021.15	0.00	0.00	2,290.88 *
Taxes - Other	20,046.74	22,242.07	26,792.09	31,374.29	61,465.55	75,888.57
Contributions	0.00	0.00	0.00	0.00	0.00	0.00
Advertising	0.00	0.00	0.00	0.00	0.00	1,023.00
Pension & Profit Sharing	0.00	0.00	0.00	0.00	0.00	0.00
Employee Benefit Programs	0.00	0.00	0.00	0.00	0.00	17,826.02
Subtotal	88,057.32	111,864.95	33,431.89	104,967.31	179,760.52	270,227.34
Less Items above Reclassed as Below line items:						
(1) License & Expenses Originally Classed Below Line						787.50
(2) Rental Cost Increases Not Covered by Rates, 12/31/87 is Rate Case Year					3,916.15	15,116.62
(3) Employee Benefits Not Covered by Rates Based on 12/31/87 Rate Case						17,826.02
(4) State Income & Emergency Excise Tax	1,175.40	3,273.33	4,021.15	0.00	0.00	2,290.88 *
Subtotal Non Jurisdictional Operation Expenses	1,175.40	3,273.33	4,021.15	0.00	3,916.15	36,021.02
Jurisdictional Operation Expenses	86,881.92	108,591.62	29,410.74	104,967.31	175,844.37	234,206.32

*-Proforma Adjustment Made and Amended Tax Return in Process.

	1984	1985	1986	1987	1988	1989
4. Other Deductions (line 26, 1120)						
Detail of Other Deductions as filed:						
Management Services	28,000.00	0.00	0.00	0.00	0.00	0.00
Diesel & Propane	0.00	1,438.11	2,120.12	2,998.56	1,902.26	1,724.54
Electricity	61,403.25	74,110.37	67,378.17	67,522.68	68,370.02	85,111.91
Labor	6,539.05	10,933.41	0.00	0.00	0.00	0.00
Chemicals	8,902.54	7,739.18	7,393.63	8,931.12	11,159.04	13,245.43
Supplies O & M	4,007.36	4,174.36	54,053.88	46,628.27	44,725.05	21,448.53
Supplies - Office	6,766.34	3,559.08	13,248.83	4,058.94	5,962.70	10,179.59
Contract Services - secretarial & operations	95,641.52	72,254.38	123,302.95	106,306.01	77,951.52	132,106.03
Contract Services - Accounting & legal	2,962.69	3,385.74	4,592.27	58,335.68	34,672.98	41,429.12
Insurance	7,975.39	12,482.05	15,325.16	20,251.08	9,474.55	21,399.06
Miscellaneous expenses	5,131.66	8,734.30	1,650.06	7,984.42	16,812.52	12,332.13
Regulatory Commission expense	0.00	0.00	4,913.01	2,809.88	1,108.15	2,901.88
Transportation expense	6,464.95	1,403.02	12,736.86	3,023.79	17,121.19	9,404.82
Purchased sewage treatment	0.00	5,413.47	29,610.78	23,687.15	59,609.72	30,989.56
10% Public Service Tax	0.00	0.00	0.00	18,458.53	16,659.96	17,472.13
Amortization of Debt Expense	0.00	0.00	0.00	568.82	2,275.27	2,275.32
Amortization of Rate Case Expense	0.00	0.00	0.00	0.00	0.00	10,931.57
Subtotal	233,794.75	205,627.47	336,325.72	371,564.93	367,804.93	412,951.62
Less: Items Above Reclassified:						
(1) Expenses Associated with Below Line Subcontract Revenue (Revenue/1.15)	35,914.00	30,315.00	11,094.00	0.00	0.00	0.00
(2) Amortization of Debt Cost Reclassified to Interest				568.82	2,275.27	2,275.32
(3) 10% Public Service Tax Associated with Below Line Revenue				18,458.53	16,659.96	17,472.13
(4) Portion of Purchased Sewage Treatment Disallowed in Last Rate Case		3,643.00	27,840.00	21,917.00	57,840.00	29,220.00
(5) Expenses Associated with Below Line Revenue for 1989 Reimbursement of 1988 Expenses					9,906.27	
(6) Litigation Expense for Territory Dispute & Other that Exceeded Cost Allowed in Rate Case				20,204.00	2,172.00	29,700.00
(7) Increase Accounting Cost Not Provided for in Last Rate Case. Request Was Made But Denied.				32,973.00	11,454.00	21,502.00
(8) Miscellaneous O & M & Wage Costs in excess of those covered by jurisdictional rates	0.00	0.00	21,211.46	99,255.46	75,182.31	0.00
Subtotal-Non Jurisdictional Other Deductions	35,914.00	33,958.00	60,145.46	193,376.81	175,489.81	100,169.45
Jurisdictional Other Deductions	197,880.75	171,669.47	276,180.26	178,188.12	192,315.12	312,782.17
Non Jurisdictional Other Deductions from above	35,914.00	33,958.00	60,145.46	193,376.81	175,489.81	100,169.45
Less: Debt Expense reclassified as in interest	0.00	0.00	0.00	568.82	2,275.27	2,275.32
Non Jurisdictional Other Deductions	35,914.00	33,958.00	60,145.46	192,807.99	173,214.54	97,894.13

Exhibit "A"
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Ortega Utility Company
CIAC Recap

	1984	1985	1986	1987	1988	1989
Taxable CIAC						
Meters:	8,150.00	6,550.00	4,450.00	11,001.10	8,825.00	3,335.00
Taxable CIAC - Gross-Up Collected Adjustment #2				56,792.64 0.00	20,854.50 12,782.18	122,510.32 126,549.30
Adj. Tax CIAC - Gross-Up Collected				56,792.64	33,636.68	249,059.62
Taxable CIAC - Gross-Up Not Collected				10,645.00	7,750.00	11,200.00
Taxable CIAC Other Than Meters	0.00	0.00	0.00	67,437.64	41,386.68	260,259.62
Total Taxable	8,150.00	6,550.00	4,450.00	78,438.74	50,211.68	263,594.62
Non-Taxable CIAC						
Collected Prior to 12/31/86	82,010.00	223,142.86	293,434.66			
Reimb. from K.S.C. applicable to 12/31/86					73,512.11	
Adj. for Rate Case Audit					32,490.00	
Adj. for Rate Case Audit					(21,870.00)	
Isf. from Advances for Construction					245,085.00	80,011.00
Total	82,010.00	223,142.86	293,434.66	0.00	329,217.11	80,011.00
Total CIAC	90,160.00	229,692.86	297,884.66	78,438.74	379,428.79	343,605.62
Note: Advances for Construction				* 456,528.00 *	213,443.00 *	133,432.00

* - Calculated - eliminated advances that were cancelled.

Schedule No. 4

Ortega Utility Company
First Years Depreciation on CIAC

	1984	1985	1986	1987	1988	1989
Taxable CIAC Additions (other than meters)	0.00	0.00	0.00	67,437.64	41,386.68	260,259.62
Tax depreciation rate	0.0000	0.0000	0.0000	0.0375	0.0375	0.0375
First years tax Depreciation on taxable CIAC	0.00	0.00	0.00	2,528.91	1,552.00	9,759.74

ORTEGA UTILITY COMPANY
Water Division

TAX IMPACT OF CIAC

Prior to the Congressional Tax Reform Act of 1986, Section 118(b) of the Internal Revenue Code provided for the exclusion of certain types of Contributions In Aid Of Construction (CIAC) from the taxable income of a corporate utility. Such amounts were, therefore, tax exempt.

However, pursuant to the Congressional Tax Reform Act of 1986, Section 118(b) was amended to reclassify CIAC (both cash and property) as a taxable source of revenue, effective January 1, 1987. The net result of this action is that a utility which is a corporation must now pay income tax on the CIAC it collects.

Since the amount of this additional tax liability is directly attributable to the contributors (developers, builders, etc.) of the CIAC, the utility is authorized to collect this amount from those contributors.

Therefore, in accordance with Order No. 16971 issued on December 18, 1986 in Docket No. 860184-PU, this Commission adopted and approved specific guidelines for a utility to administer in the calculation, collection, and reporting of CIAC tax liabilities as follows:

1) On and after January 1, 1987, utilities may collect from developers and others who convey cash and/or property to a utility as CIAC, an amount equal to the tax impact of the CIAC.

2) The tax impact amount to be collected shall be determined using the following formula:

$$\text{TAX IMPACT} = \frac{R}{T.O. - R} \times (F + P)$$

a) R = Applicable marginal rate of Federal and State Corporate Income Tax, if one is payable, on the value of contributions which must be included in taxable income of the utility. R shall be determined as follows:

$$R = ST + FT (1 - ST)$$

ST = Applicable marginal rate of State Corporate Income Tax.

FT = Applicable marginal rate of Federal Corporate Income Tax.

Alan W. Potter, President

EFFECTIVE DATE: May 18, 1988

ORTEGA UTILITY COMPANY
Water Division

b) F = Dollar amount of charges paid to a utility as contributions in aid of construction which must be included in taxable income of the utility, and which had been previously excluded in taxable income pursuant to Section 118(b) of the Internal Revenue Code.

c) P = Dollar amount of property conveyed to utility which must be included in taxable income of the utility, and which had been previously excluded in taxable income pursuant to Section 118(b) of the Internal Revenue Code.

3) The CIAC tax impact amounts, as determined in Paragraph (2), shall be deposited as received into a fully funded interest bearing escrow account, hereinafter referred to as the "CIAC Tax Impact Account". Monies in the CIAC Tax Impact Account may be withdrawn periodically for the purpose of paying that portion of the estimated Federal and State income tax expense which is directly attributable to the CIAC conveyed to the utility. Annually, following the preparation and filing of the utility's annual Federal and State income tax returns, a determination shall be made by the Commission as to the actual Federal and State income tax expense that is directly attributable to the receipt of CIAC. CIAC tax impact monies received during the tax year that are in excess of the actual amount of CIAC tax expense, including interest earned on such excess monies, shall be refunded on a pro rata basis to the contributors of the CIAC. The utility shall maintain adequate records to account for the receipt, deposit, and withdrawal of monies in the CIAC Tax Impact escrow account. A detailed statement of the CIAC Tax Impact Account, including the annual determination of actual tax expense attributable to the receipt of CIAC, shall be submitted as a part of the utility's annual report. The utility shall submit all information in accordance with the requirements established by the Commission.

4) The amount of CIAC tax impact monies collected by a utility shall not be treated as CIAC for ratemaking purposes.

All developer agreements in which CIAC tax monies are required shall indicate the amount of such monies separately from any other CIAC amounts required, as well as the Tax Impact formula utilizing the appropriate values. The agreement should also contain an explanation of the charge for the benefit of the contributor.

Alan W. Potter, President

EFFECTIVE DATE: May 18, 1988

EXHIBIT "A"
PAGE 9 OF 9
ORTEGA UTILITY COMPANY
Schedule of Depreciation on Taxable CIAC

<u>Year</u>	<u>CIAC Amount</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
1987	67,437.64	2,528.91	4,868.32	4,502.81	4,165.62	3,852.71	3,296.35	3,049.53
1988	41,386.68		1,552.00	2,987.70	2,763.39	2,556.46	2,364.42	2,022.98
1989	260,259.62			9,759.74	18,788.14	17,377.53	16,076.24	14,868.63
1990	87,328.81				3,274.83	6,304.27	5,830.74	5,394.30
1991	9,663.84					362.39	697.63	645.25
1992	121,609.95						4,560.37	8,779.02

Current Year Depreciation		2,528.91	1,552.00	9,759.74	3,274.83	362.39	4,560.37	
Prior Year Depreciation		0.00	4,868.32	7,490.51	25,717.15	30,090.97	28,265.38	

Depreciation Rates (20 year property):

<u>Year</u>	<u>Rate</u>
1	.0375
2	.07219
3	.06677
4	.06177
5	.05713
6	.05285
7	.04888
8	.04522
9-20	.04461
21	.02231

THIRD REVISED SHEET NO. 20.0
CANCELS SECOND REVISED SHEET NO. 20.0

COMPANY NAME ORTEGA UTILITY COMPANY
WATER TARIFF

TAX IMPACT OF CIAC

Prior to the Congressional Tax Reform Act of 1986, Section 118(b) of the Internal Revenue Code provided for the exclusion of certain types of Contributions In Aid Of Construction (CIAC) from the taxable income of a corporate utility. Such amounts were, therefore, tax exempt.

However, pursuant to the Congressional Tax Reform Act of 1986, Section 118(b) was amended to reclassify CIAC (both cash and property) as taxable source of revenue, effective January 1, 1987. The net result of this action is that a utility which is a corporation must now pay income tax on the CIAC it collects.

Since the amount of this additional tax liability is directly attributable to the contributors (developers, builders, etc.) of the CIAC, the utility is required to collect this amount from those contributors.

Therefore, in accordance with Order No. 16971 issued on December 18, 1986 and 23541 issued on October 1, 1990, in Docket No. 860184-PU, the Public Service Commission adopted and ordered specific guidelines for a utility to administer in the calculation, collection, and reporting of CIAC tax liabilities as follows:

1) On and after January 1, 1987, utilities may collect from developers and others who convey cash and/or property to a utility as CIAC, an amount equal to the tax impact of the CIAC.

2) The tax impact amount to be collected shall be determined based upon use of the marginal rate of Federal and State corporate income tax related to the value of all property and cash contributions included in taxable income of the utility, including that tax applicable to the gross-up funds themselves, or "tax on tax" effect. The first year's tax depreciation benefits on all property contributions shall be utilized to reduce the tax impact collected.

The tax impact amount to be collected shall be determined using the following formula:

Full Gross Up:

Depreciable Plant: $(CP - (CP * (1/TL) * AR * .5))$
 $* (1/(1-CTR))$
Land (and Cash): $(CL * (1/(1-CTR)))$

Where:

CP = Contributed plant
TL = Tax life for contributed plant
AR = Accelerated tax rate
CTR = Combined federal and state income tax rate
CL = Contributed land

EFFECTIVE DATE: DECEMBER 4, 1991

ALAN W. POTTER
ISSUING OFFICER

TYPE OF FILING: CIAC (FINAL AUTHORITY)

PRESIDENT
TITLE

THIRD REVISED SHEET NO. 21.0
CANCELS SECOND REVISED SHEET NO. 21.0

COMPANY NAME ORTEGA UTILITY COMPANY
WATER TARIFF

3) The CIAC tax impact amounts, as determined in Paragraph (2), shall be deposited as received into a fully funded interest bearing escrow account, hereinafter referred to as the "CIAC Tax Impact Account." Monies in the CIAC Tax Impact Account may be withdrawn periodically for the purpose of paying that portion of the estimated Federal and State income tax expense which is directly attributable to the CIAC conveyed to the utility. Annually, following the preparation and filing of the utility's annual Federal and State income tax returns, a determination shall be made by the Commission as the actual Federal and State income tax expense that is directly attributable to the receipt of CIAC. CIAC tax impact monies received during the tax year that are in excess of the actual amount of CIAC tax expense, including interest earned on such excess monies, shall be refunded on a pro rata basis to the contributors of the CIAC. The utility shall maintain adequate records to account for the receipt, deposit, and withdrawal of monies in the CIAC Tax Impact escrow account. A detailed statement of the CIAC Tax Impact Account, including the annual determination of actual tax expense attributable to the receipt of CIAC, shall be submitted as a part of the utility's annual report. The utility shall submit all information in accordance with the requirements established by the Commission.

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EFFECTIVE DATE: DECEMBER 4, 1991

ALAN W. POTTER
ISSUING OFFICER

TYPE OF FILING: CIAC (FINAL AUTHORITY)

PRESIDENT
TITLE