



Public Service Commission

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RECORDS AND REPORTING

DATE: September 10, 1998

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

FROM: DIVISION OF WATER AND WASTEWATER (MONIE) *SM*
DIVISION OF LEGAL SERVICES (JAEGER) *JAEGER*

RE: DOCKET NO. 970991-SU - INVESTIGATION INTO RATES AND CHARGES OF FLORIDA CITIES WATER COMPANY - LEE COUNTY DIVISION (SOUTH FT. MYERS WASTEWATER SYSTEM) FOR POTENTIAL OVERTURNINGS.

AGENDA: 09/22/98 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE - DEADLINE FOR REQUIRING REFUND OF 1996 PRICE-INDEX RATE ADJUSTMENT IS DECEMBER 16, 1998

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\WAW\WP\970991.RCM

DOCUMENT NUMBER-DATE

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DIVISION OF RECORDS AND REPORTING

CASE BACKGROUND

Florida Cities Water Company (FCWC, Florida Cities, or utility) is a Class A utility that provides wastewater service for two communities in Ft. Myers, Florida: a northern sector and a southern sector. This docket relates to the South Ft. Myers wastewater facility. As of December 31, 1997, this facility was serving approximately 8,637 equivalent residential connections (ERCs). The utility serves an area that has been designated by the South Florida Water Management District as a critical use area. For the twelve months ended December 31, 1997, the South Ft. Myers wastewater system reported operating income of \$937,965.

On July 10, 1996, Lee County approached FCWC regarding treatment and disposal of reclaimed water from its Ft. Myers Beach wastewater treatment plant. On August 28, 1996, FCWC and Lee County entered into an agreement effective as of July 10, 1996 which provides for Lee County to interconnect its reclaimed water distribution facilities with FCWC's wastewater transmission facility as a temporary solution. At that time, the agreement was not expected to extend beyond July 1998. However, it has since been extended to January 10, 1999.

In Docket No. 961231-WS, FCWC requested that the revenues received pursuant to the agreement be treated as non-recurring so they would not be considered in determining the level of regulated earnings for FCWC. The utility requested that if the revenues from this agreement result in overearnings, the Commission should defer those overearnings to subsequent years. Pursuant to Order No. PSC-97-0019-FOF-WS, issued January 6, 1997, the Commission found it appropriate to treat the estimated annual revenues of \$122,912 associated with the agreement as non-recurring. This order also required FCWC to file semi-annual earnings reports with the Commission to allow staff to monitor the utility's earnings. If the revenues associated with this agreement were to place FCWC outside its approved rate of return, the matter would be addressed in a subsequent docket.

A review of FCWC's 1996 Annual Report indicated that the utility's wastewater system in South Ft. Myers was exceeding its last authorized return on equity investment. FCWC's agreement with Lee County was the main reason for South Ft. Myers wastewater system's overearnings. According to the 1996 Annual Report, the utility achieved a 10.06 percent overall rate of return and an 18.08 return on equity for wastewater service in South Ft. Myers. The utility also filed for an index in 1996, which was effective for service rendered after June 14, 1996.

In the utility's last rate proceeding for the South Ft. Myers wastewater system, by Order No. PSC-93-1288-FOF-SU, issued on September 7, 1993, the Commission approved a range of

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reasonableness for total capital investment from 8.60 to 9.18 percent. That order also set the return on equity at 12.44 percent, with a range of 11.44 percent to 13.44 percent.

Pursuant to Order No. PSC-97-1125-PCO-SU, issued September 25, 1997, the Commission opened this docket and initiated an overearnings investigation for FCWC's South Ft. Myers wastewater system. That Order held revenues subject to refund pending the final resolution of this docket. That Order also recognized that the revenues from the 1996 price index, pursuant to the provisions of Section 367.081(4)(d), Florida Statutes, were already subject to refund. Pursuant to that section, the Commission initially had 15 months from the filing of the 1996 annual report to order a refund of the price index revenues. However, by letter dated August 7, 1998, the utility extended that time until October 7, 1998. Further, by conversation dated September 9, 1998, the utility has extended this time until December 16, 1998, and states that a letter is to follow. This recommendation addresses the resolution of these non-recurring overearnings.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission accept FCWC's proposal to defer its overearnings?

RECOMMENDATION: Yes. FCWC should be allowed to: defer \$21,606 in price index revenues for 1996; defer \$222,646 in excess revenues for 1997; continue to file semi-annual earnings reports; include the deferred revenues as a separate line item in the capital structure for the South Ft. Myers wastewater system, with a cost rate equal to the thirty-day commercial paper rate; and use the current leverage graph formula to calculate the excess earnings for 1998. Any remaining balance in deferred revenues as of December 31, 2000, will be added to CIAC. Any excess earnings for 1998 will be addressed in 1999. (MONIZ)

STAFF ANALYSIS: By Order No. PSC-97-1125-PCO-SU, issued September, 25, 1997, the Commission initiated an investigation into the possible overearnings of FCWC's South Ft. Myers wastewater system. In that order, the Commission determined that the amount of potential overearnings was \$316,076, on an annual basis. However, on June 14, 1996, FCWC was given the authority to increase its annual revenues by \$35,096 or 1.13 percent for a 1996 price index and according to Section 367.081(4)(d), Florida Statutes, an index is subject to refund for up to fifteen months after the date of filing of the annual report for the year the index was implemented. Therefore, only \$280,980 (\$316,076 less \$35,096) or 7.34 percent in annual wastewater revenues were held subject to refund. Using a 12-month time frame, the potential refund, with interest, was estimated to be \$296,566.

After the above order was issued, staff had several phone conversations with the utility about the overearnings situation. On December 5, 1997, staff sent a letter to FCWC requesting that it agree to refund its 1996 index and any excess earnings from 1997 that had been held subject to refund. On January 21, 1998, staff wrote the utility another letter requesting information for determining the amount of the overearnings. On February 17, 1998, staff received a letter from FCWC with an informal proposal addressing the South Ft. Myers wastewater overearnings. The utility proposed that the overearnings were related to a temporary situation which was a direct result of the revenues associated with the Lee County agreement that was scheduled to end in 1998. FCWC proposed that since it was probable that the South Ft. Myers Wastewater system would be underearning after the Lee County revenues had ceased, it would be more appropriate to apply the temporary overearnings to the potential future underearnings.

Upon review, staff had some concerns with the utility's proposal and requested that the utility provide additional supporting documents by March 31, 1998. The utility notified staff that it would not be possible to provide the requested information by the deadline. According to the utility, it had recently lost three employees from its accounting department and was just in the process of closing its books for the year ended December 31, 1997. Staff agreed to allow the utility additional time to file the supporting documents. On June 15, 1998, staff received the information it had requested. Staff reviewed this information and in a letter dated July 6, 1998, staff informed the utility that its original proposal needed to be amplified and amended to clarify the exact amount of the settlement offer. On August 6, 1998, the utility filed with the Commission a formal settlement offer to dispose of the overearnings.

The utility's settlement offer, which is attached to this recommendation, is discussed below:

(1) The utility filed for a price index in 1996, which was effective for service rendered after June 14, 1996. FCWC has requested to defer \$21,606 in price index revenues, including interest, received for the test year ended December 31, 1996.

(2)(a) Pursuant to Order No. PSC-97-1125-PCO-SU, issued September 25, 1997, in this docket, the Commission held \$296,566 in annual revenues, subject to refund with interest. According to the utility's supporting documents, the South Ft. Myers wastewater system had excess revenues of \$339,314 for the test year ended December, 31, 1997. Using the following formula, the utility determined that 31.23 percent (or \$105,978) of its 1997 excess revenues were held subject to refund:

# of days from 9/9/97 (Commission Vote) to 12/31/97	114
# of days in 1997	<u>365</u>
Ratio	31.23%

(2)(b) In its attempt to reach a settlement, the utility has also offered to defer (50%) fifty percent or \$116,668 of the 1997 excess revenues remaining after the removal of the \$105,978. These revenues were not held subject to refund. In exchange for this offer, the utility has requested that it not be required to reduce rates, nor be required to make any refunds.

(3) FCWC will continue to file its semi-annual earnings reports for the South Fort Myers wastewater system.

(4) 1998 overearnings will be addressed in 1999.

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(5) All deferred revenues will be included in the South Ft. Myers wastewater system's capital structure, as a separate line item, with interest accrued at the thirty-day commercial paper rate.

(6) The rate of return on equity for 1998 and later years will be based on the current leverage graph formula.

(7) Any remaining balance in deferred 1997 revenues as of December 31, 2000, will be added to CIAC.

Staff has reviewed the utility's proposal and found several areas of concern that need clarification. First the utility's request to defer its overearnings appears to be a case of first impression for this industry in that the Commission has not addressed revenue deferrals in the water and wastewater industry. Nor has a FPSC regulated water or wastewater utility ever made this type of request. However, it has been addressed by this Commission in other industries.

By Proposed Agency Action (PAA) Order No. PSC-95-0580-FOF-EI, Docket No. 950379-EI, issued May 10, 1995, the Commission allowed Tampa Electric Company (TECO) to defer its 1995 and 1996 excess revenues until 1997. Revenues above its authorized ROE were deferred and included in the capital structure as a separate line item. By PAA Order No. PSC-95-0160-FOF-GU, issued February 6, 1995, Docket No. 950016-GU, the Commission authorized Chesapeake Utilities Corporation to defer its 1994 excess revenues to 1995. In PAA Order No. PSC-93-1572-FOF-TL, the Commission authorized Gulf Telephone Company to defer its 1992 excess revenues to 1993 to correct certain anticipated reserve deficiencies.

Staff has researched the cases listed above and was unable to find any measurable differences between these cases and the FCWC case. Staff believes that water and wastewater utilities should be afforded the opportunity to defer excess revenues, especially, when the long-term benefits exceed the short-term benefits of refunds and temporary rate reductions. Further, by deferring revenues to offset a projected revenue deficiency, the utility's next rate case may be postponed by the application of past overearnings to future periods, rather than refunding the overearnings to the rate payers. Along with postponing a rate case, disposing of the overearnings through a deferral aids in keeping rates levelized. Stable rates are normally less confusing to ratepayers than fluctuating rates.

Staff's next area of concern involves the utility's calculation of its overearnings for 1997. Using the maximum of

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the range of its last overall rate of return (or 9.18%) and an operating income of \$937,965, when grossed up for taxes and regulatory assessments fees, the utility determined that it had \$339,314 in excess earnings (\$937,965-\$735,860) for the test year ended December 31, 1997. Pursuant to Section 367.082(4), Florida Statutes, a refund is calculated by comparing a utility's achieved rate of return to the newly authorized rate of return, which is set by using the leverage graph formula. As addressed in Issue 2, staff is recommending that the Commission change the utility's return on equity to 10.46%. Based on our calculations, the utility's cost of capital for the test year ended December 31, 1997, should be 8.61 percent, which is less than the 9.18 percent used by the utility. Using the new rate of return, staff calculated the utility's 1997 revenue requirement and excess earnings to be \$3,357,594 and \$349,032, respectively. The overearnings calculated by staff are \$9,718 greater than the \$339,314 calculated by the utility.

In addition to the above, staff found that the utility failed to identify the overearnings associated with the 1996 price index collected in 1997 and the accrued interest for 1997. According to our calculations, the 1996 index for 1996 and 1997 including interest accrued through December 31, 2000, equates to \$78,013. Our supporting schedules showing the above calculations are attached to the recommendation.

In the following table, staff has compared the utility's proposal with the amounts that the utility could be required to refund:

<u>Description</u>	<u>FCWC' s Proposal</u>	<u>Staff' s Calculations</u>
1996 Price Index for 1996	\$ 21,280	\$21,280
Interest on 1996 Index	326	326
1966 Price Index for 1997		41,885
Interest through 2000	\$ <u>0</u>	\$ 14,522
Sub-Total	\$ 21,606	\$ 78,013
1997 Revenues Required		
Refund(deferral)	\$105,978	\$106,037
1997 Additional Deferred Amounts	\$116,668	\$ <u>0</u>
Sub-Total	\$222,646	\$106,037
Total	<u>\$243,926</u>	<u>\$184,050</u>

Based on the above and the fact that the utility has offered to defer more revenues than would be required if it were to refund or to lower rates, staff believes FCWC should be allowed to: defer \$21,606 in price index revenues for 1996; defer \$222,646 in excess revenues for 1997; defer all revenues for 1998 in excess of the mid-point of its authorized return on equity; and defer all the above through the test year ending December 31, 2000. Any remaining balance in deferred revenues as of December 31, 2000, will be added to CIAC. The utility should continue to file its semi-annual earnings reports, to allow staff to continue to monitor the earnings situation of the South Ft Myers wastewater facility.

Finally, the deferred revenue should be included in the capital structure as a separate line item. The cost rate should be the thirty-day commercial paper rate as specified in Rule 25-30.360, F.A.C. This is consistent with the treatment allowed in a number of other Commission decisions including the cases discussed earlier in the recommendation.

In the event the Commission does not accept staff's recommendation to defer revenues to the year 2000, the utility should be required to refund its 1996 price index for 1996 and 1997, with interest and its 1997 excess revenues held subject to refund. These refunds should be made with interest as required by Rule 25-30.360 (4), Florida Administrative Code, within 90 days of the effective date of the order. The utility should be required to submit the proper refund reports pursuant to Rule 25-30.360 (7),

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Florida Administrative Code. The refund should be made to customers of record as of the date of the Order pursuant to Rule 25-30.360(3), Florida Administrative Code. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code. Staff has attached accounting schedules illustrating our calculations regarding rate base, capital structure, and test year operating income.

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ISSUE 2: What is the appropriate rate of return on equity?

RECOMMENDATION: Using the current leverage formula, the rate of return on equity should be 10.46%, with a range of 9.46% to 11.46%. (MONIZ)

STAFF ANALYSIS: Based upon the components of staff's adjusted capital structure, as shown on Schedule No. 2, the equity ratio for FCWC is 39.21%. Using the current leverage formula approved by Order No. PSC-97-0660-FOF-WS, issued June 10, 1997, in Docket No. 970006-WS, the appropriate return on equity should be 10.46%. The appropriate range for the return on equity should be 9.46% to 11.46%.

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ISSUE 3: Should this docket be closed?

RECOMMENDATION: No. This docket should remain open until all overearnings have been addressed. Staff will address the 1998 excess earnings in 1999 after we have reviewed the utility's calculations and its 1998 rate of return. However, this proposed agency action shall become final if no substantially affected person timely files a protest. (JAEGER, MONIZ)

STAFF ANALYSIS: This docket should remain open until all overearnings have been addressed. Staff will address the 1998 excess earnings in 1999 after we have reviewed the utility's calculations and its 1998 rate of return. This proposed agency action shall become final if no substantially affected person timely files a protest.

FLORIDA CITIES WATER CO.-SOUTH FT. MYERS DIVISION
 SCHEDULE OF WASTEWATER RATE BASE
 TEST YEAR ENDED 12/31/97

SCHEDULE NO. 1-A
 DOCKET NO. 970991-SU

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 30,533,494	\$ 0	\$ 30,533,494	\$ 0	\$ 30,533,494
2 LAND	0	0	0	0	0
3 NON USED AND USEFUL COMPONENT	(1,576,869)	0	(1,576,869)	0	(1,576,869)
4 CONSTRUCTION WORK IN PROGRESS	0	0	0	0	0
5 ACCUMULATED DEPRECIATION	(10,660,285)	0	(10,660,285)	0	(10,660,285)
6 CIAC	(16,372,769)	0	(16,372,769)	0	(16,372,769)
7 AMORTIZATION OF CIAC	5,671,704	0	5,671,704	0	5,671,704
8 UNFUNDED SFAS 106 OBLIGATION	(297,283)	0	(297,283)	0	(297,283)
9 OTHER: ALLOC. OF GENERAL OFFICE	57,306	0	57,306	0	57,306
10 WORKING CAPITAL ALLOWANCE	387,467	0	387,467	(59,763)	327,704
RATE BASE	\$ 7,742,765	\$ 0	\$ 7,742,765	\$(59,763)	\$ 7,683,002

FLORIDA CITIES WATER CO.-SOUTH FT. MYERS DIVISION
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED 12/31/97

SCHEDULE NO. 1-B
DOCKET NO. 970991-SU
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EXPLANATION	WASTEWATER
WORKING CAPITAL ALLOWANCE To remove PS& I costs related to CWIP	\$ <u> </u> (59,763)

FLORIDA CITIES WATER CO.-SOUTH FT. MYERS DIVISION
 CAPITAL STRUCTURE
 TEST YEAR ENDED 12/31/97

SCHEDULE NO. 2
 DOCKET NO. 970991-SU

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY							
1 LONG TERM DEBT	\$ 31,942,167	\$ 0	\$(28,426,654)	3,515,513	45.76%	7.89%	3.61%
2 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	7,200,000	0	(6,407,577)	792,423	10.31%	9.00%	0.93%
4 COMMON EQUITY	25,241,975	0	(22,463,876)	2,778,099	36.16%	12.44%	4.50%
5 CUSTOMER DEPOSITS	1,090,796	0	(970,744)	120,052	1.56%	6.00%	0.09%
6 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-WTD COST	1,516,881	0	(1,349,935)	166,946	2.17%	9.80%	0.21%
8 DEFERRED INCOME TAXES	<u>2,816,402</u>	0	(2,506,432)	309,970	4.03%	0.00%	0.00%
9 TOTAL CAPITAL	\$ <u>69,808,221</u>	\$ 0	\$(62,125,219)	7,683,002	100.00%		9.34%
PER STAFF							
10 LONG TERM DEBT	\$ 31,942,167	\$ 0	\$(28,426,654)	3,515,513	45.76%	7.89%	3.61%
11 SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
12 PREFERRED STOCK	7,200,000	0	(6,407,577)	792,423	10.31%	9.00%	0.93%
13 COMMON EQUITY	25,241,975	0	(22,463,876)	2,778,099	36.16%	10.46%	3.78%
14 CUSTOMER DEPOSITS	1,090,796	0	(970,744)	120,052	1.56%	6.00%	0.09%
15 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S-WTD COST	1,516,881	0	(1,349,935)	166,946	2.17%	9.02%	0.20%
16 DEFERRED INCOME TAXES	<u>2,816,402</u>	0	(2,506,432)	309,970	4.03%	0.00%	0.00%
17 TOTAL CAPITAL	\$ <u>69,808,221</u>	\$ 0	\$(62,125,219)	7,683,002	100.00%		8.61%
RANGE OF REASONABLENESS					LOW	HIGH	
RETURN ON EQUITY					9.46%	11.46%	
OVERALL RATE OF RETURN					8.25%	8.97%	

FLORIDA CITIES WATER CO.-SOUTH FT. MYERS DIVISION
 STATEMENT OF WASTEWATER OPERATIONS
 Estimated Test Year 1998

SCHEDULE NO. 3-A
 DOCKET NO. 970991-SU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 3,706,626	\$ 0	\$ 3,706,626	\$ 0	\$ 3,706,626	(\$349,032)	3,357,594
OPERATING EXPENSES						-9.42%	
2 OPERATION AND MAINTENANCE	\$ 1,567,606	\$ 0	\$ 1,567,606	\$ 0	\$ 1,567,606	\$	1,567,606
3 DEPRECIATION	611,685	0	611,685	0	611,685		611,685
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	350,809	0	350,809	0	350,809	(15,706)	335,103
6 INCOME TAXES	238,561	0	238,561	68,524	307,085	(125,431)	181,654
7 TOTAL OPERATING EXPENSES	\$ 2,768,661	\$ 0	\$ 2,768,660	\$ 68,524	\$ 2,837,185	(\$141,137)	2,696,048
8 OPERATING INCOME	\$ 937,965	\$ 0	\$ 937,966	(\$68,524)	\$ 869,441	(\$207,895)	661,546
9 RATE BASE	\$ 8,015,904		\$ 7,742,765		\$ 7,683,002		\$ 7,683,002
RATE OF RETURN	11.70%		12.11%		11.32%		8.61%

FLORIDA CITIES WATER CO.-SOUTH FT. MYERS DIVISION
 ADJUSTMENTS TO OPERATING STATEMENTS
 TEST YEAR ENDED 12/31/97

SCHEDULE NO. 3-B
 DOCKET NO. 970991-SU

EXPLANATION	WATER	WASTEWATER
(1) <u>INCOME TAXES</u>		
a) Income taxes associated with adjusted test year income	\$ <u> 0</u>	\$ <u> 68,524</u>
(2) <u>OPERATING REVENUES</u>		
a) Adjustment to reflect recommended revenue requirement	\$ <u> 0</u>	\$ <u> (349,032)</u>
(3) <u>TAXES OTHER THAN INCOME TAXES</u>		
a) Regulatory assessment taxes related to revenue decrease	\$ <u> 0</u>	\$ <u> (15,706)</u>
(4) <u>INCOME TAXES</u>		
a) Income taxes related to revenue decrease	\$ <u> 0</u>	\$ <u> (125,431)</u>

FLORIDA CITIES WATER CO.-SOUTH FT. MYERS DIVISION
 1996 PRICE INDEX
 TEST YEAR ENDED 12/31/97

SCHEDULE NO. 4-A
 DOCKET NO. 970991-SU

DATE	\$ AMOUNT OF REVENUES	% OF REFUND	\$ AMT OF REFUND	AVG INT RATE FOR YEAR	MONTHLY INTEREST RATE	MONTHLY INTEREST AMOUNT	CUMULATIVE REFUND AMOUNT
Jul-96	249,325	1.13%	2,817	5.485%	0.45708%	13	2,830
Aug-96	313,852	1.13%	3,547	5.425%	0.45208%	29	6,406
Sep-96	296,912	1.13%	3,355	5.420%	0.45167%	44	9,805
Oct-96	309,124	1.13%	3,493	5.410%	0.45083%	60	13,358
Nov-96	342,357	1.13%	3,869	5.415%	0.45125%	78	17,304
Dec-96	371,658	1.13%	4,200	5.700%	0.47500%	102	21,606
Jan-97	313,081	1.13%	3,538	5.700%	0.47500%	119	25,263
Feb-97	313,081	1.13%	3,538	5.440%	0.45333%	131	28,932
Mar-97	313,081	1.13%	3,538	5.585%	0.46542%	151	32,621
Apr-97	313,081	1.13%	3,538	5.680%	0.47333%	171	36,330
May-97	313,081	1.13%	3,538	5.610%	0.46750%	186	40,054
Jun-97	313,081	1.13%	3,538	5.610%	0.46750%	204	43,795
Jul-97	313,081	1.13%	3,538	5.620%	0.46833%	204	47,537
Aug-97	313,081	1.13%	3,538	5.600%	0.46667%	238	51,314
Sep-97	361,298	1.13%	4,083	5.545%	0.46208%	256	55,652
Oct-97	323,238	1.13%	3,653	5.530%	0.46083%	273	59,578
Nov-97	268,732	1.13%	3,037	5.565%	0.46375%	290	62,905
Dec-97	248,710	1.13%	2,810	5.675%	0.47292%	311	66,026
Jan-98			0	5.625%	0.46875%	309	66,336
Feb-98			0	5.515%	0.45958%	305	66,641
Mar-98			0	5.540%	0.46167%	308	66,948
Apr-98			0	5.540%	0.46167%	309	67,257
May-98			0	5.577%	0.46475%	313	67,570
Jun-98			0	5.577%	0.46475%	314	67,884
Jul-98			0	5.577%	0.46475%	315	68,200
Aug-98			0	5.577%	0.46475%	317	68,517
Sep-98			0	5.577%	0.46475%	318	68,835
Oct-98			0	5.577%	0.46475%	320	69,155
Nov-98			0	5.577%	0.46475%	321	69,476
Dec-98			0	5.577%	0.46475%	323	69,799
Jan-99			0	5.577%	0.46475%	324	70,124
Feb-99			0	5.577%	0.46475%	326	70,449
Mar-99			0	5.577%	0.46475%	327	70,777
Apr-99			0	5.577%	0.46475%	329	71,106
May-99			0	5.577%	0.46475%	330	71,436
Jun-99			0	5.577%	0.46475%	332	71,768
Jul-99			0	5.577%	0.46475%	334	72,102
Aug-99			0	5.577%	0.46475%	335	72,437
Sep-99			0	5.577%	0.46475%	337	72,774
Oct-99			0	5.577%	0.46475%	338	73,112
Nov-99			0	5.577%	0.46475%	340	73,452
Dec-99			0	5.577%	0.46475%	341	73,793
Jan-2000			0	5.577%	0.46475%	343	74,136
Feb-2000			0	5.577%	0.46475%	345	74,480
Mar-2000			0	5.577%	0.46475%	346	74,827
Apr-2000			0	5.577%	0.46475%	348	75,174
May-2000			0	5.577%	0.46475%	349	75,524
Jun-2000			0	5.577%	0.46475%	351	75,875
Jul-2000			0	5.577%	0.46475%	353	76,227
Aug-2000			0	5.577%	0.46475%	354	76,582
Sep-2000			0	5.577%	0.46475%	356	76,937
Oct-2000			0	5.577%	0.46475%	358	77,295
Nov-2000			0	5.577%	0.46475%	359	77,654
Dec-2000			0	5.577%	0.46475%	361	78,015

GATLIN, SCHIEFELBEIN & COWDERY, P.A.

Attorneys at Law

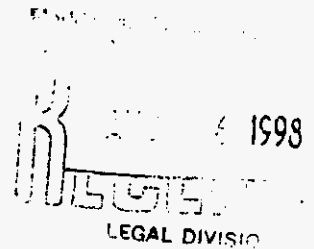
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August 6, 1998



Ralph R. Jaeger, Senior Attorney
Division of Legal Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

HAND DELIVERY

Re: Docket No. 970991-SU, Investigation into Rates and Charges of Florida Cities Water Company - Lee County Division (South Fort Myers Wastewater System) for potential over earnings

Dear Mr. Jaeger:

In response to your letter to Mike Murphy dated July 6, 1998, Florida Cities Water Company (FCWC) proposes to dispose of this over earnings investigation with the following offer of settlement, based upon Mike Murphy's letters of March 23 and July 21, 1998, as follows:

- 1) Defer \$21,606 (includes accrued interest for 1996) in price index revenues for 1996.
- 2) Defer \$222,646 in excess revenues for 1997 - this includes \$105,978 (utility's calculation of 1997 over earnings held subject to refund), and \$116,678 (50% of 1997 earnings not held subject to refund).
- 3) Continue to file semi-annual earnings reports.
- 4) 1998 over earnings will be addressed in 1999. (Based on Staff's review of the semi-annual reports, additional revenues may be subject to deferral in 1998 and later years.)
- 5) Include deferred revenues in the capital structure of

Letter to Ralph Jaeger
August 6, 1998
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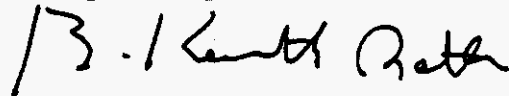
South Fort Myers wastewater system as a separate line item, with a cost rate equal to the thirty-day commercial paper rate.

- 6) Rate of return on equity for 1998 and later years will be based on the current leverage graph formula.
- 7) Any remaining balance in deferred revenues as of December 31, 2000 will be added to CIAC.

It is our understanding that the Staff agrees with this proposal.

Please place this offer of settlement before the Commission at your earliest convenience.

Very truly yours,



B. Kenneth Gatlin

BKG/ldv