



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

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DATE: AUGUST 5, 1999

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

FROM: DIVISION OF WATER AND WASTEWATER (QUIJANO, MERCHANT)
DIVISION OF LEGAL SERVICES (CIBULA) *S.M.C. 108*

RE: DOCKET NO. 981258-WS - LAKE WALES UTILITY CO., LTD. -
INVESTIGATION OF WATER AND WASTEWATER RATES FOR POSSIBLE
OVEREARNINGS
COUNTY: POLK

AGENDA: 08/17/99 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PARTIES MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\WAW\WP\981258WS.RCM

CASE BACKGROUND

Lake Wales Utility Co., Ltd. (Lake Wales or Utility) is a Class B utility providing water and wastewater service for approximately 84 residential and 15 general service water and wastewater customers in Polk County since 1962. The utility's systems are located in Fedhaven. For the twelve months ended December 31, 1997, the utility reported water operating revenues of \$140,740 and a net operating income of \$33,120. Wastewater operating revenues were \$214,793, with a net operating income of \$76,907.

Lake Wales became subject to the jurisdiction of the Public Service Commission on May 14, 1996. In Order No. PSC-97-0567-FOF-WS, the utility was granted grandfather certificates to provide water and wastewater service. Rate Base was last set by Polk County in a 1991 Rate Increase Resolution dated February 2, 1992.

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

DOCKET NO. 981258-WS

DATE: August 5, 1999

A pass-through for regulatory assessment fees was granted by this Commission on February 20, 1997.

Based on staff's desk audit for the 1997 annual report, Lake Wales appeared to be earning an overall rate of return of 81.56% for water and 28.30% for wastewater. Therefore, by Order No. PSC-98-1570-FOF-WS, issued on November 23, 1998, the Commission initiated an investigation into Lake Wales' water and wastewater rates and held revenues subject to refund. By letter dated June 24, 1999, staff provided the utility with a list of proposed adjustments for a possible settlement of the 1998 overearnings. Staff believes that the overearnings are temporary and that a reasonable resolution is to defer the overearnings to offset potential future underearnings. The utility responded with an offer of settlement, by letters dated July 7 and 21, 1999, which agrees with staff's adjustments and the deferral of excess earnings. This recommendation addresses the resolution of these non-recurring overearnings.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission accept the utility's offer of settlement which adopts staff's adjustments to establish water and wastewater rate base, defers 1998 overearnings to offset future potential underearnings, and requires the utility to submit semi-annual reports for its water and wastewater systems?

RECOMMENDATION: Yes. The Commission should accept the utility's offer of settlement. (QUIJANO)

STAFF ANALYSIS: By Order No. PSC-98-1570-FOF-WS, issued November 23, 1998, the Commission initiated an investigation for possible overearnings of the water and wastewater systems of Lake Wales Utility Co., Ltd. (Lake Wales or utility). In that order, the Commission determined that the amount of potential overearnings was \$28,719 in water and \$49,867 in wastewater. These revenues were held subject to refund pending the Commission's final determination in this case. An audit was initiated on November 4, 1998 and received on December 15, 1998 verifying the rate base, capital structure, and net operating income for the test year of December 31, 1997. After examining the auditor's report, staff believes that Lake Wales still appears to be overearning. Staff requested a meeting with the utility on March 11, 1999. During the meeting, staff requested the utility to submit its expected capital expenditures for 1999 and a list of expenses the utility expects to recur annually in addition to its 1998 level of operating expenses.

On May 20, 1999, Lake Wales submitted its expected 1999 capital expenditures and incremental expenses. Staff examined the 1998 Annual Report and projected 1999 earnings based on the submitted data. After including the utility's projected 1999 proforma plant and expense items, staff believes that the utility's 1999 earnings will be within or even below a fair rate of return. Accordingly, staff does not believe that a prospective rate reduction is warranted. Staff believes that a refund and/or possible rate reduction may not be beneficial to the customers or shareholders. Furthermore, if staff applies the excess earnings in 1998 to offset any potential underearnings in 1999, this may postpone or avoid the need for future rate increases. Based on our analysis, and the information submitted by the utility, it does not appear that the overearnings will continue into 1999. Staff believes that a more reasonable alternative is to defer 1998 overearnings to offset potential future underearnings.

Lake Wales has low service rates, good customer service, and minimal water and wastewater treatment plant requirements which

result in a small rate base. It is also staff's understanding that the utility has been trying to keep expenses low to be cost effective.

By letter dated June 24, 1999, staff provided the utility with a list of proposed adjustments for a possible settlement of the 1998 overearnings. The utility responded with an offer of settlement, by letters dated July 7 and 21, 1999, which agrees with staff's adjustments to defer the excess earnings.

The Commission has previously addressed revenue deferrals in the water and wastewater industry. By Proposed Agency Action (PAA) Order NO. PSC-98-1384-FOF-SU, issued October 14, 1998, in Docket No. 970991-SU, the Commission allowed Florida Cities Water Company, the South Ft. Myers wastewater system, to defer its 1996 and 1997 revenues until 2000. See also PAA Order No. PSC-95-0580-FOF-EI, issued May 10, 1995, in Docket No. 950379-EI; and PAA Order No. PSC-95-0160-FOF-GU, issued February 6, 1995, in Docket No. 950016-GU.

The entire settlement offer by Lake Wales contains twenty items (See Attachment). The settlement offer is basically self-explanatory and this staff analysis addresses only a few items for the sake of clarity.

Rate Base - For purposes of measuring excess earnings, the appropriate test year rate base should be \$68,638 for water and \$241,248 for wastewater for 1998. The rate base schedules are attached as Schedules Nos. 1-A and 1-B and the adjustments to rate base are attached as Schedule No. 1-C.

Cost of Capital - Based on the components of staff's adjusted capital structure, as shown on Schedule No. 2, the appropriate rate of return on equity for prospective rate setting purposes should be 8.93%, with a range of 7.93% to 9.93%. This is calculated using the current leverage formula approved in Order No. PSC-99-1224-PAA-WS, issued June 21, 1999, in Docket No. 990006-WS. The appropriate range of the overall cost of capital for prospective rate setting purposes should be 7.94% to 9.92%. For purposes of this settlement, staff recommends that the maximum of the range of 9.92% should be used to determine any excess earnings.

Operating Income - The utility has stated in the information submitted to staff that Lake Wales does not expect any growth in revenues for water and wastewater in 1999. However, the utility expects to increase its operating and maintenance expenses for water and wastewater in 1999 due to recurring expenses as detailed in the attached offer of settlement. After including the utility's

projected 1999 pro forma plant and expense items, staff believes that the utility's 1999 earnings will be within or even below a fair rate of return. Accordingly, staff does not believe that a prospective rate reduction is warranted. Furthermore, if staff applies the excess earnings in 1998 to offset any potential underearnings in 1999, this may postpone or avoid the need for future rate increases. The schedules for operating income which present the calculation of excess earnings for 1998 are attached as Schedules Nos. 3-A and 3-B and the adjustments to operating income are attached as Schedule No. 3-C. The comparative schedule for rate base and operating income of 1998 staff adjusted and 1999 staff estimated is attached as Schedule No. 4.

Revenue Requirement - In calculating the amount of 1998 excess earnings, the appropriate revenue requirement for water and wastewater combined is \$316,659. This results in a decrease in revenue of \$10,202, or a 3.12% decrease.

Deferral of Excess Earnings - The total amount of excess earnings for the test year ended December 31, 1998, equals \$10,202 of operating income, excluding interest. This amount of deferred income should be recorded on the utility's books as a deferred credit. According to Rule 25-30.360, Florida Administrative Code, interest should be calculated on this amount based on the 30-day commercial paper rate. As of July 31, 1999, the amount of this liability is \$10,548.

Reporting Requirements - As agreed to in the offer of settlement, the utility should submit semi-annual operation reports for its water and wastewater systems. These include the schedules of rate base, net operating income and the balance sheet. The first report for the year ending June 30, 1999 will be due on August 31, 1999. The second report will be the PSC annual report which will be due on March 31, 2000. The utility has agreed that an automatic extension for filing its annual report will not be requested or granted as provided for by Rule 25.30.110(3)(c), Florida Administrative Code.

If, upon staff's review of the semi-annual reports for 1999, it appears that the utility is not spending the amounts it informed the Commission that it would and as a result earned excess revenues, the utility agrees that the amounts deferred will continue to be subject to refund until they are utilized or until December 31, 2000. If staff's review of the 1999 semi-annual reports reflect that the utility can offset the underearnings with all of the deferred excess earnings, then staff will inform the utility that the semi-annual reports will no longer be required. At that time, the utility's corporate undertaking may be released.

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If overearnings continue into 1999, staff will then investigate whether deferral of excess earnings is still appropriate.

For future rate setting purposes, any remaining balance of deferred income should be included in the utility's capital structure, as a separate line item, with interest accrued at the thirty-day commercial paper rate.

Summary - Based on the above, staff believes that the offer to defer 1998 overearnings to offset future potential underearnings is reasonable and should be approved.

DOCKET NO. 981258-WS
DATE: August 5, 1999

ISSUE 2: Should this docket be closed?

RECOMMENDATION: No. If no timely protest is received upon expiration of the protest period, the order should become final and effective upon the issuance of a consummating order. This docket should remain open after the issuance of the consummating order until all overearnings have been addressed. Staff will address the 1999 earnings in 2000 after we have reviewed the utility's 1999 rate of return. Upon staff's verification that 1998 overearnings are absorbed into 1999 earnings, the docket should be closed administratively. (QUIJANO, CIBULA)

STAFF ANALYSIS: If no timely protest is received upon expiration of the protest period, the order should become final and effective upon the issuance of a consummating order. This docket should remain open after the issuance of the consummating order until all overearnings have been addressed. Staff will address the 1999 earnings in 2000 after we have reviewed the utility's 1999 rate of return. Upon staff's verification that 1998 overearnings are absorbed into 1999 earnings, the docket should be closed administratively.

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DATE: August 5, 1999

LAKE WALES UTILITY CO.

P.O. Box 9076 • Lakeshore, Florida 33854 • (941) 696-1128 • Fax (941) 696-3502 • e-mail: lwuco@gte.net

OFFER OF SETTLEMENT
DOCKET NO. 981258-WS

PAGE 1 OF 6

July 7, 1999

Samantha M. Cibula
Staff Counsel
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 981258-WS Investigation of Water and Wastewater
Rates for Lake Haven Utility Association, Ltd. d/b/a Lake Wales
Utility Co., Ltd. in Polk County for possible overearnings.

Dear Mrs./Ms. Cibula:

In accordance with our phone conversation of July 6, 1999 and pursuant
To your letter dated June 24, 1999, Lake Wales Utility Co., Ltd. submits the
Following:

1. Adoption and institution of Public Service Commission staff adjustments
For the year ending December 31, 1998.
2. Defer the excess earnings to offset any potential underearnings in 1999.

Should any question/comment arise please contact me at (941) 696-1128

Sincerely
David K. Pearce
David K. Pearce
Manager

Co:
Mr. Mark R. Rubin, Esq.
Elda M. Quijano (PSC Professional Accountant)

DOCKET NO. 981258-WS
DATE: August 5, 1999

LAKE WALES UTILITY CO.

P.O. Box 9076 • Lakeshore, Florida 33854 • (941) 696-1128 • Fax (941) 696-3502 • e-mail: lwuco@gte.net

July 21, 1999

OFFER OF SETTLEMENT
DOCKET NO. 981258-WS

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Elda M. Quijano
Professional Accountant
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 981258-WS Investigation of Water and Wastewater
Rates for Lake Haven Utility Association, Ltd. d/b/a Lake Wales Utility
Co., Ltd. in Polk County for possible overearnings.

Dear Mrs. Quijano:

In response to your E-Mail of July 21, 1999 the following is submitted:

1. Lake Wales Utility Co., Ltd is in agreement with and is presently Making the proposed and pro forma adjustments to our books as Outlined in PSC Letter dated June 24, 1999.
2. Should any further question arise please contact me at (941) 696-1128. Thanks for your patience and understanding.

Sincerely,
David K. Pearce
David K. Pearce
Manager

Cc: File

LAKE WALES UTILITY CO., LTD.
 OFFER OF SETTLEMENT
 DOCKET NO. 981258-WS

PROPOSED ADJUSTMENTS FOR THE YEAR ENDED DECEMBER 31. 1998

RATE BASE

1. Plant in Service - water should be increased by \$1,242 to capitalize the cost of meters purchased on March 20, 1997 that were expensed on the company's books in 1997 (Audit Control No. 98-286-2-1, Disclosure No. 5).
2. The utility's water depreciation rates should be adjusted as set forth in Rule 25-30.140, Florida Administrative Code. Water accumulated depreciation should be decreased by \$6,695 and depreciation expense should be increased by \$1,287 in order to calculate the refund amount. The utility made the necessary adjustment in 1998 but failed to adjust the prior year 1997.

	<u>UPIS</u>	<u>ACC DEP</u>
#304 Structures and Improvements	79	79
#307 Wells and Springs	-	(8,049)
#311 Pumping Equipment	77	795
#320 Water Equipment	(80)	70
#330 Distribution and Reservoirs	-	184
#331 Transmission and Distribution	-	(187)
#334 Meter and Meter Installation	* 1,242	1,109
#335 Hydrants	-	-
#340 Office Furniture and Equipment	-	(25)
#345 Power Operated Equipment	(77)	(671)

* See No. 1 above

3. The utility's wastewater depreciation should be adjusted as set forth in Rule 25-30.140, Florida Administrative Code. Wastewater accumulated depreciation should be increased by \$12,558 and depreciation expense should be increased by \$1,987 in order to calculate the refund amount. The utility made the necessary adjustment in 1998 but fail to adjust the prior year 1997.

	<u>ACC DEP</u>
#354 Structures - Improvements	268
#360 Collection Sewers - Force	524
#361 Collection Sewers - Gravity	(240)
\$363 Services to Customers	67
#371 Pumping Equipment	32

#380 Treat/Disposal Equipment	12,451
#390 Office Furniture and Equipment	(503)
#394 Laboratory Equipment	(20)
#395 Power Operated Equipment	-
#398 Other Tangible Plant	(22)

4. The utility's amortization rate for CIAC - water should be adjusted as set forth in Rule 25.30-140, Florida Administrative Code. In calculating the refund amount, an adjustment should be made to increase accumulated amortization of CIAC by \$1,190 and CIAC amortization expense by \$659.
5. The utility's amortization rate for CIAC - wastewater should be adjusted as set forth in Rule 25.30-140, Florida Administrative Code. In calculating the refund amount, an adjustment should be made to increase accumulated amortization of CIAC by \$2,905 and CIAC amortization expense by \$1,421.
6. The working capital allowance should be calculated using the formula method (one-eighth of operation and maintenance expenses), pursuant to Rule 25-30.433, Florida Administrative Code. The appropriate working capital allowance is \$28,699 ($\$231,902 \times 1/8$) which is a decrease of \$289 to the utility's calculated balance.
7. For purposes of calculating the refund amount, the appropriate test year rate base should be \$68,638 for water and \$241,248 for wastewater, or a total of \$309,886.

CAPITAL STRUCTURE

8. The appropriate rate of return on equity for prospective rate setting purposes should be 8.93%, with a range of 7.93% - 9.93%. This is calculated using the current leverage formula approved in Docket No. 990006-WS, at the agenda dated June 1, 1999. For purposes of this settlement the maximum of the range of 9.93% should be used to determine any excess earnings.
9. The appropriate range for the overall cost of capital for prospective rate setting purposes should be 7.94% to 9.92%. For purposes of this settlement the maximum of the range of 9.92% should be used to determine any excess earnings.

NET OPERATING INCOME

10. Contractual Services - Other - This account should be increased to include the cost of the water tank renovation of

\$21,152 in 1997 which was amortized for 5 years. Therefore, the amount of \$4,230 ($\$21,152/5$ years) should be added to Operating and Maintenance Expense. However, the utility's annual report should be decreased by \$2,312 to correct entries made using the cash basis instead of the accrual accounting.

11. Taxes Other than Income - the utility's first revised annual report erroneously includes the 1997 regulatory assessment fees with the 1998 fees. This results in an overstatement of \$6,450 for water and \$8,494 for wastewater.
12. The utility does not use the accrual basis of accounting. As provided for by NARUC Uniform System of Accounts, Accounting Instruction No. 30, monthly accounting using the accrual method should be used.

REVENUE REQUIREMENT

13. In calculating the amount of excess earnings, the appropriate revenue requirement for combined water and wastewater is \$316,659, which results in a decrease in revenue of \$10,202, or a 3.12% decrease.

RATES

14. The total amount of excess earnings for the test year ended December 31, 1998, equals \$10,202 of operating income, excluding interest. This amount of deferred income should be recorded on the utility's books as a deferred credit. Interest should be calculated on this. As of May 31, 1999, the amount of this liability is \$10,454.
15. The utility should submit semi-annual operation reports for its water and wastewater systems. These include the schedules of rate base, net operating income and the balance sheet. The first report for the year ending June 30, 1999 will be due on August 31, 1999. The second report will be the PSC annual report which will be due on March 31, 2000, with a stipulation that an automatic extension will not be requested or granted as provided for by Rule 25.30.110(3)(c), Florida Administrative Code. If, upon staff's review of the semi-annual reports for 1999, it appears that the utility is not spending the amounts it informed the Commission that it would and as a result earned excess revenues, the utility agrees that the amounts deferred will continue to be subject to refund until they are utilized or until December 31, 2000. However, if upon staff's review of the semi-annual reports for 1999, it appears that the utility has enough underearnings to

cover the deferred excess earnings, then staff will inform the utility that the semi-annual reports will no longer be required. If overearnings continue into 1999, staff will then reconsider whether deferral of excess earning is appropriate.

16. For future rate setting purposes, any remaining balance of deferred income will be included in Lake Wales' capital structure, as a separate line item, with interest accrued at the thirty-day commercial paper rate.
17. The utility's corporate undertaking may be released upon staff's verification that the overearnings have been addressed.

PRO FORMA ADJUSTMENTS FOR THE YEAR ENDED DECEMBER 31, 1999

RATE BASE

18. Plant in Service - The utility will have the following additional capital expenditures for 1999 (estimated cost):

Computer Systems Replacement and Upgrade	\$5,444
Transportation Equipment	\$6,455
Radio Communication Equipment	\$2,100
Collection Sewers - Gravity (storm water dishes)	\$2,400

OPERATING INCOME

19. The utility does not expect a growth in revenues for water and wastewater for 1999.
20. The utility expects to increase its operating and maintenance expenses for water and wastewater in 1999 due to the following recurring expenses.

Additional Employee (operation/maintenance)	\$11,200
Increased Insurance Costs	\$4,550
Additional Vehicle Lease	\$4,396
Present employee wage increase	\$3,920
Uniform maintenance/replacement	\$1,200
Labor costs (grounds maintenance, spray field maintenance, equipment operator, etc.)	\$10,560
Water Plant Ground Storage Tank	\$2,000
Liquid Sludge Disposal	\$4,200
Collection System Cleaning and Repair	<u>\$5,000</u>
Total Expected Additional Expenses	<u>\$47,026</u>

DOCKET NO. 981258-WS
 DATE: August 5, 1999

LAKE WALES UTILITY CO., LTD. SCHEDULE OF WATER RATE BASE TEST YEAR ENDED 12/31/98		SCHEDULE NO. 1-A DOCKET 981258-WS			
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$456,297	\$0	\$456,297	\$1,242	\$457,539
2 LAND & LAND RIGHTS	\$14,473	\$0	\$14,473	\$0	\$14,473
3 NON-USED & USEFUL COMPONENTS	\$0	\$0	\$0	\$0	\$0
4 ACCUMULATED DEPRECIATION	(\$365,985)	\$0	(\$365,985)	\$6,695	(\$359,290)
5 CIAC	(\$218,832)	\$0	(\$218,832)	\$0	(\$218,832)
6 AMORTIZATION OF CIAC	\$162,149	\$0	\$162,149	\$1,190	\$163,339
7 CWIP	\$0	\$0	\$0	\$0	\$0
8 ADVANCES FOR CONSTRUCTION	\$0	\$0	\$0	\$0	\$0
9 UNFUNDED POST-RETIRE. BENEFITS	\$0	\$0	\$0	\$0	\$0
10 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	\$0
11 WORKING CAPITAL ALLOWANCE	\$11,698	\$0	\$11,698	(\$289)	\$11,409
12 OTHER	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
RATE BASE	<u>\$59,800</u>	<u>\$0</u>	<u>\$59,800</u>	<u>\$8,838</u>	<u>\$68,638</u>

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DATE: August 5, 1999

LAKE WALES UTILITY CO., LTD. SCHEDULE OF WASTEWATER RATE BASE TEST YEAR ENDED 12/31/98			SCHEDULE NO. 1-B DOCKET 981258-WS		
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$654,840	\$0	\$654,840	\$0	\$654,840
2 LAND	\$34,247	\$0	\$34,247	\$0	\$34,247
3 NON-USED & USEFUL COMPONENTS	\$0	\$0	\$0	\$0	\$0
4 ACCUMULATED DEPRECIATION	(\$442,046)	\$0	(\$442,046)	(\$12,558)	(\$454,604)
5 CIAC	(\$158,856)	\$0	(\$158,856)	\$0	(\$158,856)
6 AMORTIZATION OF CIAC	\$145,425	\$0	\$145,425	\$2,905	\$148,330
7 ACQUISITION ADJUSTMENTS - NET	\$0	\$0	\$0	\$0	\$0
8 ADVANCES FOR CONSTRUCTION	\$0	\$0	\$0	\$0	\$0
9 UNFUNDED POST-RETIRE. BENEFITS	\$0	\$0	\$0	\$0	\$0
10 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	\$0
11 WORKING CAPITAL ALLOWANCE	\$17,290	\$0	\$17,290	\$0	\$17,290
12 OTHER	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
RATE BASE	<u>\$250,900</u>	<u>\$0</u>	<u>\$250,900</u>	<u>(\$9,653)</u>	<u>\$241,247</u>

LAKE WALES UTILITY CO., LTD.
 ADJUSTMENTS TO RATE BASE
 TEST YEAR ENDED 12/31/98

SCHED. NO. 1-C
 DOCKET 981258-WS
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EXPLANATION		WATER	WASTEWATER
<u>PLANT IN SERVICE</u>			
1	To capitalize meters purchased in 1997	<u>1,242</u>	<u>2</u>
<u>ACCUMULATED DEPRECIATION</u>			
1	To adjust for the accumulated depreciation in 1997 using Water and Wastewater System Guideline for Average Service	<u>6,695</u>	<u>(12,558)</u>
<u>ACCUM. AMORT. OF CIAC</u>			
1	To adjust the Amortization of CIAC in 1997	531	1,484
2	To adjust the Amortization of CIAC in 1998	659	1,421
	Total	<u>1,190</u>	<u>2,905</u>

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LAKE WALES UTILITY CO., LTD.
 CAPITAL STRUCTURE
 TEST YEAR ENDED 12/31/98

SCHEDULE NO. 2
 DOCKET 981258-WS

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED		COST RATE	WEIGHTED COST
				TO RATE BASE	RATIO		
1 LONG TERM DEBT	\$1,827	\$0	\$347	\$2,174	0.70%	8.50%	0.06%
2 SHORT-TERM DEBT	\$0	\$0	\$0	\$0	0.00%	9.32%	0.00%
3 PREFERRED STOCK	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
4 COMMON EQUITY	\$258,651	\$0	\$49,060	\$307,711	99.30%	9.93%	9.86%
5 CUSTOMER DEPOSITS	\$0	\$0	\$0	\$0	0.00%	6.00%	0.00%
6 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-ZERO COST	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
8 DEFERRED ITC'S-WTD. COST	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
9 OTHER	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
10 TOTAL CAPITAL	<u>\$260,478</u>	<u>\$0</u>	<u>\$49,407</u>	<u>\$309,885</u>	<u>100.00%</u>		<u>9.92%</u>
						<u>LOW</u>	<u>HIGH</u>
				RETURN ON EQUITY		<u>7.93%</u>	<u>9.93%</u>
				OVERALL RATE OF RETURN		<u>7.94%</u>	<u>9.92%</u>

DOCKET NO. 981258-WS
 DATE: August 5, 1999

LAKE WALES UTILITY CO., LTD. STATEMENT OF WATER OPERATIONS TEST YEAR ENDED 12/31/98		SCHEDULE NO. 3-A DOCKET 981258-WS					
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$127,512	\$0	\$127,512	\$0	\$127,512	(\$12,527) -9.82%	\$114,985
OPERATING EXPENSES:							
2 OPERATION AND MAINTENANCE	\$93,584	\$0	\$93,584	(\$2,312)	\$91,272	\$0	\$91,272
3 DEPRECIATION	\$7,093	\$0	\$7,093	\$628	\$7,721	\$0	\$7,721
4 AMORTIZATION	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5 TAXES OTHER THAN INCOME	\$16,193	\$0	\$16,193	(\$6,450)	\$9,743	(\$564)	\$9,179
6 INCOME TAXES	\$0	\$0	\$0	\$0	\$0	\$0	\$0
7 TOTAL OPERATING EXPENSES	\$116,870	\$0	\$116,870	(\$8,134)	\$108,736	(\$564)	\$108,173
8 OPERATING INCOME	\$10,642	\$0	\$10,642	\$8,134	\$18,776	(\$11,964)	\$6,812
9 RATE BASE	\$59,800		\$59,800		\$68,638		\$68,638
10 RATE OF RETURN	17.80%		17.80%		27.35%		9.92%

DOCKET NO. 981258-WS
 DATE: August 5, 1999

LAKE WALES UTILITY CO., LTD. STATEMENT OF WASTEWATER TEST YEAR ENDED 12/31/98		SCHEDULE NO. 3-B DOCKET 981258-WS					
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$199,349	0	\$199,349	\$0	\$199,349	\$0 0.00%	\$199,349
OPERATING EXPENSES							
2 OPERATION AND MAINTENANCE	138,318	0	\$138,318	\$0	\$138,318	\$0	\$138,318
3 DEPRECIATION	22,952	0	\$22,952	\$566	\$23,518	\$0	\$23,518
4 AMORTIZATION	0	0	\$0	\$0	\$0	\$0	\$0
5 TAXES OTHER THAN INCOME	\$24,285	\$0	\$24,285	(\$8,494)	\$15,791	\$0	\$15,791
6 INCOME TAXES	\$0	\$0	\$0	\$0	\$0	\$0	\$0
7 TOTAL OPERATING EXPENSES	\$185,555	\$0	\$185,555	(\$7,928)	\$177,627	\$0	\$177,627
8 OPERATING INCOME	\$13,794	\$0	\$13,794	\$7,928	\$21,722	\$0	\$21,722
9 RATE BASE	\$250,900		\$250,900		\$241,247		\$241,247
10 RATE OF RETURN	5.50%		5.50%		9.00%		9.00%

DATE: August 5, 1999

LAKE WALES UTILITY CO., LTD.
 ADJUSTMENTS TO OPERATING INCOME
 TEST YEAR ENDED 12/31/98

SCHED. NO. 3-C
 DOCKET 981258-WS
 PAGE 1 OF 1

EXPLANATION	WATER	WASTEWATER
<u>OPERATING EXPENSE</u>		
1 To adjust Account No. 636, Contractual Service - Others due amortization of water tank repainting for 5 years	<u>(2,312)</u>	<u>0</u>
<u>DEPRECIATION EXPENSE</u>		
1 To adjust for the depreciation expense net of amortization of CIAC for 1997 using the Water/Wastewater System Guideline	<u>628</u>	<u>566</u>
<u>TAXES OTHER THAN INCOME</u>		
1 To correct overstated test RAFs. Total	<u>(6,450)</u>	<u>(8,494)</u>

DOCKET NO. 981258-WS

DATE: August 5, 1999

LAKE WALES UTILITY CO., LTD. COMPARATIVE SCHEDULE OF WATER AND WASTEWATER FOR 1998 AND 1999		SCHEDULE NO. 4 DOCKET NO. 981258-WS		
<u>RATE BASE</u>	<u>STAFF</u> <u>ADJUSTED</u> <u>1998</u>	<u>STAFF</u> <u>ESTIMATED</u> <u>1999</u>	<u>% INCREASE</u> <u>OR DECREASE</u> <u>1998-99</u>	
1 PLANT IN SERVICE	1,112,3	1,128,777	1.47%	
2 LAND AND LAND RIGHTS	48,720	48,720	0.00%	
3 ACCUM DEPRECIATION	(813,89	(861,678)	5.87%	
4 C I A C	(377,68	(381,001)	0.88%	
5 AMORT OF CIAC	311,669	327,000	4.92%	
6 WORKING CAPITAL	28,699	34,524	20.30%	
7 RATE BASE	309,886	296,342	-4.37%	
<u>NET OPERATING INCOME</u>				
1 OPERATING REVENUES	316,659	326,861	3.22%	
OPERATING EXPENSES				
2 OPERATING EXPENSE	229,590	276,191	20.30%	
3 DEPRECIATION EXPENSE	31,239	32,454	3.89%	
4 AMORTIZATION EXPENSE	0	0	0.00%	
5 TAXES OTHER THAN INCOME	25,075	25,534	1.83%	
6 OTHER	0	0	0.00%	
7 INCOME TAXES	0	0	0.00%	
8 TOTAL EXPENSES	285,904	334,179	16.89%	
9 NET OPERATING INCOME (LOSS)	30,755	(7,318)	-123.79%	
10 RATE OF RETURN	9.92%	-2.47%	-124.88%	