



Public Service Commission

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DATE: AUGUST 17, 2000

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

FROM: DIVISION OF ECONOMIC REGULATION (CASEY RENDELL) RM
DIVISION OF LEGAL SERVICES (FUDGE) *RF*

RE: DOCKET NO. 000715-SU - INVESTIGATION OF POSSIBLE
OVEREARNINGS BY NORTH PENINSULA UTILITIES CORPORATION
COUNTY: VOLUSIA

AGENDA: 08/29/00 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 10/29/00 - 90-DAY WAIVER RECEIVED FOR 15-MONTH
REFUND OF INDEX AND PASS-THROUGH ADJUSTMENT
PURSUANT TO SECTION 367.081(4)(d), FLORIDA
STATUTES

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\000715.RCM

DOCUMENT NUMBER: DATE
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PSC-RECORDS/REPORTING

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CASE BACKGROUND

North Peninsula Utilities Corporation (North Peninsula or utility) is a Class C wastewater only utility located in Volusia County. The following was obtained from the utility's 1998 annual report:

<u>Number of Customers</u>	<u>Operating Revenues</u>	<u>Operating Expenses</u>	<u>Net Operating Income</u>
514	\$161,195	\$111,266	\$49,929

By Order No. 16184, issued June 4, 1986, in Docket No. 850121-SU, the Commission processed a staff assisted rate case for this utility when the utility was known as Shore Utility Corporation. A transfer docket was opened in 1989 to transfer Shore Utility Corporation to North Peninsula. By Order No. 22345, issued December 27, 1989, in Docket No. 891016-SU, the Commission approved the transfer. Rate base was established during this transfer proceeding for book value of the property being transferred and did not include the normal ratemaking adjustments of working capital calculations and used and useful adjustments.

North Peninsula received price index rate increases in 1991, 1992, 1993, 1994, 1995, 1996, and 1998. The utility also received pass-through rate increases in 1993, 1994, 1995, 1996 and 1998.

By Order No. PSC-97-0263-FOF-SU, issued March 11, 1997, the Commission found the utility to be overearning and ordered a refund (with interest) of index and pass-through increases which contributed to utility overearnings in 1995 and 1996, and also ordered a refund of interim revenues which were held subject to refund.

A staff desk review of the utility's 1998 annual report indicated that North Peninsula's wastewater system was earning an overall rate of return of 24.46%, showing a 29% increase in revenue since the 1996 investigation with only a 1.3% increase in operating expenses. An undocketed investigation of 1998 possible overearnings was initiated.

Staff has audited the utility's records for compliance with Commission rules and orders and has determined all components necessary for rate setting. Staff selected a historical test year ending December 31, 1998. A review of the utility's operating expenses and files was performed to obtain information on the

systems and operating costs. The field audit was completed on March 3, 2000. The utility's accountant filed a response to the exceptions and disclosures contained in the audit on June 21, 2000. This recommendation addresses the utility's possible overearnings for the test year ended December 31, 1998.

The utility, in a letter dated July 31, 2000, requested a deferral of staff's recommendation from the August 1, 2000 agenda conference in order to provide staff with additional information and discuss certain issues in the recommendation. The chairman's office approved the deferral until the August 29, 2000 agenda conference. In order to approve the deferral, the utility waived the 15-month statutory timeframe for refunds of index and pass-through adjustments pursuant to Section 367.081(4)(d), Florida Statutes.

DISCUSSION OF ISSUES

ISSUE 1: What is the appropriate average amount of test year rate base?

RECOMMENDATION: The appropriate average amount of test year rate base for North Peninsula should be \$157,769. (CASEY)

STAFF ANALYSIS: Rate base for this utility was last established as of June 30, 1996. The appropriate components of North Peninsula's rate base include plant-in-service, land, contributions in aid of construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital allowance. A discussion of staff adjustments to rate base follows.

Plant-in-Service: The utility recorded a utility plant-in-service balance of \$798,008 at the end of the test year. Pursuant to Audit Exception #5, staff made an adjustment of \$7,406 to capitalize utility plant which was expensed during the test year. An averaging adjustment of (\$7,453) was also made. Staff recommends test year utility plant-in-service of \$797,961.

Non-Used and Useful Plant: By Order No. PSC-97-0263-FOF-SU, the Commission approved the use of connection capacity as a means to calculate this utility's plant used and useful percentage. The Commission found that the utility's wastewater treatment plant and wastewater collection system should both be considered 91% used and useful. During the utility's last proceeding, the capacity of the existing plant was calculated at 485 ERCs with 422 average test year customers and 19.4 ERCs of growth margin resulting in the 91% used and useful determination.

At test year end, staff's audit shows 514 customers and using the same methodology approved in the last investigation, the utility's treatment plant and collection system is operating over capacity and should be considered 100% used and useful.

CIAC: The utility recorded a CIAC balance of \$640,994 at the end of the test year. This balance included unauthorized CIAC charges to two customers totaling \$10,500 in 1996. As discussed in Issue No. 8, staff is recommending the \$10,500 be refunded with interest to the two customers. Staff made an adjustment of \$10,500 to the utility CIAC balance to remove the unauthorized CIAC charges. Staff recommends test year CIAC of \$630,494.

Accumulated Depreciation: The utility books reflected an accumulated depreciation balance of (\$447,620) at the end of the test year. Staff made an adjustment of (\$171) to reflect staff calculated accumulated depreciation, and made an averaging adjustment of \$18,607. Staff recommends test year accumulated depreciation of (\$429,184).

Amortization of CIAC: The utility books reflected an accumulated amortization balance of \$234,103 at the end of the test year. Staff made an adjustment of \$139,472 to reflect staff calculated accumulated amortization, and made an averaging adjustment of (\$14,566). Staff recommends test year accumulated amortization of CIAC of \$359,009.

Working Capital Allowance: Consistent with Rule 25-30.433(2), Florida Administrative Code, staff recommends that the one-eighth of operation and maintenance (O&M) expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a test year working capital allowance of \$13,677 (based on O&M of \$109,413).

Rate Base Summary: Based on the foregoing, the appropriate balance of North Peninsula's test year rate base should be \$157,769. Rate base is shown on Schedule No. 1A, and adjustments are shown on Schedule No. 1B.

ISSUE 2: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

RECOMMENDATION: The appropriate rate of return on equity for North Peninsula should be 9.94% with a range of 8.94% - 10.94% and the appropriate overall rate of return should be 8.91%. (CASEY)

STAFF ANALYSIS: Based on the staff audit, the utility's capital structure consists of negative common equity of \$369,841, and long term debt consisting of five loans (\$353,661 @ 8.75%, \$5,000 @ 14.00%, \$5,000 @ 14.00%, \$2,409 @ 7.00%, and \$6,443 @ 10.50%) totaling \$372,513. Since including a negative retained earnings would penalize the utility's capital structure by understating the overall rate of return, we have adjusted the negative retained earnings to zero.

Using the current leverage formula approved in Docket No. 000006-WS, by Order No. PSC-00-1162-PAA-WS, issued June 26, 2000, the rate of return on common equity should be 9.94% for future proceedings with a range of 8.94% - 10.94%.

Applying the weighted average method to the total capital structure yields an overall rate of return of 8.91%. The company's test year capital structure balance has been adjusted to match the total of the wastewater rate base.

North Peninsula's return on equity and overall rate of return are shown on Schedule No. 2.

DOCKET NO. 000715- J
DATE: AUGUST 17, 2000

ISSUE 3: What is the appropriate test year operating revenue?

RECOMMENDATION: The appropriate test year operating revenue should be \$161,195. (CASEY)

STAFF ANALYSIS: North Peninsula's records indicated revenues of \$161,195 for the test year ending December 31, 1998. Staff auditors reviewed the utility's revenues on a month-by-month basis and agreed with the utility's test year revenue amount.

ISSUE 4: What is the appropriate amount of operating expense?

RECOMMENDATION: The appropriate amount of operating expense should be \$134,793. (CASEY)

STAFF ANALYSIS: The utility recorded operating expenses of \$109,005 for the test year. The components of these expenses include operation and maintenance expenses, net depreciation expense, and taxes other than income taxes. The utility's test year operating expenses have been reviewed and invoices and other supporting documentation have been examined. Adjustments have been made to reflect unrecorded test year expenses and to reflect recommended allowances for plant operations.

Operation and Maintenance Expenses(O & M): The utility charged \$89,560 to O & M expenses during the test year. A summary of adjustments that were made to the utility's recorded expenses follows:

(720) Materials and Supplies - The utility recorded materials and supplies expenses of \$2,730 for the test year. The utility accrued \$458 for office supplies at year-end 1997. The entry was reversed, per the general ledger, on December 31, 1998 which understated the amount of 1998 office supplies. Staff made an adjustment of \$458 to include office supplies expense for the 1998 test year as recommended in Audit Exception #6. Staff recommends a materials and supplies expense of \$3,188 for the test year.

(731)Contractual Services - Professional - The utility recorded contractual professional services expenses of \$73,478 in this account for the test year. In accordance with Audit Exception #5, staff made adjustments of \$5,512 to add non-booked operator charges, \$4,048 to correct a year-end general journal entry, (\$7,406) to reclassify expensed utility plant to rate base, \$18,826 to reflect the management contract allowed in the previous overearnings docket, and (\$1,348) to remove an out-of-test year operator expense. Total test year adjustments are \$19,632. Staff recommends test year professional contractual services expenses of \$93,110.

(775) Miscellaneous Expense - The utility recorded \$3,157 of miscellaneous expenses for the test year. The utility recorded a charitable contribution of \$387 during the test year. Rule 25-30.433(6), Florida Administrative Code, states "[c]haritable contributions shall not be recovered through rates." Staff made an adjustment of (\$387) to remove the charitable contribution, and also made an adjustment of \$150 to include a Florida Department of

State corporate filing fee which was incurred but not recorded in the test year. Staff recommends test year miscellaneous expenses of \$2,920.

Operation and Maintenance Expenses(O & M) Summary: Total operation and maintenance adjustments are \$19,853. Staff recommends operation and maintenance expenses of \$109,413. Operation and maintenance expenses are shown on Schedule No. 3C.

Depreciation Expense: The utility recorded \$7,260 of net depreciation expense (\$36,898 depreciation - \$29,638 CIAC amortization) on its books for the test year. Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, Florida Administrative Code. Staff made an adjustment of \$338 to reflect test year net depreciation calculated per Rule 25-30.140, Florida Administrative Code. Staff recommends test year net depreciation expense of \$7,598 (\$37,216 depreciation - \$29,618 CIAC amortization).

Taxes Other Than Income Taxes: The utility recorded test year taxes other than income of \$12,185. Staff made adjustments of \$6,878 to include regulatory assessment fees on test year revenue (Audit Exception #4), and (\$725) to reflect test year property taxes (Audit Exception #7). Staff recommends test year taxes other than income of \$18,338.

Staff is recommending a revenue requirement decrease of \$12,344 for the utility. If staff's recommended decrease is approved, taxes other than income taxes would decrease by \$556 to reflect the regulatory assessment fee of 4.5%.

Operating Revenues: Revenues have been adjusted by (\$12,344) to reflect the decrease in revenue required to allow the utility to cover expenses and have the opportunity to earn the recommended rate of return on investment without overearning.

Operating Expenses Summary: The application of staff's recommended adjustments to the utility's test year operating expenses results in staff's recommended operating expenses of \$134,793.

Operating expenses are shown on Schedule No. 3A. Adjustments are shown on Schedule No. 3B.

ISSUE 5: What is the appropriate test year revenue requirement

RECOMMENDATION: The appropriate test year revenue requirement should be \$148,851. (CASEY)

STAFF ANALYSIS: Staff is recommending a decrease of \$12,344 (or 7.66%) in the utility's revenue requirement for 1998. This will allow the utility the opportunity to recover its expenses and earn the recommended 8.91% return on its investment. The calculations are as follows:

	<u>Water</u>
Adjusted Rate Base	\$ 157,769
Rate of Return	<u>x .0891</u>
Return on Investment	\$ 14,057
Adjusted Operation Expenses	109,413
Depreciation Expense (Net)	7,598
Taxes Other Than Income Taxes	<u>17,782</u>
Revenue Requirement	<u>\$ 148,851</u>
Annual Revenue Decrease	\$ 12,344
Percentage Decrease	<u>7.66%</u>

The revenue requirement and resulting annual decrease are shown on Schedule No. 3A.

ISSUE 6: Did North Peninsula earn in excess of its authorized rate of return for the test year ended December 31, 1998?

RECOMMENDATION: Yes, the Commission should recognize \$12,344 of 1998 revenue which exceeds North Peninsula's recommended authorized rate of return of 8.91%. (CASEY)

STAFF ANALYSIS: North Peninsula's recommended capital structure is 100% debt resulting in a weighted average rate of return of 8.91%. Staff's adjusted test year figures show revenues of \$161,195 with operating expenses of \$135,349 resulting in a operating income of \$25,846 which reflects a 16.38% rate of return.

The Commission should recognize \$12,344 of revenue which exceeds North Peninsula's recommended rate of return 8.91%.

ISSUE 7: Should the utility be ordered to refund the price index and pass-through rate adjustments which were implemented in 1998?

RECOMMENDATION: Yes. The index and pass-through rate adjustment which contributed to utility overearnings in 1998 should be refunded with interest. The refund for 1998 is \$2,824 before assessment of interest. This refund should be made with interest in accordance with 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), 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. (CASEY, FUDGE)

STAFF ANALYSIS: North Peninsula implemented a price index and pass-through rate adjustment on May 2, 1998, to represent anticipated increases in operating expenses and to offset allowable pass-through cost increases for the forthcoming years. Those rate adjustments were designed to increase revenues by \$4,242 on an annual basis.

Pursuant to Section 367.081(4)(d), Florida Statutes, the Commission may order a utility to refund, with interest, a price index and/or pass-through rate adjustment if, within 15 months after the filing of a utility's annual report, the Commission finds that the utility exceeded the range of its last authorized rate of return on equity after an index and/or pass-through rate adjustment was implemented within the year for which the annual report was filed or was implemented in the preceding year. The utility's 1998 annual report was filed on May 20, 1999. Therefore, August 20, 2000, is the fifteen-month expiration date of the Commission's allotted timeframe for ordering refunds of index and/or pass-through rate adjustments.

Based on staff's analysis, the utility overearned by \$12,344 in 1998. Therefore, staff recommends that the price index and pass-through rate increase initiated in 1998 which produced revenues of \$2,824 in 1998, should be refunded with interest.

Staff completed a review of the utility's 1999 annual report to determine if 1998 overearnings were carried through to 1999. Based on staff's analysis, the utility did not overearn in 1999, and is not anticipated to experience overearnings on a going-forward basis. Therefore, staff is not recommending a reduction in rates.

Our review clearly shows that the 1998 price index and pass-through rate increase was implemented during a period of utility overearnings and contributed to utility overearnings in 1998. Therefore, staff recommends that the 1998 index and pass-through rate adjustment should be refunded with interest. The refund for 1998 is \$2,824 before assessment of interest. This refund should be made with interest in accordance with 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), 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.

In an August 11, 2000 letter to the Commission, the utility stated it stands ready to proceed with the refund of index and pass-through revenues.

ISSUE 8: Should the utility be ordered to show cause, in writing within 21 days, why it should not be fined up to \$5,000 per day for collecting charges not approved by the Commission in apparent violation of Sections 367.081(1) and 367.091(3), Florida Statutes?

RECOMMENDATION: No, show cause proceedings should not be initiated. However, the utility should be ordered to refund \$10,500 of unapproved service availability charges collected in 1996, and provide proof to the Commission that the refunds have been completed. These refunds should be made with interest in accordance with Rule 25-30.360 (4), Florida Administrative Code, within 90 days of the effective date of the Order. The utility should also be admonished that, pursuant to Sections 367.081(1) and 367.091(3), Florida Statutes, it may only charge rates and charges approved by the Commission. (FUDGE, CASEY)

STAFF ANALYSIS: Sections 367.081(1) and 367.091(3), Florida Statutes, provide that a utility may only collect rates and charges approved by the Commission. It appears that North Peninsula violated these statutes. By Order No. 16184, issued June 4, 1986, in Docket No. 850121-SU, the Commission ordered the utility, then known as Shore Utility, to cease charging service availability charges to avoid exceeding the 75% maximum CIAC level established by Rule 25-30.580(1), Florida Administrative Code (The utility's contribution level at December 31, 1999 was 71.42%). North Peninsula did not request a change in rates or charges at the time of transfer, and by Order No. 22345, issued December 27, 1989, in Docket No. 891016-SU, the Commission ordered North Peninsula to continue charging the rates and charges approved for Shore Utility. Audit Exception #2 states that North Peninsula collected service availability charges totaling \$10,500 from two customers in 1996. The audit response provided by the utility's CPA stated that "It is my understanding the utility is no longer collecting CIAC." In a phone call made by staff on June 26, 2000, to the utility's vice president, the utility stated the \$10,500 collected from the two customers was to offset construction costs of plant completed in the early 1990's.

As stated in the case background, this recommendation was deferred from the August 1, 2000 agenda to allow the utility to provide additional information and discuss certain issues with staff. An August 11, 2000 letter from the utility's consultant stated the utility's belief that all that Order 16184 required the utility to do was discontinue collections of cash CIAC. The letter further stated that the charge to the developer was in fact reimbursement to the utility's owners for services provided to that developer for territorial expansion of its service territory and planning, permitting, and design of developer facilities.

The utility's tariff does provide for reimbursement of expenses. Paragraph 2.2 of the utility's service availability policy states "the utility will not be obligated to provide its services outside the territory unless the contributor agrees, in advance, to defray those additional expenses and pay to the utility the estimated cost thereof." However, paragraph 5.1 states:

The utility will require that provisions for extensions of service and service availability be made pursuant to a written "developer's agreement," which shall set forth such reasonable provisions governing developer and utility responsibility pertaining but not limited to the installation of service facilities.

The utility is contending that the \$10,500 received from two customers in 1996 and included on the utility books as CIAC was actually reimbursement for expenses involved in the territorial expansion of its service territory and planning, permitting, and design of developer facilities. The utility consultant's letter states "those services were provided by related parties, rather than by the utility and no distinction was made between the utility and the related party providing the service, simply because this is a small and relatively unsophisticated company without the resources to provide those services on its own." The utility is developer related with common owners.

Staff requested documentation of the costs involved with providing this service and was told that no written agreements, invoices, estimates, letters, list of hours, etc., were in existence that could substantiate the charges and transaction. The utility's 1996 annual report does not reflect any regulatory commission expense which would occur from the filing for territorial expansion, or any increase in utility plant for lines installed to connect these two new customers. The NARUC Class "A" Accounting Instruction No. 2, General Records, states, in part, that "Each entry shall be supported by such detailed information as will permit a ready identification, analysis and verification of all facts relevant thereto."

The utility is unable to substantiate its allegation that the \$10,500 received and recorded in 1996 as CIAC was actually reimbursement of expenses involved in the territorial expansion of its service territory and planning, permitting, and design of developer facilities. Given the absence of any documentation, staff believes that the \$10,500 recorded on the utility's books as CIAC in 1996 should be considered CIAC.

Consequently, the utility's action appears to be "willful" in the sense intended by Section 367.161, Florida Statutes. Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated any provision of Chapter 367, Florida Statutes, or any lawful rule or order of the Commission. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, titled In Re: Investigation Into the Proper Application of Rule 25-14.003, F.A.C., Relating to Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6.

Although staff recognizes that the utility collected unauthorized service availability charges, staff believes that a show cause proceeding should not be initiated. The utility has indicated its understanding of the statutes and has indicated that it will continue to charge only those rates and charges approved by the Commission. Staff also believes that the two customers who paid the \$10,500 would be better served by receiving a refund of the unauthorized CIAC charges plus interest.

For the foregoing reasons, staff recommends that show cause proceedings should not be initiated. However, the utility should be ordered to refund \$10,500 of unapproved service availability charges collected in 1996, and provide proof to the Commission that the refunds have been completed. These refunds should be made with interest in accordance with Rule 25-30.360 (4), Florida Administrative Code, within 90 days of the effective date of the Order. The utility should also be admonished that, pursuant to Sections 367.081(1) and 367.091(3), Florida Statutes, it may only charge rates and charges approved by the Commission.

ISSUE 9: Should this docket be closed?

RECOMMENDATION: No, If no person whose interests are substantially affected by the proposed action files a protest within the 21-day protest period, the Commission's decision will become final and effective upon the issuance of a Consummating Order. However, this docket should remain open in order for staff to verify that the utility has completed the required refunds, after which time, this docket should be closed administratively. (FUDGE, CASEY, RENDELL)

STAFF ANALYSIS: Staff is recommending a refund of 1998 index and pass-through revenues which contributed to utility overearnings in 1998. Staff is also recommending that the utility refund \$10,500 of unapproved service availability charges collected in 1996. If no person whose interests are substantially affected by the proposed action files a protest within the 21-day protest period, the Commission's decision will become final and effective upon the issuance of a Consummating Order. However, this docket should remain open in order for staff to verify that the utility has completed the required refunds, after which time, this docket should be closed administratively.

NORTH PENINSULA UTILITIES CORPORATION TEST YEAR ENDING DECEMBER 31, 1998 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 000715-SU	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$798,008	(\$47)	\$797,961
2. LAND & LAND RIGHTS	46,800	0	46,800
3. NON-USED AND USEFUL	0	0	0
4. CIAC	(640,994)	10,500	(630,494)
5. ACCUMULATED DEPRECIATION	(447,620)	18,436	(429,184)
6. AMORTIZATION OF CIAC	234,103	124,906	359,009
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>13,677</u>	<u>13,677</u>
8. WASTEWATER RATE BASE	<u>(\$9,703)</u>	<u>\$167,472</u>	<u>\$157,769</u>

NORTH PENINSULA UTILITIES CORPORATION
TEST YEAR ENDING DECEMBER 31, 1998
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-B
DOCKET NO. 000715-SU

	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1. To reflect staff calculated utility plant.	\$7,406
2. To reflect averaging adjustment.	<u>(\$7,453)</u>
Total	<u>(\$47)</u>
<u>CONTRIBUTIONS IN AID OF CONSTRUCTION</u>	
1. To remove unauthorized CIAC charges.	<u>\$10,500</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. To reflect staff accumulated depreciation.	(\$171)
2. To reflect averaging adjustment.	<u>18,607</u>
Total	<u>\$18,436</u>
<u>AMORTIZATION OF CIAC</u>	
1. To reflect staff calculated accumulated amortization.	\$139,472
2. To reflect averaging adjustment.	<u>(14,566)</u>
Total	<u>\$124,906</u>
<u>WORKING CAPITAL</u>	
1. To reflect 1/8 of operation and maintenance expenses.	<u>\$13,677</u>

NORTH PENINSULA UTILITIES CORPORATION TEST YEAR ENDING DECEMBER 31, 1998 SCHEDULE OF CAPITAL STRUCTURE							SCHEDULE NO. 2 DOCKET NO. 000715-SU		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST- MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST- MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
1. COMMON EQUITY	(\$369,841)	\$369,841	0	0	0	0.00%	9.94%	0.00%	
2. LONG TERM DEBT	353,661	0	353,661	(203,877)	149,784	94.94%	8.75%	8.31%	
3. LONG TERM DEBT	5,000	0	5,000	(2,882)	2,118	1.34%	14.00%	0.19%	
4. LONG TERM DEBT	5,000	0	5,000	(2,882)	2,118	1.34%	14.00%	0.19%	
5. LONG TERM DEBT	2,409	0	2,409	(1,389)	1,020	0.65%	7.00%	0.05%	
6. LONG TERM DEBT	<u>6,443</u>	<u>0</u>	<u>6,443</u>	<u>(3,714)</u>	<u>2,729</u>	<u>1.73%</u>	10.50%	<u>0.18%</u>	
7. TOTAL	<u>\$2,672</u>	<u>\$369,841</u>	<u>\$372,513</u>	<u>(\$214,744)</u>	<u>\$157,769</u>	<u>100.00%</u>		<u>8.91%</u>	
RANGE OF REASONABLENESS RETURN ON EQUITY OVERALL RATE OF RETURN						<u>LOW</u>	<u>HIGH</u>		
						<u>8.94%</u>	<u>10.94%</u>		
						<u>8.91%</u>	<u>8.91%</u>		

NORTH PENINSULA UTILITIES CORPORATION TEST YEAR ENDING DECEMBER 31, 1998 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 000715-SU		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENT	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$161,195</u>	<u>\$0</u>	<u>\$161,195</u>	<u>(\$12,344)</u> -7.66%	<u>\$148,851</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	89,560	19,853	\$109,413	0	109,413
3. DEPRECIATION (NET)	7,260	338	7,598	0	7,598
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	12,185	6,153	18,338	(556)	17,782
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$109,005</u>	<u>\$26,344</u>	<u>\$135,349</u>	<u>(\$556)</u>	<u>\$134,793</u>
8. OPERATING INCOME/(LOSS)	<u>\$52,190</u>		<u>\$25,846</u>		<u>\$14,057</u>
9. WASTEWATER RATE BASE	<u>(\$9,703)</u>		<u>\$157,769</u>		<u>\$157,769</u>
10. RATE OF RETURN	<u>-537.87%</u>		<u>16.38%</u>		<u>8.91%</u>

**NORTH PENINSULA UTILITIES CORPORATION
TEST YEAR ENDING DECEMBER 31, 1998
ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-B
DOCKET NO. 000715-SU**

WASTEWATER

OPERATION AND MAINTENANCE EXPENSES

1. Materials and Supplies

To include 1998 office supplies (AE #6). **\$458**

2. Contractual Services - Professional

a. To add non-booked operator charges (AE #5). **\$5,512**

b. To correct a general journal entry (AE #5). **\$4,048**

c. To reclassify capital expenditures to upis (AE #5). **(\$7,406)**

d. To reflect the mgt. contract allowed in previous docket. **\$18,826**

e. To remove out-of-test-year operator expense (AE #5). **(\$1,348)**

Subtotal **\$19,632**

3. Miscellaneous Expenses

a. To remove contribution to soccer team (AE #9). **(\$387)**

b. To include a corporate filing fee (AE #9). **\$150**

Subtotal **(\$237)**

TOTAL OPERATION & MAINTENANCE ADJUSTMENTS **\$19,853**

DEPRECIATION EXPENSE

1. To reflect test year depreciation calculated per 25-30.140, **\$338**

TAXES OTHER THAN INCOME

1. To include RAFs on test year revenue per AE #4. **\$6,878**

2. To reflect test year property taxes (AE #7). **(725)**

Total **\$6,153**

NORTH PENINSULA UTILITIES CORPORATION TEST YEAR ENDING DECEMBER 31, 1998 ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-C DOCKET NO. 000715-SU	
	TOTAL PER UTILITY	STAFF ADJUST- MENTS	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	0	0	0
(715) PURCHASED POWER	8,659	0	8,659
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	0	0	0
(720) MATERIALS AND SUPPLIES	2,730	458	3,188
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	0	0	0
(735) CONTRACTUAL SERVICES - TESTING	0	0	0
(736) CONTRACTUAL SERVICES - OTHER	73,478	19,632	93,110
(740) RENTS	0	0	0
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE	1,536	0	1,536
(765) REGULATORY COMMISSION EXPENSES	0	0	0
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	<u>3,157</u>	<u>(237)</u>	<u>2,920</u>
	<u>\$89,560</u>	<u>\$19,853</u>	<u>\$109,413</u>