

State of Florida



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## 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:** September 16, 2009  
**TO:** Catherine Beard, Regulatory Analyst II, Division of Regulatory Compliance  
**FROM:** Dale N. Mailhot, Assistant Director, Division of Regulatory Compliance *DM*  
**RE:** Docket No. 080695-WU: Company Name: Peoples Water Service Company of Florida, Inc.  
Audit Purpose: File and Suspend Rate Case Company Code: WU671  
Audit Control No: 09-160-1-1

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Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send a response to the Office of the Commission Clerk. There are no confidential work papers associated with this audit.

DNM/ch

Attachment: Audit Report

cc: Division of Regulatory Compliance (Salak, Mailhot, Harvey,  
Miami District Office, Tampa District Office, File Folder)  
Office of Commission Clerk (2)  
Office of the General Counsel

Mr. F. Marshall Deterding  
Rose Law Firm  
2548 Blairstone Pines Dr.  
Tallahassee, FL 32301

DOCUMENT NUMBER-DATE

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STATE OF FLORIDA



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE  
BUREAU OF AUDITING

Tallahassee District Office

PEOPLES WATER SERVICE COMPANY OF FLORIDA, INC.

FILE AND SUSPEND RATE CASE

TEST YEAR ENDED DECEMBER 31, 2008

DOCKET NO. 080695-WU  
AUDIT CONTROL NO. 09-160-2-1

Handwritten signature of Debra M. Dobiac in black ink.

Debra M. Dobiac, Audit Manager

Handwritten signature of Intesar Terkawi in black ink.

Intesar Terkawi, Audit Staff

Handwritten signature of Hymavathi Vedula in black ink.

Hymavathi Vedula, Audit Staff

Handwritten signature of Charleston J. Winston in black ink.

Charleston J. Winston, Audit Staff

Handwritten signature of Donna Brown in black ink.

Donna Brown, Audit Staff

Handwritten signature of Lynn M. Deamer in black ink.

Lynn M. Deamer, District Audit Supervisor

DOCUMENT NUMBER-DATE

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**DIVISION OF REGULATORY COMPLIANCE  
AUDITOR'S REPORT**

**September 14, 2009**

**TO: FLORIDA PUBLIC SERVICE COMMISSION**

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Regulatory Compliance in its audit service request dated June 5, 2009. We have applied these procedures to the Minimum Filing Requirements (MFRs) prepared by Peoples Water Service Company of Florida, Inc. in support for rate relief in Docket No. 080695-WU for the test period ending December 31, 2008.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed upon procedures and the report is intended only for internal Commission use.

## **II. OBJECTIVES AND PROCEDURES**

### **RATE BASE**

#### Utility Plant in Service (UPIS)

*Objectives:* To determine that property exists and is owned by the utility. To determine that additions to UPIS are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USoA). To verify that proper retirements of UPIS were made when a replacement item was put into service.

*Procedures:* We reconciled the beginning plant in service balance to the utility's books and to the prior Overearnings Investigation Audit, Undocketed, Audit Control No. 95-181-1-1 as of December 31, 1994. We judgmentally selected a sample of additions and retirements from MFR Schedule A-4 from the beginning balances up through December 31, 2008. We tested the sample of plant in service additions for the following: date acquired, original cost, account recorded, and appropriate retirements. We tested the sample of retirements for the following: cost retired, account number, date of retirement or disposition, amount of accumulated depreciation retired, amount of proceeds/cost of removal, and amount of gain/loss recorded in utility books after disposal. We reconciled the plant in service additions and retirements to the utility's general ledger. Audit Finding No. 1 discusses our findings for the UPIS balances.

#### Land and Land Rights

*Objective:* To determine that utility land is recorded at original cost, is used for utility operations, and is owned or secured under a long-term lease by the utility.

*Procedures:* We reviewed the warranty deeds to verify that the utility owns the land. We traced the value of land purchases and sales to its supporting documentation.

#### Contributions in Aid of Construction (CIAC)

*Objective:* To determine that utility CIAC balances are properly stated and are reflective of service availability charges authorized in the utility's approved Commission tariff.

*Procedures:* The audit staff reconciled the beginning CIAC balance to the utility's books and to the prior Overearnings Investigation Audit, Undocketed, Audit Control No. 95-181-1-1 as of December 31, 1994. We read the utility's authorized tariff to determine the type and amount, if any, of service availability fees for new customer additions, and inquired if the utility had any special agreements, developer agreements, and whether or not it has received any donated property as CIAC. From the beginning balance up through December 31, 2008, we judgmentally sampled CIAC additions, and reviewed the following: description of asset or fees received, date acquired, original cost, account number where recorded, and if the amount collected is authorized by the utility tariff. We reconciled CIAC additions to the utility's MFR and general ledger.

### Accumulated Depreciation

*Objectives:* To determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC USoA. To verify that depreciation accruals are calculated using the Commission's authorized rates and that retirements are properly recorded.

*Procedures:* We reconciled the beginning accumulated depreciation balance to the utility's books and to the prior Overearnings Investigation Audit, Undocketed, Audit Control No. 95-181-1-1 as of December 31, 1994. The audit staff scheduled accumulated depreciation accruals up through December 31, 2008 to include: beginning and ending balances by UPIS sub-account, methodology for calculating annual accumulated depreciation accruals, service lives used to determine accrual multiplier, methodology for accounting for retirements and adjustments, and current period depreciation expense. We reconciled accumulated depreciation accruals to the utility's general ledger. Audit Finding No. 1 discusses the accumulated depreciation balance.

### Accumulated Amortization of CIAC

*Objectives:* To determine that CIAC accumulated amortization balances are properly stated and that annual accruals are reflective of the depreciation rates and are in compliance with Commission rules and orders.

*Procedures:* We reconciled the beginning accumulated amortization of CIAC balance to the utility's books and to the prior Overearnings Investigation Audit, Undocketed, Audit Control No. 95-181-1-1 as of December 31, 1994. We scheduled accumulated amortization of CIAC accruals up through December 31, 2008 to include: beginning and ending balances by UPIS sub-account, methodology for calculating annual accumulated depreciation accruals, service lives used to determine accrual multiplier, methodology for accounting for retirements and adjustments, and current period amortization expense. We reconciled accumulated amortization of CIAC accruals to the utility's MFR and general ledger.

### Construction Work In Process (CWIP)

*Objectives:* To determine that CWIP is properly stated and authorized by Commission rules.

*Procedures:* We reviewed the utility's invoices for CWIP ensuring proper amount, proper period, classification, NARUC account, and recurring nature, and agreed the total to the general ledger for the test year ending December 31, 2008. We reviewed FPSC Order No. PSC-92-1047-FOF-WU, from Docket No. 920542-WU, issued September 23, 1992, which allows the utility to apply an Allowance for Funds Used During Construction (AFUDC) rate of 10.58% to its CWIP. However, the audit staff noted that the utility did not include CWIP in rate base, nor did it charge AFUDC.

### Working Capital

*Objective:* To determine that the utility's working capital balance is properly calculated in compliance with Commission rules.

*Procedures:* We traced the components of working capital to the general ledger and recalculated the working capital allowance balances. The audit staff reconciled the MFR, Schedule A-18,

working capital allowance to the rate base schedules. We judgmentally sampled the components of working capital for the proper amount, period, and classification. Audit Finding No. 2 discusses our findings.

## **NET OPERATING INCOME**

### Revenue

*Objectives:* To determine that utility charges are those approved by the Commission in the utility's current authorized tariff. To determine that revenue earned from utility property during the test year are recorded and are properly classified in compliance with Commission rules and the NARUC USoA.

*Procedures:* The audit staff reviewed the utility's FPSC approved tariffs establishing rates. We tested the reasonableness of the utility records by multiplying the average consumption times the number of customers in each class of service and compared it to the amount recorded by the utility. We selected a judgmental sample of customer bills and recalculated the bills using the authorized rates. Audit Finding No. 3 discusses our findings.

### Operation and Maintenance Expense (O&M)

*Objective:* To determine that O&M expenses are properly recorded in compliance with Commission rules, and are reasonable and prudent for ongoing utility operations.

*Procedures:* We compiled O&M expense items from the utility's general ledger. We reviewed a judgmental sample of the utility's invoices for proper amount, period, classification, NARUC account, and recurring nature. We reviewed the utility's methodology for proper allocation of expenses for water operations. Audit Findings No. 4 and 5 discuss our findings for O&M expense balances.

### Depreciation Expense

*Objective:* To determine that depreciation is properly recorded in compliance with Commission rules and that it accurately represents the depreciation of utility plant in service assets and the amortization of utility CIAC assets for ongoing utility operations.

*Procedures:* The audit staff reviewed the utility's books and records for depreciation and amortization expense. We recalculated depreciation expense on UPIS balances and verified amortization expense on CIAC balances as per the utility filing. Audit Finding No. 1 discusses depreciation expense.

### Taxes Other Than Income (TOTI)

*Objective:* To determine the appropriate amounts for TOTI for the test year ended December 31, 2008.

*Procedures:* We reconciled TOTI expenses from the utility's MFR, Schedule B-15 to its general ledger. We reviewed the property tax invoices and regulatory assessment fee forms for proper amount, period, classification, NARUC account, and recurring nature. We verified that all

property tax expense reflected the maximum discount available. We traced the utility's payroll expenses and TOTI - other for water operations to its supporting documentation.

## **CAPITAL STRUCTURE**

### GENERAL

*Objective:* To determine that the utility's capital structure represents utility debt, capital stock, retained earnings, deferred taxes, customer deposits, and other available funds for investment in utility plant, inventory, and operations; and the respective cost rates used to arrive at the overall cost of capital are properly recorded in compliance with Commission rules.

*Procedures:* We determined that the utility is collecting and accounting for customer deposits authorized in its Commission approved tariff and verified that the utility is calculating and remitting interest on customer deposits per Rule 25-30.311, Florida Administrative Code. We reviewed the utility's Reconciliation of Capital Structure to Requested Rate Base, MFR Schedule D-2, and traced amounts to the general ledger and the 2007 Federal Tax Return which is the utility's fiscal year ending August 31, 2008.



### III. AUDIT FINDINGS

#### AUDIT FINDING NO. 1

#### SUBJECT: UTILITY PLANT IN SERVICE, ACCUMULATED DEPRECIATION, AND DEPRECIATION EXPENSE

**AUDIT ANALYSIS:** The utility included \$155,539 in the utility plant in service (UPIS) balance, MFR Schedule A-5, without appropriate supporting documentation. The audit staff noted that the utility used asset service lives which differed from FPSC Rule 25-30.140, Florida Administrative Code (F.A.C.). Due to the overstatement of UPIS and not using rates as per the rule, we determined that accumulated depreciation was overstated by \$789,752 and depreciation expense was overstated by \$4,262.

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:** The following general ledger entries are needed to correct the utility general ledger balances as of December 31, 2008.

NARUC			
Acct. No	Account Description	Debit	Credit
108	Accumulated Depreciation	\$789,752	
439	Adjustments to Retained Earnings		\$629,951
311	Pumping Equipment		\$ 1,955
320	Water Treatment Equipment		\$ 2,449
330	Distribution Reservoirs		\$ 1,774
331	Transmission and Distribution Mains		\$ 49,171
333	Services		\$ 17,934
334	Meters and Meter Installations		\$ 70,197
335	Hydrants		\$ 10,760
336	Backflow Prevention Devices		\$ 585
343	Tools, Shop, and Garage Equipment		\$ 714
403	Depreciation Expense		\$ 4,262

**EFFECT ON THE FILING IF THE FINDING IS ACCEPTED:** The Account 101 Plant in Service 13-month average balance should be reduced by \$154,765, Account 108 Accumulated Depreciation 13-month average balance should be reduced by \$777,835 and Account 403 Depreciation Expense should be reduced by \$4,262.

## **AUDIT FINDING NO. 2**

### **SUBJECT: WORKING CAPITAL ALLOWANCE – CASH ACCOUNT**

**AUDIT ANALYSIS:** Peoples Water Service Company of Florida, Inc. recorded \$119,829 in its MFR, Schedule A-18, for cash as of December 31, 2008. The 13-month average amount recorded in the MFR was \$88,715.

The \$88,715 includes a 13-month average amount of \$10,440 that earned interest in 2008. The 12-month average rate of interest earned was 2.75% for 2008. The amount of interest earned for 2008 was \$478. Interest earnings were not included in above the line revenues by the utility.

According to FPSC Order No. PSC-99-1917-PAA-WS, issued September 28, 1999:

“It has been our practice to either include or exclude interest-bearing accounts in working capital on a case-by-case basis. When such accounts have been included in working capital, the interest earnings have been included in above-the-line revenues. See Orders Nos. PSC-94-0170-FOF-EI, issued February 10, 1994; and PSC-97-1487-FOF-EI, issued November 24, 1997. However, we ordinarily exclude all interest bearing accounts from the working capital calculation to prevent subsidization of the utility by the ratepayer and vice versa. See Orders Nos. 11498, issued January 11, 1983; PSC-93-1637-FOF-TL, issued November 8, 1993; PSC-96-1320-FOF-WS, issued October 30, 1996; PSC-96-1404-FOF-GU, issued November 20, 1996; and PSC-97-1225-FOF-WU, issued October 10, 1997.”

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:** None

**EFFECT ON THE FILING IF THE FINDING IS ACCEPTED:** Audit staff recommends an adjustment be made to either include \$478 in above the line revenues or to decrease working capital by \$10,440.

**AUDIT FINDING NO. 3**

**SUBJECT: REVENUE**

**AUDIT ANALYSIS:** Audit staff found that on a judgmental sample of billing data for Multi-Residential customers (1", 1<sup>1/2</sup>", 2", 3", 4" and 6" meters), the utility used the base charge and allotment amount for a 5/8" meter regardless of the actual size of the meter. Since the utility's tariff does have specific base amounts and allotment amounts for specific size meters, the utility is not in compliance with its tariff on this issue. Audit staff does not have an adjustment as only a sample was examined.

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:** None calculated.

**EFFECT ON THE FILING IF THE FINDING IS ACCEPTED:** None calculated.

**AUDIT FINDING NO. 4**

**SUBJECT: OPERATION AND MAINTENANCE (O&M) EXPENSES**

**AUDIT ANALYSIS:** Audit staff reviewed the supporting documentation for O&M expenses and determined that they should be decreased by \$26,183 due to amounts applicable to the following:

- rate case expense, \$15,911
- non-utility expense, \$9,978
- outside the test year ending December 31, 2008, \$294

See the schedule below for more information:

NARUC Acct.	Description	Balance per Utility 12/31/2008	Variance	Balance per Audit 12/31/2008
604	Employees Pensions & Benefits	167,931	(1,164)	166,767
620	Materials & Supplies	308,776	(64)	308,711
633	Contractual Services - Legal	16,657	(16,016)	641
675	Miscellaneous Expenses	59,504	(8,939)	50,565
Total		\$ 552,867	\$ (26,183)	\$ 526,684

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:** The following general ledger entry is needed to decrease the utility's O&M expenses as of December 31, 2008.

NARUC Acct. No	Account Description	Debit	Credit
186	Misc. Deferred Debits – Rate Case	\$ 15,911	
215	Retained Earnings	\$ 10,272	
604	Employee Pension & Benefits		\$ 1,164
620	Materials & Supplies		\$ 64
633	Contractual Services – Legal		\$ 16,016
675	Miscellaneous Expense		\$ 8,939

**EFFECT ON THE FILING IF THE FINDING IS ACCEPTED:** Account 604 Employee Pensions and Benefits should be reduced by \$1,164, Account 620 Materials and Supplies should be reduced by \$64, Account 633 Contractual Services – Legal should be reduced by \$16,016, and 675 Miscellaneous Expense should be reduced by \$8,939.

**AUDIT FINDING NO. 5**

**SUBJECT: O&M RECLASSIFICATIONS**

**AUDIT ANALYSIS:** Audit staff reviewed the supporting documentation for O&M expenses and determined that the utility has consistently allocated payroll and contractual services – other to materials and supplies and miscellaneous expense while recording materials and supplies and contractual services – other to salaries & wages – employees. It also recorded fuel for power production in purchased power. We are recommending the following reclassifications as per the NARUC USoA:

NARUC Acct.	Description	Balance per Utility 12/31/2008	variance	Balance per Audit 12/31/2008
601	Salaries & Wages - Emp.	\$ 543,357	\$ 120,529	\$ 663,886
604	Employee Pension & Benefits Expense	167,931	(290)	167,641
615	Purchased Power	157,822	(8,363)	149,459
616	Fuel for Power Production	419	8,522	8,941
620	Materials & Supplies	308,776	(173,668)	135,108
636	Contractual Services - Other	178,367	58,405	236,772
650	Transportation Expense	48,885	1,213	50,098
675	Miscellaneous Expense	59,504	(6,348)	53,156
		<u>\$ 1,465,060</u>	<u>\$ -</u>	<u>\$ 1,465,060</u>

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:** The following general ledger entry is needed to reclass the utility’s O&M expenses as of December 31, 2008.

NARUC Acct. No	Account Description	Debit	Credit
601	Salaries & Wages - Employees	\$120,529	
616	Fuel for Power Production	\$ 8,522	
636	Contractual Services - Other	\$ 58,405	
650	Transportation	\$ 1,213	
604	Employee Pension & Benefits		\$ 290
615	Purchased Power		\$ 8,363
620	Materials & Supplies		\$173,668
675	Miscellaneous Expense		\$ 6,348

**EFFECT ON THE FILING IF THE FINDING IS ACCEPTED:** The reclassifications will have no effect on total O&M Expenses.

V. EXHIBITS

EXHIBIT NO. 1 – WATER RATE BASE

Schedule of Water Rate Base Florida Public Service Commission  
 Company: Peoples Water Service Company of Florida, Inc. Schedule: A-1  
 Docket No.: 080585-WU Page 1 of 1  
 Schedule Year Ended: December 31, 2008 Preparer: CJNEW & PWSC  
 Interim  Final   
 Historic  Projected

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use. If method other than formula approach (1/8 O&M) is used to determine working capital, provide additional schedule showing detail calculation.

Line No.	(1) Description	(2) Balance Per Books	(3) A-3 Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant In Service	\$ 12,402,911	\$ 213,444 (A)	\$ 12,616,355	A-6
2	Utility Land & Land Rights	104,055		104,055	A-5
3	Less: Non-Used & Useful Plant				A-7
4	Construction Work In Progress				A-16
5	Less: Accumulated Depreciation	(8,468,529)	39,507 (B)	(8,429,022)	A-8
6	Less: CIAC	(4,019,958)		(4,019,958)	A-12
7	Accumulated Amortization of CIAC	1,511,832	20,835 (C)	1,531,967	A-14
8	Advances for Construction				A-19
9	Acquisition Adjustments				
10	Accum. Amort. of Acq. Adjustments				
11	Working Capital Allowance		101,023 (D)	101,023	A-17, A-3
12	Total Rate Base	\$ 3,529,811	\$ 374,609	\$ 3,904,420	

# EXHIBIT NO. 2 – WATER NET OPERATING INCOME

Schedule of Water Net Operating Income		Florida Public Service Commission					
Company: Peoples Water Service Company of Florida, Inc.		Schedule: B-1					
Docket No.: 080556-WU		Page 1 of 1					
Schedule Year Ended: December 31, 2008		Prepared: GUNAW & PWBC					
Interim <input type="checkbox"/> Final <input checked="" type="checkbox"/>							
Metric <input type="checkbox"/> Projected <input type="checkbox"/>							
Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.							
(1) Line No.	(2) Description	(3) Balance Per Books	(4) Utility Test Year Adjustments	(5) Utility Adjusted Test Year	(6) Requested Revenue Adjustment	(7) Requested Annual Revenues	(8) Supporting Schedule(s)
1	OPERATING REVENUES	\$ 5,046,361	\$ 17,747 (A)	\$ 5,064,108	\$ 417,418 (F)	\$ 5,481,526	H-4, E-2
2	Operation & Maintenance	2,223,318	37,379 (B)	2,260,697		2,260,697	B-5, B-3
3	Depreciation	466,349	(9,802) (C)	456,547		456,547	H-12, B-3
4	Amortization of CIAC	(66,500)	(20,335) (D)	(186,835)		(116,135)	
5	Taxes Other Than Income	309,961	5,487 (E)	315,448	18,770 (H)	334,218	D-13, B-1
6	Provision for Income Taxes	74,622		74,622	130,000 (G)	204,622	C-1, H-3
7	OPERATING EXPENSES	2,973,748	14,332	2,988,080	148,817	3,136,897	
8	NET OPERATING INCOME	\$ 74,622	\$ 1,437	\$ 76,059	\$ 285,282	\$ 341,322	
9	RATE BASE	\$ 3,522,811		\$ 3,814,487		\$ 3,814,420	
10	RATE OF RETURN	2.1 %		2.00 %		8.97 %	

# EXHIBIT NO. 3 – CAPITAL STRUCTURE

Reconciliation of Capital Structure to Requested Rate Base (Final)  
Beginning and End of Year Average

Florida Public Service Commission

Company: Peoples Water Service Company of Florida, Inc.  
Docket No.: 480895-WU  
Schedule Year Ended: December 31, 2008  
Interim [ ] Final [X]  
Historic [X] Projected [ ]

Schedule: D-2  
Page: 1 of 1  
Prepared: CJNEW & PWSC

Explanation: Provide a reconciliation of the 13-month average capital structure to requested rate base. Explain all adjustments.  
Submit an additional schedule if a year-end basis is used.

Line No.	(1) Class of Capital	(2) Test Year Par Books	(3) Reconciliation Adjustments		(5) Reconciled To Requested Rate Base
			(4) Specific	(4) Piorata % Piorata Amount	
1	Long-Term Debt			%	
2	Short-Term Debt				
3	Preferred Stock				
4	Common Equity	\$ 3,187,576		91.98	\$ 297,038
5	Customer Deposits	115,984			115,984
6	Tax Credits - Zero Cost				
7	Tax Credits - Wtd. Cost				
8	Accum. Deferred Income Tax	277,817		6.02	24,015
9	Total	\$ 3,561,471		100.00 %	\$ 322,969

10 \* List corresponding adjustments to rate base below:

11	Description	Amount
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Supporting Schedules: A-19,C-7,C-8,D-3,D-4,D-6,D-7  
Recap Schedules: D-1