

M E M O R A N D U M

October 28, 1996

RECEIVED
OCT 28 1996
12:45

FPSC-RECORDS/REPORTING

TO: DIVISION OF RECORDS AND REPORTING
FROM: DIVISION OF LEGAL SERVICES (O'SULLIVAN) *ml*
RE: DOCKET NO. 960329-WS - Application for increase in rates and service availability charges in Lee County by Gulf Utility Company.

DOCKET NO. 960234-WS - Investigation of rates of Gulf Utility Company in Lee County for possible overearnings.

PSC-96-1310 - Fof-WS

Attached is an ORDER SUSPENDING PROPOSED RATES AND APPROVING INTERIM RATES SUBJECT TO REFUND, with attachments, to be issued in the above-referenced docket. (Number of pages in Order - 20)

MEO/dp

Attachment

cc: Division of Water and Wastewater (Willis, Austin, Crouch, Fuchs, Galloway, Merchant, Monroe, Rendell, Webb)

I: 960329-O.MO

Attachments Not in Hand

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for increase)	DOCKET NO. 960329-WS
in rates and service))
availability charges in Lee))
County by Gulf Utility Company.))
<hr/>	
In Re: Investigation of rates)	DOCKET NO. 960234-WS
of Gulf Utility Company in Lee)	ORDER NO. PSC-96-1310-FOF-WS
County for possible)	ISSUED: October 28, 1996
overearnings.))
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The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman
J. TERRY DEASON
JOE GARCIA

ORDER SUSPENDING PROPOSED RATES AND
APPROVING INTERIM RATES SUBJECT TO REFUND

BY THE COMMISSION:

BACKGROUND

Gulf Utility Company (Gulf or utility) is a Class A utility which serves approximately 7,040 water and 2,435 wastewater customers in Lee County, Florida. The utility is located in a water use caution area as designated by the South Florida Water Management District. We last established rate base for Gulf's wastewater facilities by Order No. 20172, issued November 7, 1988, in Docket No. 880308-SU. Rate base for water facilities was last established by Order No. 24735, issued July 1, 1991, in Docket No. 900718-WU.

By Order No. PSC-96-0501-FOF-WS, issued April 11, 1996, in Docket No. 960234-WS, we initiated an overearnings investigation and held \$353,492 in annual water revenues subject to refund. Pending the resolution of the investigation, Gulf was ordered to undertake a surety bond, letter of credit or escrow agreement in the amount of \$179,203, representing a six-month timeframe, plus interest. As noted by that order, the overearnings investigation has been combined with this rate proceeding.

On June 27, 1996, Gulf filed an application for an increase in wastewater rates, approval of a decrease in water rates, and

DOCUMENT NUMBER DATE

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FPSC-RECORDS/REPORTING

approval of service availability charges. The minimum filing requirements (MFRs) were satisfied on August 23, 1996, which was established as the official filing date pursuant to Section 367.083, Florida Statutes. The utility's requested test year for interim purposes is the historical year ended December 31, 1995. The requested test year for final rates is the projected year ending December 31, 1996. The utility requested that this application be directly set for hearing. This matter has been set for hearing in Lee County on February 6 and 7, 1997.

In its MFRs, the utility requested total interim revenues of \$1,982,871 for water and \$1,374,425 for wastewater, which represented a revenue decrease of \$141,708 (6.67 percent) for water, and a revenue increase of \$256,855 (22.98 percent) for wastewater. However, in its application, Gulf inconsistently requested an interim increase in wastewater of \$300,000 and a permanent rate reduction in water of \$155,935, both to be effective on the same date. The requested wastewater increase in the application was based on total interim wastewater revenues for 1995 of \$1,431,111. Gulf also stated in its application that it was requesting an interim, as opposed to a permanent, water decrease.

For final consideration, the utility requested total revenues of \$2,139,422 for water and \$1,671,070 for wastewater. This represents a revenue decrease on a final basis of \$155,935 (6.79 percent) for water, and a revenue increase of \$366,340 (28.08 percent) for wastewater. The final revenues are based on the utility's request for an overall rate of return of 9.25 percent. The utility has also requested an increase in wastewater service availability charges from \$550 to \$800 per ERC and a reduction in water service availability charges from \$800 to \$550 per ERC.

SUSPENSION OF RATES AND CHARGES

Sections 367.081(6) and 367.091(5), Florida Statutes, provide that the rate schedules and service availability charges proposed by the utility shall become effective within 60 days after filing unless this Commission withholds consent to implementation of the requested rates. Further, the above referenced statutes permit the proposed rates and charges to go into effect, under bond, eight months after filing unless this Commission has taken final action.

We have reviewed the filing and considered the proposed rates, the revenues thereby generated, the proposed service availability charges, and the information filed in support of the rate application. We conclude that it is reasonable and necessary to require further amplification and explanation regarding this data, and to require production of additional and/or corroborative data.

This further examination will include on-site investigations by staff accountants, engineers and rate analysts. Therefore, the utility's requested final rates and service availability charges are suspended.

GULF'S REQUEST FOR INTERIM RATES

Gulf filed documentation regarding rate base, cost of capital, and operating statements to support its requested water decrease and wastewater increase. The utility requested that the water rates be reduced to those requested on a final basis. These proposed water rates were calculated using the projected test year ending December 31, 1996, but were applied to the 1995 bills and consumption in order to arrive at an annualized revenue requirement for the historical interim test year. As a result, those revenues generated a return on rate base of 12.20 percent instead of the 6.77 percent interim return requested for wastewater.

We reviewed the utility's interim request, as well as the prior rate proceeding orders, and have made adjustments and findings as detailed below.

RATE BASE

In its application, the utility used a thirteen-month average to calculate its requested rate base and cost of capital amounts. The MFRs are consistent with the averaging requirements of a Class A utility, as set forth in Rule 25-30.433, Florida Administrative Code. In accordance with Section 367.082(5)(b)(1), Florida Statutes, the required rate of return must be calculated by applying appropriate adjustments consistent with those used in the utility's most recent rate proceeding. Because the utility had separate rate proceedings for its last water and wastewater rate cases, the respective orders from the past proceedings were used to determine the appropriate adjustments, if any.

Three Oaks Wastewater Treatment Plant (WWTP) Expansion

For interim purposes, Gulf made adjustments to annualize the effect of an expansion to the Three Oaks WWTP which was placed in service in December, 1995. On its wastewater schedules, the utility included the year-end balance of this plant addition, with corresponding adjustments to accumulated depreciation, depreciation expense and property taxes. Gulf also made an adjustment to annualize working capital for wastewater only. This adjustment resulted in an increase of \$1,431,484 to its 1995 average wastewater rate base.

While the expansion of the WWTP may have been a major change to the utility's wastewater facilities, we do not find the adjustment to be appropriate for interim purposes. The utility did not project all components of rate base to year-end, which resulted in a mismatch in several areas such as Contributions in Aid of Construction (CIAC) additions. Gulf's complex array of prepaid CIAC and advances for construction are subject to used and useful adjustments, which would change as a result of going from average to year-end. Furthermore, the utility requested a three-year margin reserve period for this plant, which is well in excess of the margin reserve allowed in the last wastewater rate proceeding. Gulf did not provide the support for the calculation of the working capital adjustment or why such an adjustment is necessary.

We conclude that the annualization of the Three Oaks WWTP is not consistent with any adjustments made in Gulf's last wastewater rate proceeding. In accordance with the interim statute, proforma adjustments to plant, accumulated depreciation, working capital, depreciation expense and property taxes, shall be removed.

Imputation of CIAC on Margin Reserve

By Orders Nos. 20272 and 24735, we imputed CIAC on the ERCs included in the margin reserve. For interim purposes in this case, Gulf requested and we agree that the water plant is 100 percent used and useful, with a margin reserve included. Accordingly, CIAC has been imputed on the ERCs included in the margin reserve. This results in an increase to water CIAC of \$176,631, an increase to accumulated amortization of CIAC of \$2,871, and an increase to test year amortization of CIAC of \$5,741. Because the Three Oaks WWTP has been disallowed for interim purposes, the wastewater treatment plants during the test year shall be considered 100 percent used and useful without a margin reserve. Accordingly, no imputation of CIAC for wastewater is required.

Working Capital Allowance

In the utility's last wastewater rate proceeding, the balance sheet method was used to determine working capital. The utility appropriately used the balance sheet method for wastewater in its interim filing. However, the utility included the balance of Unamortized Debt Discount and Expense in its calculations. As indicated in MFR Schedule D-5, the cost of long-term debt includes the amortization of issuance costs and discounts. To include this amount in both the cost of debt and working capital would result in double-counting. We have corrected this error and reduced the total company working capital by \$405,030. The reduction for wastewater is \$156,112.

While the formula method (1/8 of operation and maintenance expenses) was used in the utility's last water rate proceeding, Gulf employed the balance sheet method in its interim filing. To comply with the interim statute, we have adjusted working capital to reflect the formula method for the water facilities. Based on the adjusted O&M expenses, the balance of working capital for interim purposes for water is \$147,472, resulting in a decrease of \$246,973 from the utility's requested balance of working capital.

COST OF CAPITAL

In its MFRs, Gulf used a thirteen-month average capital structure and made no specific adjustments. The utility made pro rata adjustments to all accounts, except customer deposits, to reconcile the capital structure to rate base. In both of the prior water and wastewater rate cases, we made pro rata adjustments to all components of capital, including customer deposits. Therefore, all sources must be reconciled to remain consistent.

In Order No. 20272, we established a rate of return on equity (ROE) for the wastewater system of 14.35 percent, with a range of 13.35 percent to 15.35 percent. For its interim cost of capital, the utility used the mid-point of the current leverage formula, set forth in Order No. PSC-96-0729-FOF-WS, issued on May 31, 1996, resulting in an 11.88 percent ROE. The utility's calculation of the cost of equity was not made in accordance with Section 367.082(5)(b)3, Florida Statutes. For an interim revenue increase, the rate of return on equity must be calculated using the lower end of the range of the utility's last authorized rate of ROE. Because the utility's requested wastewater ROE is less than what the statute would allow, we utilized the requested cost rate of 11.88 percent. This treatment has been consistently applied in interim rate proceedings. See Orders Nos. PSC-94-1237-FOF-WU, PSC-93-1174-FOF-SU and PSC-95-0573-FOF-WS, issued on October 11, 1994, August 10, 1993 and May 9, 1995, respectively.

By Order No. 24735, we established a 13.11 percent ROE for the water system, with a range of 12.11 percent to 14.11 percent. Section 367.082(5)(b)3, Florida Statutes, holds that in calculating an interim decrease, the maximum of the range of the last authorized ROE should be used to determine the achieved rate of return. Accordingly, in order to determine the amount of interim revenue decrease, an ROE of 14.11 percent has been used.

In consideration of the adjustments made herein, we have calculated interim overall rates of return of 9.68 percent and 9.48 percent for water and wastewater, respectively. Schedule No. 2

reflects the adjustments and final calculations of the utility's cost of capital.

NET OPERATING INCOME

Test Year Net Operating Income

Based on these adjustments, we find the appropriate test year operating income to be \$454,735 for water and \$105,521 for wastewater. Schedules Nos. 3-A and 3-B set forth the operating incomes for water and wastewater, respectively, and Schedule No. 3 C contains our adjustments.

Amortization of Rate Case Expense

In its MFRs, Gulf reflected \$9,939 in rate case expense amortization from the prior water rate case. This amortization was discontinued in August, 1995, which was the end of four year period after Order No. 24735 was issued. In that order, we approved total rate case expense of \$52,442. Dividing that amount by 48 months results in monthly rate case amortization of \$1,093. Multiplying that amount by seven months equates to a test year amount of \$7,648, which is \$2,291 less than the amount expensed by Gulf. Therefore, we have made an adjustment to remain consistent with the adjustment made in the utility's last water rate proceeding.

Test Year Operating Revenues

According to Section 367.082(5), Florida Statutes, any rate changes which occurred during the interim test year must be annualized in order to calculate the achieved rate of return. Based on our review of the MFRs, we recalculated test year revenues using the utility's billing determinants and the rates in effect at December 31, 1995. As a result of this analysis, test year water revenues shall be increased by \$1,992.

REVENUE REQUIREMENT

We calculated the interim revenue requirements using the actual operating expenses for the year ended December 31, 1995, and a 9.68 percent and 9.48 percent overall rate of return, for water and wastewater, respectively, on a 13-month average rate base. As a result, we conclude that Gulf's revenue requirements are \$1,796,651 for water and \$1,288,391 for wastewater. This represents an interim decrease in annual water revenues of \$329,920, or a negative 15.51 percent. For wastewater, the annual increase for interim is \$170,821 or 15.29 percent.

Section 367.082(2)(b), Florida Statutes, holds that when an interim decrease in revenues is calculated, the rates are not decreased but the annual decrease in revenues is held subject to refund pending final decision. However, Gulf has requested to implement its proposed final water rates at interim. These rates are lower than the current rates. As discussed below, we have approved this request, pending the final determination of water rates in this case. As a result of this voluntary rate reduction, the amount of annual water revenues shall be decreased from the annualized amount used to determine the interim test year revenues.

Using the utility's proposed water rates applied to the 1995 billing determinants, the annualized revenues would be \$1,982,871. This amount is still greater than the approved interim revenue requirement of \$1,796,651. The difference between these two amounts, or \$186,220, is the annual amount that must be held subject to refund on a prospective basis. Therefore, 9.39 percent of the annualized water revenues collected shall be held subject to refund on a prospective basis. This is in addition to the \$353,492 in annual water revenues held subject to refund by Order No. PSC-96-0501-FOF-WS, in the overearnings docket. However, the \$353,492 is held only from April 11, 1996, the issuance date of the order, until the water rate reduction occurs with interim rates, with no incremental increase other than interest.

INTERIM WATER AND WASTEWATER RATES

These dockets address the possibility of a rate decrease for Gulf's water system along with Gulf's requested wastewater rate increase. In its filing, the utility did not request interim water rates, but instead requested that its proposed final water rates be effective simultaneously with its proposed interim wastewater rates. We cannot make a final determination regarding the potential overearnings of the water system at this time. Therefore, we find it appropriate to approve interim rates for both the water system and the wastewater system.

We calculated an interim revenue requirement of \$1,796,651, which is lower than that revenue requirement generated by the utility's proposed rate reduction. These lower rates for the water system are designed to allow the utility the opportunity to generate interim revenues of \$1,948,052, which is a decrease in water revenues of \$143,700 from Gulf's current rates, excluding miscellaneous service revenues. This is a 6.87 percent reduction from current rates to the interim water rates.

Rates for the wastewater system shall therefore be designed to allow the utility the opportunity to generate interim revenues of

\$1,288,391. Because the utility recorded no miscellaneous service revenues for the wastewater system, no further reduction to the approved revenues is necessary for the purpose of interim rate design. The approved amount represents an increase in wastewater revenues of \$170,821 or 15.29 percent. This percentage is applied to the wastewater rates in place during the interim test year ended December 31, 1995.

The corresponding interim rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice. The utility shall provide proof of the date notice was given with ten days after the date of the notice. The revised tariff sheets will be approved upon our staff's verification that the tariffs are consistent with this Order, that the proposed notice to the customers of the approved increase is adequate and the required security has been filed.

The utility's current rates, requested interim and final rates, and the approved interim rates are set forth on Schedules Nos. 4-A and 4-B.

SECURITY

The total amount of potential refunds for the water and wastewater systems is calculated at \$439,653. This amount includes the potential overearnings addressed in Order No. PSC-96-0501-FOF-WS, for the water system, any additional potential overearnings, and the potential refund amount associated with the interim wastewater revenue increase. This amount is calculated pursuant to Section 367.082, Florida Statutes, which requires interim rates collected in excess of the previously authorized rates to be collected under guarantee subject to refund with interest.

A financial analysis indicates that the utility cannot support a corporate undertaking due to its marginal interest coverage and minimal ownership equity. These concerns cast doubt on the utility's ability to back a corporate undertaking. Therefore, we find it appropriate to require the utility to provide a letter of credit, bond, or escrow agreement to guarantee the funds collected subject to refund.

If the security provided is an escrow account, said account shall be established between the utility and an independent financial institution pursuant to a written escrow agreement. The Commission shall be a party to the written escrow agreement and a signatory to the escrow account. The written escrow agreement shall state the following: That the account is established at the direction of this Commission for the purpose set forth above, that

no withdrawals of funds shall occur without the prior approval of the Commission through the Director of the Division of Records and Reporting, that the account shall be interest bearing, that information concerning the escrow account shall be available from the institution to the Commission or its representative at all times, and that pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d. DCA 1972), escrow accounts are not subject to garnishments.

The utility opened an escrow account and has been making monthly deposits in compliance with Order No. PSC-96-0501-FOF-WS. Should the utility choose to remain with this form of security, the utility shall deposit total funds to be escrowed, \$73,275, into the escrow account each month, pending the completion of the rate case proceeding. If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers. If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.

If the security provided is a bond or a letter of credit, said instrument shall be in the amount of \$439,653. If the utility chooses a bond as security, the bond shall state that it will be released or should terminate upon subsequent order of the Commission addressing overearnings or requiring a refund. If the utility chooses to provide a letter of credit as security, the letter of credit shall state that it is irrevocable for the period it is in effect and that it will be in effect until a final Commission order is rendered addressing overearnings or requiring a refund.

Irrespective of the type of security provided, Gulf must keep an accurate and detailed account of all monies it receives. Pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund must be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

In no instance shall maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and must be borne by, the utility.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that rates and service availability schedules proposed by Gulf Utility Company

ORDER NO. PSC-96-1310-FOF-WS
DOCKETS NOS. 960329-WS, 960234-WS
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are hereby suspended in accordance with Sections 367.081(6) and 367.091(5), Florida Statutes. It is further

ORDERED that the requests for an interim increase in wastewater rates and decrease in water rates by Gulf Utility Company are hereby granted to the extent set forth in the body of this Order. It is further

ORDERED that each of the findings in this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the schedules attached hereto are incorporated by reference. It is further

ORDERED that the approved interim rates shall become effective for service rendered on or after the stamped approval date on the tariff sheets, provided customers have received notice. It is further

ORDERED that Gulf Utility Company shall provide proof of the date notice was given within ten days after the date of notice. It is further

ORDERED that the difference between the interim rates granted herein and Gulf Utility Company's previously authorized rates shall be collected subject to refund, with interest. It is further

ORDERED that Gulf Utility Company shall deposit funds subject to refund into an escrow account consistent with our findings made herein. It is further

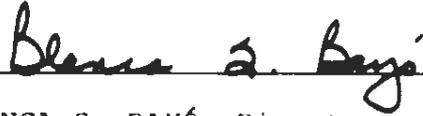
ORDERED that prior to the implementation of the interim rates approved herein, Gulf Utility Company shall file and have tariff pages revised in accordance with the provisions of this Order, appropriate security for the refund, a proposed customer notice, and proof that the customers have received notice of the rate increase. It is further

ORDERED that the tariff sheets will be stamped as approved upon verification that they are consistent with the decision herein, that the proposed customer notice is adequate, and that the appropriate security is provided. It is further

ORDERED that during the time that interim rates are in effect, Gulf Utility Company shall file a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund, pursuant to Rule 25-30.360(6), Florida Administrative Code.

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DOCKETS NOS. 960329-WS, 960234-WS
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By ORDER of the Florida Public Service Commission, this 28th
day of October, 1996.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

MEO

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by this order, which is intermediate in nature, may request judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. Citizens of the State of Florida v. Mayo, 316 So. 2d 262 (Fla. 1975), states that an order on interim rates is not final nor reviewable until a final order is issued. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

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 DOCKETS NOS. 960329-WS, 960234-WS
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GULF UTILITY COMPANY
 SCHEDULE OF WATER RATE BASE
 INTERIM TEST YEAR ENDED DECEMBER 31, 1995

SCHEDULE NO 1-A
 DOCKET NO. 960329-WS

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 15,330,943	0 \$	15,330,943	0	15,330,943
2 LAND	200,247	0	200,247	0	200,247
3 NON-USED & USEFUL COMPONENTS	0	(318,121)	(318,121)	0	(318,121)
4 CONSTRUCTION WORK IN PROGRESS	0		0	0	0
5 ACCUMULATED DEPRECIATION	(3,681,571)	44,511	(3,637,060)	0	(3,637,060)
6 CIAC	(11,442,547)	0	(11,442,547)	(176,831)	(11,619,178)
7 AMORTIZATION OF CIAC	2,573,942	0	2,573,942	2,871	2,571,813
8 ACQUISITION ADJUSTMENTS - NET	0		0	0	0
9 ADVANCES FOR CONSTRUCTION	(12,271)	0	(12,271)	0	(12,271)
10 WORKING CAPITAL ALLOWANCE	394,445	0	394,445	(246,973)	147,472
RATE BASE	\$ 3,363,188	(273,610) \$	3,089,578	(420,733)	2,668,845

GULF UTILITY COMPANY
 SCHEDULE OF WASTEWATER RATE BASE
 INTERIM TEST YEAR ENDED DECEMBER 31, 1995

SCHEDULE NO. 1-B
 DOCKET NO. 960329-WS

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 11,416,482	1,439,746 \$	12,856,228	(1,439,746)	11,416,482
2 LAND	478,498	0	478,498	0	478,498
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4 CONSTRUCTION WORK IN PROGRESS	0	0	0	0	0
5 ACCUMULATED DEPRECIATION	(2,527,894)	(49,594)	(2,577,488)	49,594	(2,527,894)
6 CIAC	(8,327,963)	0	(8,327,963)	0	(8,327,963)
7 AMORTIZATION OF CIAC	1,708,634	0	1,708,634	0	1,708,634
8 ACQUISITION ADJUSTMENTS - NET	0	0	0	0	0
9 ADVANCES FOR CONSTRUCTION	0	0	0	0	0
10 WORKING CAPITAL ALLOWANCE	247,407	41,332	288,739	(197,444)	91,295
RATE BASE	\$ 2,991,164	1,431,484 \$	4,422,648	(1,587,596)	2,835,052
	*****	*****	*****	*****	*****

GULF UTILITY COMPANY
 ADJUSTMENTS TO RATE BASE
 INTERIM TEST YEAR ENDED DECEMBER 31, 1995

SCHEDULE NO. 1-C
 DOCKET NO. 960329-WS
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EXPLANATION	WATER	WASTEWATER
(1) PLANT IN SERVICE		
a) Remove pro forma plant for Three Oaks WWTP		\$ (1,439,746)
(2) ACCUMULATED DEPRECIATION		
a) Remove pro forma plant for Three Oaks WWTP		\$ 49,594
(3) CIAC		
a) Imputation of CIAC to offset margin reserve	\$ (176,631)	\$ 0
(4) ACCUMULATED AMORTIZATION		
a) Imputation of CIAC to offset margin reserve	\$ 2,871	\$ 0
(5) WORKING CAPITAL		
a) Adjustment to reflect formula method for water	\$ (246,973)	\$ 0
b) Remove pro forma adjustment to wastewater balance sheet method		(41,332)
b) Remove unamort debt discount & exp from balance sheet method	0	(156,112)
Total	\$ (246,973)	\$ (197,444)

GULF UTILITY COMPANY
 CAPITAL STRUCTURE
 INTERIM TEST YEAR ENDED DECEMBER 31, 1995

SCHEDULE NO. 1
 DOCKET NO. 960329-WS

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	8,751,923	0	(4,108,347)\$	4,643,576	76.37%	10.63%	8.12%
2 SHORT-TERM DEBT	75,360	0	(35,319)	40,041	0.66%	11.01%	0.07%
3 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
4 COMMON EQUITY	1,007,706	0	(473,042)	534,664	8.79%	11.88%	1.04%
5 CUSTOMER DEPOSITS	192,363	0	0	192,363	3.16%	6.00%	0.19%
6 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
8 DEFERRED INCOME TAXES	1,262,577	0	(582,479)	679,098	11.02%	0.00%	0.00%
9 TOTAL CAPITAL	11,289,929	0	(5,209,187)\$	6,080,742	100.00%		9.42%
PER COMMISSION							
10 LONG TERM DEBT	8,751,923	0	(4,485,317)\$	4,266,606	77.52%	10.63%	8.24%
11 SHORT-TERM DEBT	75,360	0	(38,622)	36,738	0.67%	11.01%	0.07%
12 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
13 COMMON EQUITY	1,007,706	0	(516,444)	491,262	8.93%	11.88% (1)	1.06%
14 CUSTOMER DEPOSITS	192,363	0	(98,585)	93,778	1.70%	6.00%	0.10%
15 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
16 DEFERRED INCOME TAXES	1,262,577	0	(647,064)	615,513	11.18%	0.00%	0.00%
17 TOTAL CAPITAL	11,289,929	0	(5,786,032)\$	5,503,897	100.00%		9.48%

Notes:

- (1) Mid-point of current leverage graph
- (2) Order # 24735, Dkt # 900718-WU
- (3) Order #20272, Dkt # 880308-SU

RANGE OF REASONABLENESS	WATER (2)		WASTEWATER (3)	
	MINIMUM	MAXIMUM	MINIMUM	MAXIMUM
LAST AUTHORIZED ROE	12.11%	14.11%	13.35%	15.35%
OVERALL RATE OF RETURN	9.50%	9.68%	9.61%	9.79%

GULF UTILITY COMPANY
 STATEMENT OF WATER OPERATIONS
 INTERIM TEST YEAR ENDED DECEMBER 31, 1995

SCHEDULE NO. 3-A
 DOCKET NO. 960329-WS

ORDER NO. PSC-96-1310-FOF-WS
 DOCKETS NOS. 960329-WS, 960234-WS
 PAGE 16

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	2,124,579	(141,708)	1,982,871	143,700	2,126,571	(329,820)	1,796,651
OPERATING EXPENSES						-15.51%	
2 OPERATION AND MAINTENANCE	1,182,065	0	1,182,065	(2,291)	1,179,774		1,179,774
3 DEPRECIATION	158,452	(9,891)	148,561	(5,741)	142,820		142,820
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	210,401	(6,377)	204,024	6,377	210,401	(14,846)	195,554
6 INCOME TAXES	0	71,228	71,228	67,613	138,841	(118,562)	20,279
7 TOTAL OPERATING EXPENSES	1,550,918	54,980	1,605,898	65,958	1,671,836	(133,408)	1,538,428
8 OPERATING INCOME	573,661	(198,668)	375,993	77,742	454,735	(198,511)	256,224
9 RATE BASE	3,363,188		3,089,578		2,668,845		2,668,845
RATE OF RETURN	17.06%		12.20%		17.04%		9.68%

GULF UTILITY COMPANY
 STATEMENT OF WASTEWATER OPERATIONS
 INTERIM TEST YEAR ENDED DECEMBER 31, 1995

SCHEDULE NO. J-B
 DOCKET NO. 960329-WS

ORDER NO. PSC-96-1310-FOF-WS
 DOCKET'S NOS. 960329-WS, 960234-WS
 PAGE 17

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	1,117,570	256,855	1,374,425	(256,855)	1,117,570	170,821	1,288,391
OPERATING EXPENSES						15.29%	
2 OPERATION AND MAINTENANCE	741,424	0	741,424	928	742,352		742,352
3 DEPRECIATION	150,894	49,594	200,488	(49,594)	150,894		150,894
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	118,803	14,167	132,970	(14,167)	118,803	7,687	126,489
6 INCOME TAXES	0	0	0	0	0	0	0
7 TOTAL OPERATING EXPENSES	1,011,121	63,761	1,074,882	(62,833)	1,012,049	7,687	1,019,735
8 OPERATING INCOME	106,449	193,094	299,543	(194,022)	105,521	163,134	268,656
9 RATE BASE	2,881,164		4,422,648		2,835,052		2,835,052
RATE OF RETURN	3.56%		6.77%		3.72%		9.48%

GULF UTILITY COMPANY
 ADJUSTMENTS TO OPERATING STATEMENTS
 INTERIM TEST YEAR ENDED DECEMBER 31, 1995

SCHEDULE NO. 3-C
 DOCKET NO. 960329-WS
 PAGE 1 OF 1

EXPLANATION	WATER	WASTEWATER
(1) OPERATING REVENUES		
a) Reverse utility's proposed revenue increase	\$ 141,708	\$ (256,855)
b) Annualize test year revenues for 4-year water rate reduction	1,992	0
	<u>143,700</u>	<u>(256,855)</u>
(2) OPERATION & MAINTENANCE EXPENSES		
a) To remove prior amortized balance from rate case expense	\$ (2,291)	\$ 0
b) To zero out balance remaining in prior years' rate case expense	0	928
Total	<u>\$ (2,291)</u>	<u>\$ 928</u>
(3) DEPRECIATION EXPENSE		
a) Remove pro forma depreciation for Three Oaks WWTP	\$ 0	\$ (49,594)
a) Imputation of CIAC to offset margin reserve	(5,741)	0
Total	<u>\$ (5,741)</u>	<u>\$ (49,594)</u>
(4) TAXES OTHER THAN INCOME TAXES		
a) Regulatory assessment fees related to revenue adjustments	\$ 6,377	\$ (11,558)
a) Remove pro forma property taxes for Three Oaks WWTP		(2,609)
Total	<u>\$ 6,377</u>	<u>\$ (14,167)</u>
(5) INCOME TAXES		
a) Income taxes associated with adjusted test year income	\$ 67,613	\$ 0
(6) OPERATING REVENUES		
a) Adjustment to reflect revenue requirement	\$ (329,920)	\$ 170,821
(7) TAXES OTHER THAN INCOME TAXES		
a) Regulatory assessment fees on revenue requirement	\$ (14,846)	\$ 7,887
(8) INCOME TAXES		
a) Income taxes related to approved income amount	\$ (118,562)	\$ 0

GULF UTILITY COMPANY
 LEE COUNTY
 DOCKET NO. 960329-WS
 TEST YEAR ENDED: DECEMBER 31, 1996

Schedule No. 4-A

WATER RATE SCHEDULE

Monthly Rates

	Rates Prior to Filing	Utility Requested Interim & Final	Commission Approved Interim
Residential, Multi-Family, General Service			
Base Facility Charge			
Meter Size			
5/8"x3/4"	\$8 45	\$7 88	\$7 88
3/4"	\$12 88	\$11 82	\$11 82
1"	\$21 13	\$19 70	\$19 70
1-1/2"	\$45 25	\$39 38	\$39 38
2"	\$67 61	\$63 02	\$63 02
3"	\$135 21	\$126 03	\$126 03
4"	\$211 27	\$196 92	\$196 92
6"	\$422 54	\$393 85	\$393 85
Gallage Charge, per 1,000 Gallons	\$2 16	\$2 01	\$2 01
Irrigation			
Base Facility Charge			
Meter Size			
5/8"x3/4"	\$8 45	\$7 88	\$7 88
1"	\$21 13	\$19 70	\$19 70
1-1/2"	\$45 25	\$39 38	\$39 38
Gallage Charge, per 1,000 Gallons	\$2 16	\$2 01	\$2 01
Public Authority			
Base Facility Charge			
Meter Size			
1"	\$21 13	\$19 70	\$19 70
2"	\$67 61	\$63 02	\$63 02
3"	\$135 21	\$126 03	\$126 03
4"	\$211 27	\$196 92	\$196 92
Gallage Charge, per 1,000 Gallons	\$2 16	\$2 01	\$2 01
Private Fire Protection			
Base Facility Charge			
Meter Size			
1"	\$7 04	\$6 86	\$6 86
1-1/2"	\$14 08	\$13 12	\$13 12
2"	\$22 54	\$21 01	\$21 01
3"	\$45 07	\$42 01	\$42 01
4"	\$70 42	\$69 37	\$69 37
6"	\$140 85	\$131 29	\$131 29
8"	\$225 35	\$210 05	\$210 05
12"	\$605 64	\$564 52	\$564 52
Typical Residential Bills			
5/8" x 3/4" meter			
3,000 Gallons	\$14 93	\$13 91	\$13 91
6,000 Gallons	\$19 25	\$17 93	\$17 93
10,000 Gallons	\$30 05	\$27 96	\$27 96

GULF UTILITIES, COMPANY
 LEE COUNTY
 DOCKET NO. 960329-WS
 TEST YEAR ENDED: DECEMBER 31, 1995

Schedule No. 4-B

WASTEWATER RATE SCHEDULE

Monthly Rates

	Rates Prior to Filing	Utility Requested Interim	Utility Requested Final	Commission Approved Interim
Residential				
Base Facility Charge All Meter Sizes	\$14.48	\$15.82	\$16.48	\$16.73
Gallage Charge, per 1,000 Gallons Wastewater Gallage Cap - 10,000 gallons	\$3.07	\$4.06	\$4.23	\$3.55
General Service, Multi-Family, & Public Authority				
Base Facility Charge: Meter Size:				
5/8" x 3/4"	\$14.48	\$15.82	\$16.48	\$16.73
1"	\$36.20	\$40.23	\$41.19	\$41.82
1-1/2"	\$72.39	\$79.10	\$82.37	\$83.62
2"	\$115.85	\$126.58	\$131.81	\$133.83
3"	\$231.68	\$253.14	\$263.61	\$267.64
4"	\$362.01	\$395.54	\$411.89	\$418.19
6"	\$724.01	\$791.08	\$823.78	\$836.39
Gallage Charge, per 1,000 Gallons	\$3.68	\$4.88	\$5.08	\$4.25
Master Meter Influent Service				
Base Facility Charge Meter Size				
5/8" x 3/4"	\$14.48	\$15.82	\$16.48	N/A
1"	\$36.20	\$40.23	\$41.19	N/A
1-1/2"	\$72.39	\$79.10	\$82.37	N/A
2"	\$115.85	\$126.58	\$131.81	N/A
3"	\$231.68	\$253.14	\$263.61	\$267.64
4"	\$362.01	\$395.54	\$411.89	\$418.19
6"	\$724.01	\$791.08	\$823.78	N/A
Gallage Charge, per 1,000 Gallons	\$3.84	\$5.08	\$5.29	\$4.44
Typical Residential Bills				
5/8" x 3/4" meter				
3,000 Gallons	\$23.69	\$28.00	\$29.17	\$27.38
5,000 Gallons	\$29.83	\$36.12	\$37.63	\$34.48
10,000 Gallons	\$45.18	\$56.42	\$58.78	\$52.23