

STATE OF FLORIDA

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DIVISION OF LEGAL SERVICES  
NGREEN S. DAVIS  
DIRECTOR  
(850) 413-6199

ORIGINAL

Public Service Commission

July 6, 1998

B. Kenneth Gatlin, Esq.  
Gatlin, Schiefelbein, and Cowdery, P.A.  
3309 Thomasville Road, Ste. 300  
Tallahassee, Fl 32312

Re: Docket No. 970991-SU -- Investigation into rates and charges of Florida Cities Water Company -- Lee County Division (South Ft. Myers Wastewater System) for potential overearnings.

Dear Mr. Gatlin:

As we have discussed, staff believes that the proposal set forth in Mr. Murphy's letter to Marshall W. Willis, dated March 23, 1998, needs to be amplified and amended to clarify the exact settlement offered by the utility. Taking Mr. Murphy's letter as a starting point, staff believes that any settlement as outlined by Mr. Murphy would necessarily include the following:

- 1) Defer \$21,606 (includes accrued interest for 1996) in price index revenues for 1996.
- 2) Defer \$222,646 in excess revenues for 1997 -- this includes \$105,978 (utility's calculation of 1997 overearnings held subject to refund), and \$116,678 (50% of 1997 earnings not held subject to refund)
- 3) Use all deferred revenues by December 31, 2000, or the Commission will revisit at that time to determine if a refund is necessary.
- 4) Continue to file semi-annual earnings reports.
- 5) 1998 Overearnings will be addressed in 1999. (Based on staff's review of the semi-annual reports, additional revenues may be subject to refund in 1998 and later years).
- 6) Include deferred revenues in the capital structure as a separate line item with a cost rate equal to the thirty-day commercial paper rate for the South Ft. Myers wastewater system.

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Ken Gatlin, Esq.

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- 7) Accrue monthly interest on all deferred revenues at the 30-day commercial paper rate beginning with September 9, 1997.
- 8) Rate of return on equity for 1998 will be based on the current leverage graph formula.

If the above modifications and amplifications meet with the utility's approval, it is staff's understanding that the utility will file with the Commission an offer of settlement. A sample cover letter designed to assist the utility in making an offer of settlement is attached. If the utility requires further assistance, please contact me at (850) 413-6234.

Sincerely,



Ralph R. Jaeger  
Senior Attorney

Enclosures

RJJ:shm

cc: Division of Water and Wastewater (Willis, Moniz, Merchant)  
Division of Records and Reporting  
Florida Cities Water Company (Michael Murphy)

Ken Gatlin, Esq.  
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July 2, 1998

Date

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

**Re: Docket No. 970991-SU -- Investigation into rates and charges of Florida Cities Water Company -- Lee County Division (South Ft. Myers Wastewater System) for potential overearnings.**

Dear Mr. Jaeger:

In response to your letter dated July 6, 1998, Florida Cities Water Company (FCWC) proposes to dispose of this overearnings investigation with the following offer of settlement. Based on Mr. Murphy's letter dated March 23, 1998, FCWC offers to settle as follows:

- 1) Defer \$21,606 (includes accrued interest for 1996) in price index revenues for 1996.
- 2) Defer \$222,646 in excess revenues for 1997 -- this includes \$105,978 (utility's calculation of 1997 overearnings held subject to refund), and \$116,678 (50% of 1997 earnings not held subject to refund)
- 3) Use all deferred revenues by December 31, 2000, or the Commission will revisit at that time to determine if a refund is necessary.
- 4) Continue to file semi-annual earnings reports.
- 5) 1998 Overearnings will be addressed in 1999. (Based on staff's review of the semi-annual reports, additional revenues may be subject to refund in 1998 and later years).
- 6) Include deferred revenues in the *capital structure as a separate line item* with a cost rate equal to the thirty-day commercial paper rate for the South Ft. Myers wastewater system.
- 7) Accrue monthly interest on all deferred revenues at the 30-day commercial paper rate beginning with September 9, 1997.
- 8) Rate of return on equity for 1998 will be based on the current leverage graph formula.

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

Sincerely,