

M E M O R A N D U M

July 17, 1992

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TO: Marshall Willis, Division of Water and Wastewater  
FROM: Pete Lester, Division of Auditing and Financial Analysis  
RE: Docket No. 920199-WS, SSU Rate Case, Security for Interim Rates

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The amount to secure a possible refund in this docket is \$6,109,897 based on interim rates being in effect for 10 months. The security for a possible refund in the last rate case is a letter of credit for \$2,859,889. This covers the amount that staff projected would accrue during the rate case and that could accrue until the First DCA rules on the appeal. Considering both cases, SSU could have to refund as much as \$8,969,786 during the next year. Since the Commission required a letter of credit to secure a refund stemming from the last rate case and since SSU and Deltona continue to have weak financial ratios, staff believes the Commission should continue to require at least the same security for the current rate case. Therefore, staff recommends that the Commission require that the utility post a letter of credit, escrow agreement, or surety bond as security for the interim rates in this current rate case.

Staff has attached two schedules to this memo. Schedule 1 shows the financial ratios for SSU and Deltona based on the 1991 PSC Annual Report. Schedule 2 is the schedule staff used in the last rate case. Both schedules show that SSU and Deltona do not have adequate liquidity, profitability, and coverage ratios to support a corporate undertaking.

This brief financial analysis is only appropriate for deciding if the applicant's financial condition can support a corporate undertaking in the amount proposed. This analysis should not be construed or considered a pronouncement regarding the Commission's decision in the rate case.

- ACK \_\_\_\_\_
- AFA \_\_\_\_\_
- APP \_\_\_\_\_
- CAF \_\_\_\_\_
- CMU \_\_\_\_\_
- CTR \_\_\_\_\_
- EAG \_\_\_\_\_
- LTP \_\_\_\_\_
- LMV \_\_\_\_\_
- OPC \_\_\_\_\_
- RCH \_\_\_\_\_
- SEC \_\_\_\_\_
- WFS \_\_\_\_\_
- OTM \_\_\_\_\_

Attachment

CC: Division of Records and Reporting  
Division of Legal Services (Feil)  
Division of Water and Wastewater (Messer)

DOCUMENT NUMBER-DATE

08018 JUL 22 1992

PSC-RECORDS/REPORTING

Prepared by Pete Lester on July 10, 1992

SCHEDULE 1

Filename: SSDELUCU.WK1

Calculates financial ratios

Docket No. 920199-WS, Southern States Utilities, Inc. and  
Deltona Utilities, Inc.

Requested Interim Revenue Increase for Both Companies: \$6,982,740

Amount of LOC or Corporate Undertaking: \$6,109,897

Southern States Utilities, Inc.

	<u>1991</u>	<u>1990</u>
NET WORKING CAPITAL *	(\$4,004,851)	(\$3,546,890)
CURRENT RATIO	0.45	0.57
COMMON EQUITY	\$17,013,544	\$17,958,466
EQUITY RATIO, ALL	15%	16%
EQ. % INVESTOR **	39%	39%
NET INCOME	(\$1,940,271)	(\$315,054)
RETURN ON EQUITY	-11.40%	-1.75%
TIE RATIO ***	1.09	1.50

Source: 1991 PSC Annual Report

\* Removed Note Payable and Accounts Payable to Associated Co.

\*\* Included Note Payable to Associated Co. and Matured L-T Debt.

\*\*\* Excludes Gains (Losses) and Other Income and Extraordinary  
Items, Negative Income Tax is Not Part of the Calculation.

Deltona Utilities, Inc.

	<u>1991</u>	<u>1990</u>
NET WORKING CAPITAL *	(\$470,011)	\$8,038,670
CURRENT RATIO	0.92	2.99
COMMON EQUITY	\$30,486,071	\$26,800,655
EQUITY RATIO, ALL	30%	28%
EQ. % INVESTOR **	46%	43%
NET INCOME	(\$71,504)	\$1,042,982
RETURN ON EQUITY	-0.23%	3.89%
TIE RATIO ***	0.86	0.90

Source: 1991 PSC Annual Report

\* Removed Note Payable and Accounts Payable to Associated Co.

\*\* Included Note Payable to Associated Co. and Matured L-T Debt.

\*\*\* Excludes Gains (Losses) and Other Income and Extraordinary  
Items, Negative Income Tax is Not Part of the Calculation.

Original Corporate Undertaking for \$1,248,083, with an additional \$1,611,806, the new total is \$2,859,889.

SCHEDULE 2

SSUI - All SSUI Systems

	1990	1989	1988
NET WORKING CAPITAL	(\$3,900,713)	(\$2,733,590)	(\$3,732,223)
CURRENT RATIO	0.56	0.56	N/A
COMMON EQUITY	\$17,958,466	\$16,618,770	\$11,358,179
EQUITY RATIO, ALL	16%	16%	13%
EQ. % INVESTOR	39%	39%	N/A
NET INCOME	(\$315,054)	(\$91,659)	\$935,193
RETURN ON EQUITY	negative	negative	8.23%
TIE RATIO	0.50	0.77	N/A

Deltona Utilities, Inc.

	1990	1989	1988
NET WORKING CAPITAL	(\$6,404,104)	(\$2,489,113)	\$9,047,171
CURRENT RATIO	0.37	0.67	N/A
COMMON EQUITY	\$26,800,679	\$22,615,790	\$20,561,646
EQUITY RATIO, ALL	28%	29%	27%
EQ. % INVESTOR	43%	44%	N/A
NET INCOME	\$984,889	\$487,656	\$1,266,390
RETURN ON EQUITY	3.67%	2.16%	6.16%
TIE RATIO	0.99	1.15	N/A

United Florida Utilities Corporation

	1990	1989	1988
NET WORKING CAPITAL	(\$236,467)	\$574,266	(\$837,684)
CURRENT RATIO	0.83	2.34	N/A
COMMON EQUITY	\$14,407,614	\$14,650,015	\$14,372,247
EQUITY RATIO, ALL	54%	59%	63%
EQ. % INVESTOR	61%	65%	N/A
NET INCOME	(\$242,401)	\$70,986	\$192,778
RETURN ON EQUITY	-1.68%	0.48%	1.34%
TIE RATIO	0.67	1.26	N/A

For Deltona & United:

Source: Unapproved 1990 Annual Report for SSUI - Consolidated (does not include Deltona or United Florida) Agrees in general with the audited financial statements

Source: Audited Financial Statements for 1990 Note: 1988 based on PSC Annual Reports & has different net working capital calculations