

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a Rate) DOCKET NO. 940847-WS
Increase in Duval County by) ORDER NO. PSC-95-0573-FOF-WS
ORTEGA UTILITY COMPANY) ISSUED: May 9, 1995
_____)

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman
J. TERRY DEASON
JOE GARCIA
JULIA L. JOHNSON
DIANE K. KIESLING

ORDER DENYING CONSIDERATION OF SUGGESTION OF ERROR
AND ORAL ARGUMENT

AND

ORDER SUSPENDING PROPOSED RATES, DENYING INTERIM WATER RATES
AND GRANTING INTERIM WASTEWATER RATES INCREASE SUBJECT TO REFUND

BY THE COMMISSION:

BACKGROUND

Ortega Utility Company (Ortega or utility) is a Class B water and wastewater utility providing service for approximately 1,342 water and 1,211 wastewater customers in Duval County. The utility is contained within the St. Johns River Water Management District which is a critical use area. For the test year ended June 30, 1994, the utility reports water operating revenues of \$528,199 and wastewater operating revenues of \$726,091.

The Commission last established rates for this utility in a limited proceeding in Docket No. 911168-WS. Order No. PSC-92-0633-FOF-WS, issued July 8, 1992, addressed the utility's petition for emergency and permanent rate relief as well as the interconnection of the Herlong water and wastewater systems with the City of Jacksonville. The last full rate proceeding was held in Docket No. 871262-WS, and the final order, Order No. 21137, was issued on April 27, 1989. The utility has received price index rate adjustments for the years 1991 through 1994.

On December 21, 1994, the utility filed an application for approval of interim and permanent rate increases pursuant to Sections 367.081(2), 367.081(3) and 367.082, Florida Statutes. The

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utility did not satisfy the minimum filing requirements (MFRs) and a letter was sent to the utility notifying it of its deficiencies on January 5, 1995. On February 20, 1995, the utility satisfied the MFRs and this date was designated as the official filing date.

Ortega has requested interim and final water rates designed to generate annual revenues of \$549,549 and wastewater rates designed to generate annual revenues of \$899,000. The requested water revenues exceed adjusted test year revenues by \$11,922 for an increase of 2.22%. The requested wastewater revenues exceed adjusted test year revenues by \$157,657 for an increase of 21.27%.

On April 17, 1995, Ortega filed a Suggestion of Error on Staff Recommendation on Interim Rates, along with a request to be heard at the agenda conference. The utility has not requested that this case be processed pursuant to the proposed agency action as provided in Section 367.081(8), Florida Statutes. The case has been set for hearing in Duval County on July 20 and 21, 1995.

SUGGESTION OF ERROR

On April 17, 1995, Ortega filed a Suggestion of Error on Staff Recommendation on Interim Rates. Ortega argues in its filing numerous errors in how the Commission Staff arrived at its recommendation. Ortega cites Order No. PSC-94-1519-FOF-GU, issued December 9, 1994, as its basis for filing such a pleading. The Commission stated in Order No. PSC-94-1519-FOF-GU that:

Parties may be allowed to address mistakes or mathematical errors through an appropriate pleading, such as a "Suggestion of Error in Staff Recommendation." However, differences of opinion as to policy or accounting methodology shall not be communicated through such a pleading.

Ortega's pleading was not one which addressed mathematical mistakes, but which questioned Commission policy, and the methodology in calculating interim rates. Therefore, Ortega's pleading shall not be considered at this agenda conference. If a utility believes that the Commission made a mistake of law or fact, the proper vehicle for stating its belief is to file a motion for reconsideration after the Order has been issued.

ORAL ARGUMENT

Attached to Ortega's pleading, was a request for oral argument. Rule 25-22.0021, Florida Administrative Code, states that parties will not be allowed to participate at the agenda

conference on items concerning interim rates. Therefore, oral argument is denied.

SUSPENSION OF RATES

Section 367.081(6), Florida Statutes, provides that the rate schedules proposed by the utility shall become effective within sixty (60) days after filing unless the Commission votes to withhold consent to implementation of the requested rates. Further, the above referenced statute permits the proposed rates to go into effect, under bond, eight (8) months after filing unless final action has been taken by the Commission.

We have reviewed the filings and considered the proposed rates, the revenues thereby generated, and the information filed in support of the rate application. In its application, the utility has made several pro forma adjustments to its rate base, operating statement and capital structure. Also, the utility increased its wastewater rate base for unrecovered past depreciation expense. Finally, the utility made a pro rata adjustment that increased the capital structure to match its rate base. Therefore, we find that it is reasonable and necessary to require further amplification, explanation and cross-examination of the data filed by the utility, as well as additional and/or corroborative data. In consideration of the above, we find that it is appropriate to suspend the proposed rate increase.

INTERIM RATES

Ortega has requested approval of increased rates for its water and wastewater systems based on recovery of operating expenses and receipt of an 11.33% return on average rate base. The test year is the historical test year ended June 30, 1994. The utility filed rate base, cost of capital, and operating statements to support its requested water and wastewater rate increases.

RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is depicted on Schedule Nos. 1-A and 1-B, and our adjustments are itemized on Schedule No. 1-C. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Plant in Service

Ortega included pro forma adjustments for water and wastewater in its calculation of rate base. The adjustment to water plant in service of \$20,950 was for costs of a new structure, chemical feed equipment, permits, and start-up costs necessary for compliance with the lead and copper rule. The adjustment to wastewater plant in service of \$70,000 was for the cost of a relief sewer force main. Section 367.082(5)(b)(1), Florida Statutes, requires that the achieved rate of return be calculated using the most recent 12-month period, applying adjustments consistent with those used in the utility's most recent rate proceeding. For interim purposes, only those adjustments which are corrections of errors will be allowed. Pro forma adjustments are not allowed for interim rates. Therefore, we reduced water and wastewater rate base by \$20,950 and \$70,000, respectively.

Construction Work in Progress (CWIP)

The utility included CWIP in rate base for water and wastewater in the amounts of \$422 and \$945, respectively. The utility has provided no description or explanation for these amounts. Although CWIP was allowed in the utility's last rate case, it was fully supported in the record. Section 367.082, Florida Statutes, states that entitlement of interim relief is based on the utility making a prima facie case that it deserves an interim rate increase. In this case, we find that Ortega has not provided prima facie evidence in its request for CWIP for interim purposes. Accordingly, we reduced rate base for water and wastewater by excluding CWIP.

Accumulated Depreciation/Accumulated Amortization of CIAC

The utility's calculation of rate base included adjustments to decrease water accumulated depreciation by \$2,269, and to increase wastewater by \$2,528. The utility also decreased accumulated amortization of CIAC by \$2,183 for water and \$3,855 for wastewater. Since the utility provided no explanation otherwise, we find that these adjustments are pro forma and therefore, we have removed them from both water and wastewater.

Adjustment to Restore Depreciation

The utility included a wastewater adjustment to restore unrecovered depreciation accumulated since its last rate case. In accordance with the interim statute, we removed the utility's pro forma adjustment of \$239,377 from wastewater rate base.

Working Capital

In its application, Ortega used the formula method, or one-eighth of its operating and maintenance expenses, to compute the requested allowance for working capital. The utility's requested allowance is \$37,698 for water and \$63,268 for wastewater. In the utility's last rate case, the working capital allowance was derived using the balance sheet method. In accordance with the interim statute and the Commission's long-standing interpretation of that statute, the working capital allowance shall be calculated using the balance sheet method.

Based on our calculation using the balance sheet method, the working capital amount would be negative. Accordingly, we find it appropriate to have a working capital allowance of zero. Therefore, an adjustment of \$37,698 for water and \$63,268 for wastewater shall be made to remove working capital from rate base calculation.

Based on the above adjustments, we calculated rate base for interim purposes at \$900,579 and \$1,235,608 for water and wastewater, respectively.

COST OF CAPITAL

Our calculation of the appropriate cost of capital, including our adjustments, is depicted on Schedule No. 2. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on that schedule without further discussion in the body of this Order. The major adjustments are discussed below.

In its MFRs, the utility used a simple average capital structure with one specific adjustment to long-term debt. The utility then increased all capital components using pro rata adjustments to reconcile the capital structure to rate base. Using the actual debt cost and the current leverage graph for the return on equity, the utility requested an overall cost of capital of 11.33%.

We made several adjustments to the cost of capital for interim purposes. The first adjustment is to remove the utility's specific adjustment to debt. This \$90,950 adjustment to long-term debt corresponds to the utility's requested pro forma plant additions. Consistent with the adjustments to plant, we removed the utility's pro forma adjustment to long-term debt.

Our second adjustment relates to the reconciliation of the capital structure to rate base. It is Commission practice to

require that the adjusted capital structure be reconciled to total rate base. In the utility's last rate case, the capital structure, after specific adjustments, exactly equaled rate base, with no pro rata reconciliation as a result. The body of the order or the schedule of capital structure does not mention how this situation occurred.

We are concerned in this case that after our adjustments, the capital structure will be \$440,341 less than the combined water and wastewater rate base. Normally, a utility's capital structure is higher than rate base and the reconciliation reflects a decrease to the utility's capital structure, not an increase. Somehow, Ortega's rate base has to be supported by capital.

By reviewing the balance sheet in the MFRs, we surmise that Other Deferred Credits includes a substantial amount (\$362,473) that could possibly be considered a source of capital. However, for interim purposes we cannot tell exactly what this account includes or whether or not it has an associated cost rate. This account most likely did not exist in the last rate case, so it would not fall into the category of an adjustment consistent with the last case. Even if this amount were included in the capital structure, a positive adjustment would still be required to reconcile to rate base. This difference is caused most likely by the negative balance of working capital, which was reflected as a zero balance in rate base. If both the negative balance for working capital and the other deferred credits were included in rate base, the capital structure then would be very close to rate base.

Additionally, any pro rata adjustment to increase deferred investment tax credits or deferred income taxes is inappropriate. The only appropriate adjustment that could be made to either of these accounts would be a specific correction, not a reconciliation adjustment. Further, we find that it is inappropriate for interim or final purposes to increase any other component of capital without a known or measurable change supporting such an adjustment. United Telephone Company of Florida v. Mann, 403 So. 2d 962, 967 (Fla. 1981). As previously discussed, for interim purposes, only those adjustments which are corrections of errors would be allowed; pro forma adjustments are disallowed.

We find that the best solution for interim is to use the unadjusted balance of the capital structure without a pro rata reconciliation. This treatment, although not consistent with our practice, is consistent with the last rate case. The end result is still a reasonable rate of return for the overall cost of capital.

For final purposes, we are investigating why the capital structure is so much less than rate base and what treatment is appropriate.

Our last adjustment relates to the requested return on equity. In the utility's last rate proceeding, the Commission established a return on equity of 14.35%, with a range of 13.35% to 15.35%. Consistent with the interim statute, the cost of capital used for interim rates shall be the minimum of the range of the last authorized return on equity. As the utility did not request separate calculations for interim and final, it used the current leverage graph to calculate revenues. Since the requested cost of equity is less than what the statute would allow, we used the cost rate requested. This treatment has been consistently applied by the Commission in interim rate proceedings. See Orders Nos. PSC-94-1237-FOF-WU and PSC-93-1174-FOF-SU, issued October 11, 1994, and August 10, 1993, respectively. As such, we find it appropriate that 11.34% be used to calculate the interim cost of equity.

Based on the above, we calculated an overall rate of return of 11.32% for interim purposes. Using the cost of equity previously authorized, we calculated the range of the required rate of return as 11.85% to 12.37%. This range is pertinent in order to determine what level to apply to any potential overearnings.

NET OPERATING INCOME

Our calculation of net operating income is depicted on Schedule Nos. 3-A and 3-B, and our adjustments are itemized on Schedule No. 3-C. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Operating Revenues

Section 367.082(5)(b)(1), Florida Statutes, states that the achieved rate of return is calculated by applying appropriate adjustments and annualizing any rate changes occurring during such period. For the purposes of this application, Ortega chose a historic test year ended June 30, 1994. Ortega received a price index increase on August 8, 1994. In its application, Ortega annualized its revenues related to this price index. Because the index was implemented after the interim test year, we removed the annualized revenues which were adjusted for the index. Accordingly, we reduced test year revenues by \$ 9,428 and \$ 15,252 for water and wastewater, respectively.

Operation and Maintenance Expenses

The utility's requested revenue requirement includes pro forma adjustments for salaries and benefits, sludge removal, chemicals, electricity, maintenance, and postage expenses. According to the interim statute, pro forma adjustments for expenses shall be removed. Therefore, we removed all pro forma adjustments for the expenses listed above.

Rate Case Expense

The utility included a provision in its filing for rate case expense. Consistent with the interim statute, we reduced expenses by \$5,948 for water and \$8,156 for wastewater to remove pro forma rate case expense. The only amount allowed for interim purposes is the rate case expense allowed in the utility's last limited proceeding. Order No. PSC-92-0633-FOF-WS, allowed \$2,208 on an annual basis for the water system only.

Depreciation Expense

In its filing, the utility made an adjustment to increase depreciation expense for water and wastewater by \$857 and \$8,693, respectively. The utility has provided no explanation for these adjustments. Therefore, to be consistent with our adjustments to rate base, we removed these amounts from both water and wastewater.

Test Year Net Operating Income

Based on the above adjustments, test year net operating income is \$128,599 for the water system and \$131,900 for the wastewater system. This results in an achieved rate of return of 14.28% for water and 10.67% for wastewater. As stated in the cost of capital section, the range of the required rate of return is 11.85% to 12.37%. The overall rate of return calculation for interim is 11.32%. Since the 14.28% for the water system exceeds the maximum of 12.37%, we believe that during the interim test year the water system was potentially overearning. Thus, we calculated interim water revenues to be held subject to refund using the maximum of the required rate of return.

Revenue Requirement

We find it appropriate to allow interim revenues for water and wastewater of \$499,314 and \$739,546, respectively. This reflects a zero increase to water and an annual increase of \$13,455 or 1.85% for wastewater revenues. We also find that along with the increased wastewater revenues being held subject to refund, \$28,885

of interim water revenues shall be held subject to refund for potential overearnings, which represents 5.47% of test year revenues.

Interim Rates

We applied the increase to the rates in place during the interim test year, which was prior to the implementation of the price index. To do otherwise would allow the utility to collect revenues higher than previously approved. The interim rates shall be implemented 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 within 10 days after the date of notice. The revised tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's decision, that the proposed notice to the customers of the approved increase is adequate and the required security discussed below has been filed.

The current water and wastewater rates, utility requested interim and proposed final rates, and the approved interim rates for Ortega, are shown on Schedules Nos. 4-A and 4-B.

SECURITY FOR INTEREST

Pursuant to Section 367.082, Florida Statutes, the excess of interim rates over the previously authorized rates shall be collected under guarantee subject to refund with interest. The amount of a potential refund in this case has been calculated to be \$35,000. This represents \$28,885 of interim water revenues for potential overearnings, and an interim revenue increase of \$13,485 in wastewater rates for a nine month period. Along with its application for interim rates, the utility submitted a blank corporate undertaking to secure the additional revenues. However, a review of the utility's financial statements indicates that the utility cannot support a corporate undertaking in the amount of \$35,000. Instead, the utility shall be required to file an escrow account, bond or letter of credit as security.

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 shall deposit funds to be escrowed, \$3,889, into the escrow account each month. 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 \$35,000. 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, the utility shall 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 shall 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 should be borne by, the utility.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that the Suggestion of Error on Staff Recommendation on Interim Rates filed by Ortega Utility Company shall not be considered by the Commission. It is further

ORDERED that Ortega Utility Company's request for oral argument is hereby denied. It is further

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ORDERED that the final rates and schedules proposed by Ortega Utility Company are hereby suspended in accordance with Section 367.081(6), Florida Statutes. It is further

ORDERED that the requested interim increases in water rates by Ortega Utility Company are hereby denied. It is further

ORDERED that the requested interim wastewater rates by Ortega 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 made in the body of this Order is hereby approved in every respect. It is further

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

ORDERED that the approved interim wastewater rates shall become effective for service rendered on or after the stamped approval date on the tariff sheets, provided customers have received notice, in accordance with Rule 25-30.475, Florida Administrative Code. It is further

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

ORDERED that \$28,885 shall be held subject to refund for potential overearnings by Ortega Utility Company. It is further

ORDERED that Ortega Utility Company shall provide a bond or letter of credit in the amount of \$35,000 or an escrow agreement to the extent set forth in the body of this Order as guarantee for any potential refund of interim revenues. It is further

ORDERED that prior to the implementation of the interim wastewater rates approved herein, Ortega Utility Company shall file and have approved 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 approved upon verification that they are consistent with our decision herein, that the proposed customer notice is adequate, and that the appropriate security is provided. It is further

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ORDERED that Ortega Utility Company shall provide proof that notice was given to its customers within 10 days of the date of notice. It is further

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

By ORDER of the Florida Public Service Commission, this 9th day of May, 1995.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

by: Kay Flynn
Chief, Bureau of Records

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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 preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; (2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or (3) 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. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

ORTEGA UTILITY COMPANY SCHEDULE OF WATER RATE BASE TEST YEAR ENDED 06/30/94			SCHEDULE NO. 1-A DOCKET NO. 940847-WS			
COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	
1 UTILITY PLANT IN SERVICE	\$ 2,276,781	\$ 20,950	\$ 2,297,731	\$(20,950)	2,276,781	
2 LAND	9,877	0	9,877	0	9,877	
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0	
4 CONSTRUCTION WORK IN PROGRESS	422	0	422	(422)	0	
5 ACCUMULATED DEPRECIATION	(652,549)	2,269	(650,280)	(2,269)	(652,549)	
6 CIAC	(1,068,554)	0	(1,068,554)	0	(1,068,554)	
7 AMORTIZATION OF CIAC	351,044	(2,183)	348,861	2,183	351,044	
8 ADVANCES FOR CONSTRUCTION	(16,020)	0	(16,020)	0	(16,020)	
9 DEFERRED TAXES	0	0	0	0	0	
10 WORKING CAPITAL ALLOWANCE	32,748	4,950	37,698	(37,698)	0	
RATE BASE	\$ 933,749	\$ 25,986	\$ 959,735	\$(59,156)	900,579	

ORTEGA UTILITY COMPANY SCHEDULE OF WASTEWATER RATE BASE TEST YEAR ENDED 06/30/94				SCHEDULE NO. 1-B DOCKET NO. 940847-WS		
COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	
1 UTILITY PLANT IN SERVICE	\$ 3,009,892	\$ 70,000	\$ 3,079,892	(\$ 70,000)	3,009,892	
2 LAND	174,026	0	174,026	0	174,026	
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0	
4 CONSTRUCTION WORK IN PROGRESS	945	0	945	(945)	0	
5 ACCUMULATED DEPRECIATION	(878,778)	(2,528)	(881,306)	2,528	(878,778)	
6 CIAC	(1,677,106)	0	(1,677,106)	0	(1,677,106)	
7 AMORTIZATION OF CIAC	617,894	(3,855)	614,039	3,855	617,894	
8 ADVANCES FOR CONSTRUCTION	(10,320)	0	(10,320)	0	(10,320)	
9 ADJ. TO RESTORE DEPRECIATION	0	239,377	239,377	(239,377)	0	
10 WORKING CAPITAL ALLOWANCE	55,504	7,764	63,268	(63,268)	0	
RATE BASE	\$ 1,292,057	\$ 310,758	\$ 1,602,815	(\$ 367,207)	1,235,608	

ORTEGA UTILITY COMPANY
 ADJUSTMENTS TO RATE BASE
 TEST YEAR ENDED 06/30/94

SCHEDULE NO. 1-C
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EXPLANATION	WATER	WASTEWATER
(1) <u>UTILITY PLANT IN SERVICE</u> To reverse utility's pro-forma adjustment for new plant.	\$ <u>(20,950)</u>	\$ <u>(70,000)</u>
(2) <u>CONSTRUCTION WORK IN PROGRESS</u> To remove CWIP from the utility's rate base.	\$ <u>(422)</u>	\$ <u>(945)</u>
(3) <u>ACCUMULATED DEPRECIATION</u> To reverse the utility's pro-forma accumulated depreciation adjustment.	\$ <u>(2,269)</u>	\$ <u>2,528</u>
(4) <u>ACCUMULATED AMORTIZATION OF CIAC</u> To reverse utility's pro-forma accumulated amortization adjustment.	\$ <u>2,183</u>	\$ <u>3,855</u>
(5) <u>WORKING CAPITAL</u> Adjustment using the Balance Sheet Approach.	\$ <u>(37,698)</u>	\$ <u>(63,268)</u>
(6) <u>ADJUSTMENT TO RESTORE DEPRECIATION</u> To remove the utility's adjustment to restore depreciation.	\$ <u>0</u>	\$ <u>(239,377)</u>

ORTEGA UTILITY COMPANY
 CAPITAL STRUCTURE
 TEST YEAR ENDED 06/30/94

SCHEDULE NO. 2
 DOCKET NO. 940847-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	\$ 938,653	\$ 90,950	\$ 429,381	1,458,984	56.93%	11.42%	6.50%
2 SHORT-TERM DEBT	289,063	0	132,230	421,293	16.44%	12.00%	1.97%
3 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
4 COMMON EQUITY	442,219	0	202,290	644,509	25.15%	11.34%	2.85%
5 CUSTOMER DEPOSITS	0	0	0	0	0.00%	0.00%	0.00%
6 DEFERRED ITC'S-ZERO COST	19,097	0	8,736	27,833	1.09%	0.00%	0.00%
7 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
8 DEFERRED INCOME TAXES	6,814	0	3,117	9,931	0.39%	0.00%	0.00%
9 TOTAL CAPITAL	\$ <u>1,695,846</u>	\$ <u>90,950</u>	\$ <u>775,754</u>	<u>2,562,550</u>	<u>100.00%</u>		<u>11.33%</u>
PER COMMISSION **							
10 LONG TERM DEBT	\$ 938,653	\$ 0	\$ 0	938,653	55.35%	11.42%	6.32%
11 SHORT-TERM DEBT	289,063	0	0	289,063	17.05%	12.00%	2.05%
12 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
13 COMMON EQUITY	442,219	0	0	442,219	26.08%	11.34%	2.96%
14 CUSTOMER DEPOSITS	0	0	0	0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S-ZERO COST	19,097	0	0	19,097	1.13%	0.00%	0.00%
15 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
16 DEFERRED INCOME TAXES	6,814	0	0	6,814	0.40%	0.00%	0.00%
17 TOTAL CAPITAL	\$ <u>1,695,846</u>	\$ <u>0</u>	\$ <u>0</u>	<u>1,695,846</u>	<u>100.00%</u>		<u>11.32%</u>

* Pro forma adjustment to utility plant in service.

** COMMISSION's adjusted capital structure is not reconciled to rate base.

RANGE OF REASONABLENESS

LOW HIGH

RETURN ON EQUITY 13.35% 15.35%

OVERALL RATE OF RETURN 11.85% 12.37%

ORTEGA UTILITY COMPANY
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED 06/30/94

SCHEDULE NO. 3-A
DOCKET NO. 940847-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUES HELD SUBJECT TO REFUND	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 528,199	\$ 21,350	\$ 549,549	(21,350)	\$ 528,199	(28,885)	499,314
OPERATING EXPENSES:						-5.47%	
2 OPERATION AND MAINTENANCE	\$ 261,987	\$ 39,599	\$ 301,586	(39,324)	\$ 262,262	\$	262,262
3 DEPRECIATION	41,843	857	42,700	(857)	41,843		41,843
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	65,211	3,260	68,471	(3,261)	65,210	(1,300)	63,910
6 INCOME TAXES	35,566	(7,512)	28,054	2,230	30,284	(10,380)	19,904
7 TOTAL OPERATING EXPENSES	\$ 404,607	\$ 36,204	\$ 440,811	(41,211)	\$ 399,600	(11,680)	387,919
8 OPERATING INCOME	\$ 123,592	(14,854)	\$ 108,738	19,861	\$ 128,599	(17,205)	111,394
9 RATE BASE	\$ 933,749		\$ 959,735		\$ 900,579		\$ 900,579
RATE OF RETURN	13.24%		11.33%		14.28%		12.37%

ORTEGA UTILITY COMPANY
STATEMENT OF WASTEWATER OPERATIONS
TEST YEAR ENDED 06/30/94

SCHEDULE NO. 3-B
DOCKET NO. 940847-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 726,091	\$ 172,909	\$ 899,000	\$(172,909)	\$ 726,091	\$ 13,455	739,546
OPERATING EXPENSES						1.85%	
2 OPERATION AND MAINTENANCE	\$ 444,034	\$ 62,109	\$ 506,143	\$(62,462)	\$ 443,681	\$	443,681
3 DEPRECIATION	53,132	8,693	61,825	(8,693)	53,132		53,132
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	81,540	10,081	91,621	(10,081)	81,540	605	82,146
6 INCOME TAXES	22,277	35,535	57,812	(41,974)	15,838	4,835	20,673
7 TOTAL OPERATING EXPENSES	\$ 600,983	\$ 116,418	\$ 717,401	\$(123,210)	\$ 594,191	\$ 5,441	599,631
8 OPERATING INCOME	\$ 125,108	\$ 57,491	\$ 181,599	\$(49,699)	\$ 131,900	\$ 8,014	139,914
9 RATE BASE	\$ 1,292,057		\$ 1,602,815		\$ 1,235,608		\$ 1,235,608
RATE OF RETURN	9.68%		11.33%		10.67%		11.32%

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ORTEGA UTILITY COMPANY
ADJUSTMENTS TO OPERATING STATEMENTS
TEST YEAR ENDED 06/30/94

SCHEDULE NO. 3-C
DOCKET NO. 940847-WS
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EXPLANATION	WATER	WASTEWATER
(1) OPERATING REVENUES		
a) To remove the utility's requested revenue increase.	\$ (11,922)	\$ (157,657)
b) To remove annualized revenues for 1994 price index.	(9,428)	(15,252)
	<u>(21,350)</u>	<u>(172,909)</u>
(2) OPERATION AND MAINTENANCE EXPENSE		
a) To remove pro forma adjustment for salaries.	\$ (30,073)	\$ (30,073)
b) To remove pro forma adjustment for benefits.	(1,837)	(1,837)
c) To remove pro forma adjustment for sludge removal.	0	(22,148)
d) To remove pro forma adjustment for expenses associated with new plant.	(1,218)	0
e) To remove rate case expense for interim purposes.	(5,948)	(8,156)
f) To remove pro forma adjustment for increased postage expense.	(248)	(248)
	<u>\$ (39,324)</u>	<u>\$ (62,462)</u>
(3) DEPRECIATION EXPENSE		
a) To reverse utility's pro forma adjustment for depreciation expense.	\$ (857)	\$ (8,693)
(4) TAXES OTHER THAN INCOME		
a) To remove RAF's pertaining to requested revenue increase.	\$ (536)	\$ (7,095)
b) To reduce payroll taxes relating to salary adjustment.	(2,300)	(2,300)
	<u>\$ (2,836)</u>	<u>\$ (9,395)</u>
(5) INCOME TAXES		
a) To remove taxes pertaining to requested revenue increase.	\$ 5,618	\$ (36,493)
(6) OPERATING REVENUES		
a) To reflect recommended revenue requirement.	\$ (38,313)	\$ (1,797)
(7) TAXES OTHER THAN INCOME		
a) To reflect RAF's pertaining to the revenue increase.	\$ (1,724)	\$ (81)
(8) INCOME TAXES		
a) To reflect income taxes pertaining to the revenue requirement.	\$ (13,769)	\$ (646)

SCHEDULE OF WATER RATES

Residential

Bi-Monthly rates (payable in advance)

	<u>Utility Present Rates</u>	<u>Utility Proposed Interim Rates</u>	<u>Utility Proposed Final Rates</u>	<u>Commission Approved Interim Rates</u>
<u>Base Facility Charge:</u>				
<u>Meter Size:</u>				
5/8" x 3/4"	\$12.43	\$12.71	\$12.71	NA
3/4"				
1"	31.03	31.72	31.72	
1½"	62.05	63.43	63.43	
2"	99.25	101.45	101.45	
Gallage Charge (Per 1,000 Gallons)	\$ 1.07	\$ 1.09	\$ 1.09	NA

General Service

Monthly rates (BFC payable in advance, gallage in arrears)

	<u>Utility Present Rates</u>	<u>Utility Proposed Interim Rates</u>	<u>Utility Proposed Final Rates</u>	<u>Staff Recommended Interim Rates</u>
<u>Base Facility Charge:</u>				
<u>Meter Size:</u>				
5/8" x 3/4"	\$ 6.20	\$ 6.34	\$ 6.34	NA
3/4"				
1"	15.50	15.84	15.84	
1½"	31.03	31.72	31.72	
2"	49.64	50.74	50.74	
3"	99.23	101.43	101.43	
4"	155.09	158.53	158.53	
6"	310.16	317.05	317.05	
Gallage charge (Per 1,000 gallons)	\$ 1.07	\$ 1.09	\$ 1.09	NA

UTILITY: ORTEGA UTILITY COMPANY
 COUNTY: DUVAL
 DOCKET NO. 940847-WS
 TEST YEAR ENDED: JUNE 30, 1994

SCHEDULE NO. 4B

RATE SCHEDULE
 WASTEWATER

	Historical Rates 06/08/93	Rates Prior to Filing	Utility Requested Interim	Utility Requested Final	Commission Approved Interim
Residential and Multi-Family					
(Billed Bi-Monthly)					
Base Facility Charge:					
5/8" x 3/4"	\$16.95	\$17.16	\$19.33	\$20.81	\$17.26
1"	\$16.95	\$17.16	\$19.33	\$20.81	\$17.26
1-1/2"	\$16.95	\$17.16	\$19.33	\$20.81	\$17.26
2"	\$16.95	\$17.16	\$19.33	\$20.81	\$17.26
Gallonge Charge, per 1,000 Gallons	\$1.44	\$1.46	\$1.64	\$1.77	\$1.47
Sewer Cap, per 1,000 Gallons	20	20	20	20	20
General Service					
(Billed Monthly)					
Base Facility Charge:					
Meter Size:					
5/8" x 3/4"	\$8.48	\$8.59	\$9.67	\$10.42	\$8.64
1"	\$21.18	\$21.44	\$24.15	\$26.00	\$21.57
1-1/2"	\$42.33	\$42.85	\$48.26	\$51.96	\$43.11
2"	\$67.73	\$68.57	\$77.23	\$83.15	\$68.98
3"	\$135.47	\$137.15	\$154.47	\$166.32	\$137.98
4"	\$211.65	\$214.27	\$241.33	\$259.85	\$215.57
6"	\$423.33	\$428.58	\$482.71	\$519.74	\$431.16
Gallonge Charge, per 1,000 Gallons	\$1.73	\$1.75	\$1.97	\$2.12	\$1.76
Typical Residential Bills					
5/8" x 3/4" meter					
3,000 Gallons	\$21.27	\$21.54	\$24.25	\$26.12	\$21.66
5,000 Gallons	\$24.15	\$24.46	\$27.53	\$29.66	\$24.60
10,000 Gallons	\$31.35	\$31.76	\$35.73	\$38.51	\$31.93
20,000 Gallons	\$45.75	\$46.36	\$52.13	\$56.21	\$46.60
Sewer Cap, per 1,000 Gallons	20	20	20	20	20