

GENERAL WATERWORKS MANAGEMENT AND SERVICE COMPANY

February 20, 1987

Mr. Harvey Hubbs, Secretary
Missouri Public Service Commission
100 East Capitol Street
Jefferson City, MO 65102

RE: Capital City Water Company
Company Response to Data Request Incorporated in
Case No. A0-87-48

Dear Mr. Hubbs:

Enclosed herewith is the Company's response to the data requests incorporated in Case No. A0-87-48. The Company's response consists of several exhibits and a narrative of the data contained on the exhibits. The information contained herein represents the second response to Case No. A0-87-48 data requests.

Item No. 4 in the Order pertaining to workpapers supporting the amount of excess deferred tax reserves attributable to the turnaround of tax/book timing differences cannot be answered at this time for the following reasons.

The Company does not maintain a ledger of utility plant in service by vintage year by asset account but rather maintains a ledger which accumulates total utility plant by asset account. In order for the Company to comply with Item No. 4 of the Order, it will be necessary for the Company to retrieve plant additions and retirements by year for the period 1970 through 1985, a significant undertaking. In reviewing ACRS depreciation and the turnaround of tax and book depreciation, it was determined that positive deferrals will be needed through 1996 at which time book depreciation will exceed tax depreciation. It is estimated that deferred taxes on ADR will not turnaround until the early 1990's. Based on this information, the Company believes that the response to Item 4 should be deferred to a later date due to the significant work involved in researching the necessary data.

Correspondence pertaining to the data submitted herewith should be addressed to the undersigned.

Yours truly,

Gerald M. Hill
Gerald M. Hill
Director of Rates

FILED

FEB 24 1987

PUBLIC SERVICE COMMISSION

GMH/df

Enclosure
100 EAST CAPITOL STREET / BRYN MAWR, PENNSYLVANIA 19010 / 215 527-6600

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CAPITAL CITY WATER COMPANY

Explanation of Data Submitted to Commission

1. The elements of rate base and the operating income statement were obtained from the financial records of the Company for 1986.
2. Based on the Commission's decision in Case No. WP-83-165, the Company developed a rate base of \$4,305,975. The rate base is shown on Exhibit No. 2.
3. Based on the Commission's decision in Case No. WP-83-165, the Company used an overall rate of return of 12.32% consisting of 52.60% debt with a cost of 10.62% and 47.4% equity with a cost of 14.2%.
4. Based on the 1986 financial statements and based upon a rate of return of 12.32% and a rate base of \$4,305,975 and the tax rate of 46%, the Company would have to increase its operating revenue by \$60,827. These results are shown on Exhibit No. 1.
5. Exhibit No. 1, consisting of three pages, shows the operating income statement per books at 12/31/86. Page 1 shows the operating income statement for calendar year 1986. Page 2 shows the calculation of federal and state income taxes. An effective state tax rate of 2.836% was used. The multiple surtax rate of 25.75% for the first \$100,000 of federal taxable income was not used in our calculations since the Tax Reform Act of 1984 eliminated the surtax for corporations whose taxable income exceeds \$1,000,000. This applies to Capital City Water Company since the consolidated return of which Capital City is a member exceeds that amount. Page 3 shows the calculation of interest expense and deferred tax expense.
6. Exhibit No. 3, consisting of three pages, shows the operating income statement per books at 12/31/86 similar to Exhibit No. 1. The income statement shows that there would be an increase of \$12,178 in the Company's revenue requirement as a result of the application of the new tax rates incorporated in the Tax Reform Act of 1986. Page 2 of Exhibit No. 3 shows the calculation of state and federal income taxes. Federal income taxes were computed at a rate of 40% for all taxable income. Lines 2 and 3 show additional items that become taxable income as a result of TRA 86.

Line 2 of Page 2 shows taxable CIAC of \$4,692. This amount represents the present value discount on \$35,586 of CIAC which must be grossed up for federal and state taxes. The \$4,692 was computed on the previously filed Exhibit No. 4 and represents the benefit that must be passed back to the contributor of CIAC. This benefit represents the present value of a stream of depreciation expense arising from depreciable CIAC of \$35,586. A contractor who supplies \$35,586 of CIAC would have to pay \$66,617 (a gross up of 1.72) in order to supply the taxes related to \$35,586. However, the Commission has

ordered the Company to reduce the gross up amount by a discount using the Company's last rate of return and applying that discount to the benefit of tax depreciation available to the utility. This amount to \$4,692. Since the Company will not be made whole by the contractor by \$4,692, that amount becomes taxable income to the utility.

7. The Tax Reform Act of 1986 has the following impact upon the water utility.

- A) CIAC are considered taxable income for tax purposes. This will increase the Company's Cost of Service for the discount applied to the CIAC gross up.
- B) ITC is repealed. This lowers the Company's cash flow.
- C) Deferred taxes are reduced due to lower tax rates and higher depreciation lives. This lowers the Company's cash flow.
- D) AFUDC must be capitalized instead of expensed. This will increase income tax expense.
- E) Overheads capitalized per books must be capitalized for tax purposes also.
- F) Unbilled revenue is now taxable income.
- G) State income tax expense will be greater due to lower federal income tax expense.

In summary, based upon current tax rates, the Company would have to raise its revenue requirement by \$60,827 in order to achieve a rate of return of 12.32% (Exhibit No. 1). Based upon TRA 86 tax rates, the Company would have to raise its revenue requirement by \$12,178 (Exhibit No. 3).

CAPITAL CITY WATER COMPANY
STATEMENT OF OPERATING INCOME PER BOOKS
TEST YEAR- DECEMBER 31, 1986

LINE #	DESCRIPTION	PER BOOKS 12/31/86	TEST YEAR ADJUSTMENT	ADJUSTED TEST YEAR	UNDER PROPOSED RATES ADJUSTMENTS	RATES PRO FORMA
		(1)	(2)	(3)	(4)	(5)
1.	OPERATING REVENUES	2,709,910		2,709,910	60,827	2,770,737
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	1,758,971	0	1,758,971		1,758,971
3.	DEPRECIATION	107,642	0	107,642		107,642
4.	TAXES OTHER THAN INCOME	121,801	0	121,801		121,801
5.	TOTAL OPERATING EXPENSES EXCLUDING INCOME TAXES	1,988,414	0	1,988,414	0	1,988,414
6.	OPERATING INCOME BEFORE INCOME TAXES	721,496	0	721,496	60,827	782,323
	INCOME TAXES:					
7.	CURRENT INCOME TAXES	182,399	478	183,077	28,912	211,989
8.	DEFERRED INCOME TAXES	41,580	3,910	45,490		45,490
9.	ITC AMORTIZATION	(5,653)	0	(5,653)	0	(5,653)
10.	TOTAL INCOME TAXES	218,326	4,388	222,914	28,912	251,827
10.	NET OPERATING INCOME	502,970	(4,388)	498,582	31,915	530,497
11.	RATE BASE			4,305,975		4,305,975
12.	RATE OF RETURN			11.58%		12.32%

CAPITAL CITY WATER COMPANY

EXHIBIT NO. 1

PAGE 2 OF 3

COMPUTATION OF STATE AND FEDERAL INCOME TAXES

AT PRESENT RATES

TWELVE MONTHS ENDED DECEMBER 31, 1986

LINE NO.		PRO FORMA	
		AT EXISTING RATES	AT PROPOSED RATES
1.	OPERATING INCOME BEFORE INCOME TAXES	721,496	782,323
2.	LESS: TAX DEDUCTIONS:		
3.	INTEREST EXPENSE (A)	240,537	240,537
4.	EXCESS TAX OVER BOOK	95,788	95,788
5.	TOTAL TAX DEDUCTIONS	336,325	336,325
6.	TAXABLE INCOME- STATE	385,171	445,998
8.	ST. INC. TAX @ 2.836% ***	10,923	12,649
9.	FEDERAL TAXABLE INCOME	374,248	433,350
10.	FD. INC. TAX-FIRST 100,000 @ 25.75%	0	0
11.	FD. INC. TAX-remaining TX. INC. @ 46%	172,154	199,341
12.	LESS: INVESTMENT TAX CREDIT	(5,653)	(5,653)
13.	TOTAL FEDERAL INCOME TAX	166,501	193,688
14.	TOTAL FEDERAL & STATE TAXES	177,424	206,336

*** EFFECTIVE STATE TAX RATE

CAPITAL CITY WATER COMPANY
COMPUTATION OF STATE AND FEDERAL INCOME TAXES
INTEREST AND DEFERRED TAXES
TWELVE MONTHS ENDED DECEMBER 31, 1986

<u>LINE</u> <u>0</u>		<u>AMOUNT</u>
1.	RATE BASE	\$ 4,308,975
2.	RATIO OF DEBT TO CAPITALIZATION	X 52.60%
3.	DEBT PORTION OF TOTAL CAPITALIZATION	\$ 2,264,943
4.	INTEREST RATE	X 10.62%
5.	TOTAL INTEREST	\$ 240,537
6.	TAX DEPRECIATION EXPENSE	\$ 803,230
7.	BOOK DEPRECIATION EXPENSE	- 107,442
8.	EXCESS TAX OVER BOOK	\$ 93,788
9.	FEDERAL TAX RATE	X 47.49 %
10.	DEFERRED FEDERAL INCOME TAX	\$ 45,490

CAPITAL CITY WATER COMPANY
RATE BASE
TWELVE MONTHS ENDED 12/31/86

EXHIBIT NO. 2

LINE #	DESCRIPTION	AMOUNT (A)
1.	UTILITY PLANT	\$7,004,464
2.	PROVISION FOR DEPRECIATION	(\$1,626,927)
3.	ADVANCES FOR CONSTRUCTION	(\$577,273)
4.	CONTRB. IN AID OF CONSTRUCTION	(\$547,706)
5.	MATERIAL AND SUPPLIES	\$92,785
6.	PREPAID EXPENSES	\$28,143
7.	DEFERRED EXPENSES	\$123,902
8.	DEFERRED TAXES	(\$194,513)
9.	CASH WORKING CAPITAL (B)	\$3,100
10.	RATE BASE	<hr/> \$4,305,975 <hr/>

NOTE (A): AMOUNTS PER 1986 FINANCIAL STATEMENTS
(B) PER LAST ORDER

CAPITAL CITY WATER COMPANY
STATEMENT OF OPERATING INCOME PER BOOKS
TEST YEAR- DECEMBER 31, 1986

LINE #	DESCRIPTION	PER BOOKS 12/31/86	TEST YEAR ADJUSTMENT	ADJUSTED TEST YEAR	UNDER PROPOSED RATES ADJUSTMENTS	PRO FORMA
		(1)	(2)	(3)	(4)	(5)
1.	OPERATING REVENUES	2,709,910		2,709,910	12,178	2,722,088
	<u>OPERATING EXPENSES:</u>					
2.	OPERATION & MAINTENANCE	1,758,971	0	1,758,971		1,758,971
3.	DEPRECIATION	107,642	0	107,642		107,642
4.	TAXES OTHER THAN INCOME	121,801	0	121,801		121,801
5.	TOTAL OPERATING EXPENSES EXCLUDING INCOME TAXES	1,988,414	0	1,988,414	0	1,988,414
6.	OPERATING INCOME BEFORE INCOME TAXES	721,496	0	721,496	12,178	733,674
	<u>INCOME TAXES:</u>					
7.	CURRENT INCOME TAXES	182,999	(19,127)	163,472	5,103	168,575
8.	DEFERRED INCOME TAXES	41,580	(1,322)	40,258		40,258
9.	ITC AMORTIZATION	(5,653)	0	(5,653)	0	(5,653)
10.	TOTAL INCOME TAXES	218,926	(20,430)	198,076	5,103	203,178
10.	NET OPERATING INCOME	502,570	20,430	523,480	7,075	530,436
11.	RATE BASE			4,305,975		4,305,975
12.	RATE OF RETURN			12.16%		12.32%

CAPITAL CITY WATER COMPANY

EXHIBIT NO. 3
PAGE 2 OF 3

COMPUTATION OF STATE AND FEDERAL INCOME TAXES

AT PRESENT RATES

TWELVE MONTHS ENDED DECEMBER 31, 1986

LINE NO.		PRO FORMA	
		AT EXISTING RATES	AT PROPOSED RATES
1.	OPERATING INCOME BEFORE INCOME TAXES	721,496	733,674
2.	TAXABLE CIAC-COMPANY SHARE (A)	4,692	4,692
3.	AFUDC	489	489
4.	TOTAL TAXABLE INCOME	726,677	738,855
	LESS: TAX DEDUCTIONS:		
5.	INTEREST EXPENSE (A)	240,537	240,537
6.	EXCESS TAX OVER BOOK	95,788	95,788
7.	TOTAL TAX DEDUCTIONS	336,325	336,325
8.	TAXABLE INCOME- STATE	390,352	402,530
9.	ST. INC. TAX @ 3.13% ***	12,218	12,599
10.	FEDERAL TAXABLE INCOME	378,134	389,931
11.	FD. INC. TAX-FIRST 100,000 @ 25.75%	0	0
12.	FD. INC. TAX-REMAINING TX. INC. @ 40%	151,254	155,972
13.	LESS: INVESTMENT TAX CREDIT	(5,653)	(5,653)
14.	TOTAL FEDERAL INCOME TAX	145,601	150,319
15.	TOTAL FEDERAL & STATE TAXES	157,819	162,919

*** EFFECTIVE STATE TAX RATE

(A) ON \$35,586 OF CIAC, THE GROSS-UP WOULD BE \$61,208, WHICH WOULD BE REDUCED BY THE PRESENT VALUE DISCOUNT OF \$4,692.

CAPITAL CITY WATER COMPANY
COMPUTATION OF STATE AND FEDERAL INCOME TAXES
INTEREST AND DEFERRED TAXES
TWELVE MONTHS ENDED DECEMBER 31, 1986

<u>LINE</u> <u>0</u>		<u>AMOUNT</u>
1.	RATE BASE	\$ 4,305,975
2.	RATIO OF DEBT TO CAPITALIZATION	X 52.60%
3.	DEBT PORTION OF TOTAL CAPITALIZATION	\$ 2,264,943
4.	INTEREST RATE	X 10.62%
5.	TOTAL INTEREST	\$ 240,537
6.	TAX DEPRECIATION EXPENSE	\$ 203,230
7.	BOOK DEPRECIATION EXPENSE	- 107,442
8.	EXCESS TAX OVER BOOK	\$ 95,788
9.	FEDERAL TAX RATE	X 42.088 %
10.	DEFERRED FEDERAL INCOME TAX	\$ 40,258