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March 13, 1996

Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Case No. 950387-SU

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket are the original and 15 copies of the Direct Testimony of Kimberly H. Dismukes on Behalf of the Citizens of the State of Florida.

Please indicate the time and date of receipt on the enclosed duplicate of this letter and return it to our office.

Sincerely,

Harold McLean
Associate Public Counsel

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a rate increase in Lee County by Florida Cities Water Company (North Fort Myers Division	Docket No. 950387-SU Filed: March 13, 1996

Direct Testimony

of

Kimberly H. Dismukes

On Behalf of the Citizens of the State of Florida

Jack Shreve
Public Counsel

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TESTIMONY
OF
KIMBERLY H. DISMUKES

On Behalf of the
Florida Office of the Public Counsel

Before the
FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 950387-SU

Q. What is your name and address?

A. Kimberly H. Dismukes, 5688 Forsythia Avenue, Baton Rouge, Louisiana 70808.

Q. By whom and in what capacity are you employed.

A. I am a self-employed consultant in the field of public utility regulation. I have been retained by the Office of the Public Counsel (OPC), on behalf of the Citizens of the State of Florida, to analyze Florida Cities Water Company North Fort Myers Division's rate filing in the instant docket.

Q. Do you have an appendix that describes your qualifications in regulation?

A. Yes. Appendix I, attached to my testimony, was prepared for this purpose.

Q. Do you have an exhibit in support of your testimony?

A. Yes. Exhibit__(KHD-1) contains 16 Schedules that support my testimony.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to Florida Cities Water Company North Fort Myers Division's (the Company or North Fort Myers) request to increase

wastewater rates by $480,078, or 22.73%.

My testimony is organized into five sections. In the first section of my testimony, I summarize my recommendations. In the second section, I address two adjustments to the Company's proposed cost of capital. In the third section of my testimony, I address adjustments to test year revenue. In the fourth section of my testimony, I discuss certain expense adjustments. In the fifth section, I address adjustments to the Company's proposed rate base.

Q. Before you summarize your testimony do you have any initial comments?

A. This case was originally processed as a proposed agency action that resulted in the Commission issuing PAA Order No. PSC-95-1360-FOF-SU. The customers have protested the Commission's PAA Order, which requires that the case be set for hearing and that the Commission's PAA Order be vacated. Nevertheless, with two exceptions, rate case expense and the imputation of CIAC on margin reserve, the Company has indicated that it agreed with the adjustments ordered by the Commission in the PAA Order. Accordingly, I have used as a starting point for my recommendations, the adjustments ordered by the Commission in the PAA Order. For reference, I have included this Order in my exhibit, as Schedule 1. I agree with most of the adjustments made by the Commission and have reflected those adjustments in my summary Schedules 1, 2, and 3. I disagree with some adjustments made by the Commission, and I propose several adjustments that were not addressed in the PAA

Order. My testimony will address those areas of difference between the Commission's PAA Order and my recommendations.

I. Summary of Recommendations

Q. Would you please summarize your recommendations?

A. Yes. My recommendations are summarized on Schedules 2 through 4. Schedule 2 presents my recommended net operating income statement for the Company's wastewater operations. This schedule also shows the revenue requirement resulting from my proposed adjustments. As shown on Schedule 2, the adjustments that I propose produce a revenue decrease of $256,700. This compares to the Company's requested rate increase of $480,078 and the Commission's PAA Ordered rate increase of $377,772.

Schedule 3 shows the rate base that I propose for the Company's wastewater operations. The Company requested a rate base of $8,404,278. I am recommending a rate base of $4,466,842.

Schedule 4 depicts the overall cost of capital that I recommend. As shown, I recommend an overall cost of capital of 8.64%. The Company requested an overall cost of capital of 9.08%. In its PAA Order, the Commission approved an overall cost of capital of 9.23%

II. Cost of Capital

Q. What adjustments do you recommend concerning the Company's capital structure and overall cost of capital?

A. I have proposed two adjustments to the Company's cost of capital. The first adjustment, shown on Schedule 5, reduces the Company's embedded cost of debt. Apparently, when the Company originally prepared its MFRs using the projected test year ending December 31, 1995, it anticipated issuing new long-term debt at an interest rate of 9.50%. This is reflected as Series L debt on my Schedule 5. However, according to the Company's more recent filing in the Barefoot Bay rate case, Docket No. 951258-WS, the Company's MFRs indicated that the Series L bonds had been issued at a coupon rate of 7.27% as opposed to 9.50%. This application also showed that instead of $5.0 million of new debt, the Company anticipated issuing $18.0 million. In addition, the Company's more recent Barefoot Bay MFRs also show that the Company anticipates retiring some high cost debt, specifically the Series D, F, and H, which have coupon rates of 9.50%, 9.25%, and 11.55%, respectively. Since the Company's Barefoot Bay MFRs reflect more accurate and recent estimates of Florida Cities Water Company, I have incorporated them into the Company's overall cost of capital . To be consistent with the increase in the amount of Series L bonds, I reduced the Company's $10,000,000 line of credit. I have essentially assumed that the Company would pay off this line of credit with the lower cost L Series debt. As shown on Schedule 5, these charges reduce the Company's embedded cost of long-

term debt from 9.55% to 8.34%. I recommend that the Commission make these adjustments to the Company's capital structure and reduce the embedded cost of debt accordingly.

Q. Have you made any other adjustments to the capital structure or the associated cost rates?

A. Yes. Consistent with Commission policy, and the Commission's PAA Order, I revised the Company's cost of Investment Tax Credits (ITCs). The Company included ITCs in the capital structure using cost of capital that included customer deposits, as opposed to the cost of capital associated with investor supplied funds. I have also updated the cost of debt to be consistent with the above recommendation. My recommendation decreases the cost of ITCs from 9.96% to 9.53%. (By itself, this recommendation would increase the cost of ITCs, however, because I have reduced the cost of debt, and altered the capital structure ratios, the overall cost applied to ITCs is reduced.)

Q. What is the impact of your adjustments?

A. As depicted on Schedule 5, my recommendations reduce the Company's overall cost of capital from 9.08% to 8.64%. This compares to the overall rate of return approved by the Commission in the PAA Order of 9.23%.

III. Revenue Adjustments

Q. What adjustments do you propose to the Company's revenue?

A. I am proposing one adjustment to test year revenue, that was previously approved by

the Commission in their PAA Order. Specifically, as shown on Schedule 6, I recommend that the Commission increase the rate charged to the Loochmoore golf course for reuse water from the proposed rate of $.13 to $.21 for the reasons discussed in the Commission's PAA Order. As shown on Schedule 6, this adjustment increases test year revenue by $8,760.

IV. Expense Adjustments

Q. What adjustments to the Company's expenses are you proposing?

A. The adjustments that I recommend are presented on Schedules 7 through 9. Schedule 7 summarizes the adjustments that I recommend concerning the Company's wastewater operations that are supposedly affected by customer growth and the PSC Index. For purposes of developing its projected test year the Company increased its expenses for the historical year ended December 31, 1994 by a factor that reflected one year's customer growth and the PSC's 1995 price index, where applicable. The Company essentially assumed that regardless of the circumstances or the account, its expenses would increase in 1995 equal to the increase in customers and inflation. I do not believe that it is realistic to assume that expenses will automatically increase. In fact, a comparison of the expenses from the Company's prior rate case to the historic test year ending December 31, 1994 shows that some expenses have actually declined. As such, I evaluated each of the expense adjustments proposed by the Company, and removed the proposed adjustments where it is not evident that the expense will necessarily increase in 1995. The Company should be striving to reduce

expenses, not be put in a position where increasing expenses is endorsed, as would be the case if the Commission automatically accepted the Company's proposed level of 1995 expenses.

As shown on Schedule 7, the Company proposes to increase material and supplies expenses by $227. I have removed this adjustment because these expenses actually decreased from June 30, 1993 to December 31, 1995 by 48.18%. Rather than assume that this expense will increase, I have assumed that it will remain constant.

The next adjustment is reflected in the expense category Contract-Other. The Company proposes to increase this expense for two items. They include an increase of $2,800 for increased postage/billing charges and an increase of $679 for increased customers and the PSC price index. I have reduced this expense by $2,800 to remove the adjustment for increased postage/billing.

The increase in postage relates to the Company's change from billing customers via a post card to billing customers with an envelope. Mr. Dick explained in his testimony that the Company has switched from a postage card style of billing to a laser printed stuffed bill with return envelope. The Company did not explain why this would necessitate an increase in postage/billing charges. Nevertheless, while some increased postage costs would be expected, Mr. Dick also explained that this change had two

benefits. First, the 5x7 cards were frequently misplaced by the postal service or mixed with other fourth class mail and discarded. Elimination of these problems should increase the Company's cash flow and reduce its working capital requirements. Second, the Company will be able to send messages to customers about rates, services and similar matters without the need to mail separate notices. This factor alone should reduce postage costs, not increase them. Since the proposed cost increase is merely the difference between the cost of sending a post card versus an envelope, the Company's estimate is overstated. The Company has not reflected the reduction in expense that will result from not sending separate notices for other matters. Since I did not have the information to calculate the reduction in expense associated with fewer mailings, I removed the proposed cost increase from test year expenses.

The next adjustment that I propose relates to transportation expenses. The Company proposed to increase this expense by $1,269. As shown on Schedule 7, this expense account decreased from 1993 to 1994. Accordingly, I have removed the adjustment proposed by the Company.

The last adjustment relates to miscellaneous expenses. For this account, the Company assumed that expenses would increase by $4465--$3,198 associated with customer growth and inflation, and $1,267 associated with increased costs for additional bank charges. I have allowed the later adjustment, but removed the one for increased

customer growth and inflation. As shown on Schedule 7, in a period of one and one-half years, this expense account more than doubled. It increased from $41,751 for the year ending June 30, 1993 to $89,586 for the year ending December 31, 1994. I do not believe that the Company's explanation for this cost increase is sufficient. Furthermore, miscellaneous expenses are certainly controllable by the Company. In my opinion, the Commission should not further exacerbate the problem of uncontrolled rising expenses, by allowing the adjustment proposed by the Company. Accordingly, I have reduced test year expenses by $3,198. The total of all of the adjustments that I propose is $7,494.

Q. What is the next adjustment that you propose?

A. The next adjustment that I propose relates to the Company's transactions with its affiliates. I will first present an overview of the relationship between the Company and its affiliates and then explain my adjustment. The Company is a division of Florida Cities Water Company, which is owned by FCWC Holdings, Inc. FCWC Holdings, Inc. is in turn owned by Consolidated Water Company. Consolidated Water Company owns three other companies that are involved in the water/wastewater business. Consolidated Water Company is owned by Avatar Utilities, Inc., which is owned by Avatar Holdings, Inc.

Avatar Holdings, Inc. is a diversified company that owns both real estate and utility operations. In addition to the nonregulated operations of the parent company, Avatar

Unities, Inc., also owns two nonregulated companies--Barefoot Bay Propane Gas Company and Avatar Utility Services, Inc.

Q. Do any of the affiliates of Florida Cities Water Company charge or allocate costs to the Company?

A. Yes, several do. Beginning at the top of the organizational chart, Avatar Holdings, Inc., charges Avatar Utilities, Inc. for certain management fees. Avatar Utilities, Inc. also charges the Company for management services. Next, Avatar Utility Services, Inc., provides data processing services to the Company. These costs are directly charged to the Company. Finally, Florida Cities Water Company allocates to each of its operating divisions administrative and general expenses and customer billing and customer accounting expenses.

Q. Should the Commission be concerned about the Company's relationship with its affiliates?

A. Yes. In a situation involving the provision of services between affiliated companies the associated costs and transactions do not represent arms-length dealings. Cost allocation techniques and methods of charging affiliates should be closely scrutinized to ensure that the Company's regulated operations are not burdened by the nonregulated operations.

Because of the affiliation between FCWC and the firms that indirectly or directly contribute to expenses included in the Company's cost of service, the arms-length

bargaining of a normal competitive environment is not present in their transactions. Although each affiliated company is supposedly separate, relationships among the various companies are still close. All are part of one corporate family with the same owners. Because of the regulated and nonregulated ventures of the parent companies, the Commission should be concerned about the inherent incentive for the parent company to overcharge its regulated operations and undercharge its nonregulated operations. By doing this, the parent companies will be able to maximize the charges passed onto captive customers and maximize profits.

Q. Do you have any specific concerns that you would like to bring to the Commission's attention concerning the charges between affiliates?

A. Yes, I have several. First, the Company has presented no evidence concerning the reasonableness or necessity of the charges from its parent and affiliated companies.

Second, the Company may be charged for duplicative services. For example, Avatar Holdings, Inc., Avatar Utilities, Inc., and Florida Cities Water Company all provide similar services to the utility. There is no assurance that the costs allocated by the parent companies are not duplicated by each other or Florida Cities Water Company.

Third, I am not convinced that the allocation method used to distribute costs between Florida Cities Water Company and its division and the unregulated operations of Avatar Utilities, Inc. -- specifically the propane gas operations and the Avatar Utility

Services, Inc., is equitable. For example, with respect to the allocation of costs from Avatar Utility, Inc. to FCWC and Avatar Utility Services, Inc. the Company uses a composite factor based upon payroll and plant in service. The latter over allocates costs to the water and wastewater operations because they are very capital intensive, and under allocates costs to Avatar Utility Services, Inc. that is a service company with little capital investment.

Fourth, FCWC also allocates costs to its divisions and to the unregulated operations of Avatar Utilities, Inc. The allocation method employed, which appears to be a combined factor consisting of employees, plant, and customers, inherently under allocates costs to Avatar Utility Services, Inc. Since the Company did not provide as part of its MFRs the workpapers used to make these allocations, it was not possible for me to change the allocation method and properly redistribute the costs. This under allocation of costs to Avatar Utility Services, Inc. may be what has contributed to that company's overearnings in the past. In a 1993 rate case concerning the South Fort Myers division of FCWC, I testified that for the years 1990, 1991, and 1992 this subsidiary earned a return on equity in excess of any normal return. For 1990, the return on year-end equity was 73%; for 1991, the return on average equity was 92%; and for 1992, the return on average equity was 113%. Clearly, with these returns on equity, the Commission should be concerned that the Company is being over charged for the services rendered, or the allocation of costs to Avatar Utility Services, Inc. is

understated.

Fifth, there appears to be a discrepancy between the method of allocation described in the MFRs compared to how some allocations actually occur. For example, the MFRs indicate that "the administrative staff in the general office in Sarasota provides service to affiliated companies and divisions. These costs are apportioned to all companies on the average of net plant, customers and payroll." However, in the Staff's Audit workpapers, the salaries of some of the general office personnel do not appear to be allocated on this basis, but on what appears to be a judgement of how much time is devoted to the various operations.

Sixth, Florida Cities Water Company charges its various divisions for services rendered for administrative and general and customer expenses. The Company did not provide as part of its MFRs the workpapers supporting these allocations. As such, it is not possible to even verify if the allocation methodology described in the MFRs is applied correctly, or to ensure that there is no double counting of allocated expenses.

Q. You indicated on several occasions that the Company did not provide as part of its MFRs the workpapers supporting some of its allocations. Is it your opinion that this information should have been provided as part of the Company's MFRs?

A. Yes. The Commission's Rule, 25-30.436 (h), F.A.C., specifically states that the following should be provided as part of a utility's application when it files for a rate

increase:

(h) Any system that has costs allocated or charged to it from a parent, affiliate or related party, in addition to those costs reported on Schedule B-12 of Commission Form PSC/WAW 19 for a Class A utility or PSC/WAW 20 for a Class B utility, (incorporated by reference in Rule 25-30.437) shall file three copies of additional schedules that show the following information:

1. The total costs being allocated or charged prior to any allocation or charging as well as the name of the entity from which the costs are being allocated or charged and its relationship to the utility.

2. For costs allocated or charged to the utility in excess of one percent of test year revenues:

a. A detailed description and itemization;

b. the amount of each itemized cost.

3. The allocation or direct charging method used and the bases for using that method.

4. The workpapers used to develop the

allocation method, including but not limited to the numerator and denominator of each allocation factor.

5. The workpapers used to develop, where applicable, the basis for the direct charging method.

6. An organizational chart of the relationship between the utility and its parent and affiliated companies and the relationship of any related parties.

7. A copy of any contracts or agreements between the utility and its parent or affiliated companies for services rendered between or among them.

The Company provided the information required of parts 6 and 7 for all affiliates. With respect to allocations from Avatar Utility, Inc., the Company provided the information required in parts 1, 2, 3, 4, and 5. However, with respect to costs allocated from Avatar Holdings, Inc. the Company did not provide any of the information required in parts 1, 2, 3, 4, and 5. With respect to the allocations from FCWC, the Company likewise did not provide the information required in parts 1, 2, 3, 5, and part of 4. In fact, in the Company's MFRs, with respect to the FCWC

allocations, the Company stated: "Due to the voluminous number of allocations made, schedules showing the computation of allocation percentages for all expenses allocated are available for inspection at the Utility's office in Sarasota Florida."

I participated in the rule making proceeding which adopted these rules on affiliate transactions. The reason the Commission limited the number of copies of this information that needed to be provided to 3 was because the utilities complained about the voluminous nature of such documentation. Furthermore, the Office of the Public Counsel specifically requested that this information to be part of a utility's application for a rate increase (and part of the Commission's rules) so that it would not have to obtain the information through discovery. However, in the instant proceeding, the Company failed to follow the Commission's rules and has prevented the Office of the Public Counsel from analyzing costs charged between and among affiliates.

Q. You have identified several problems with the Company's relationships with its affiliated companies and you have shown that the Company did not provide information required by Commission rule. Do you have a recommendation for purposes of this rate proceeding?

A. Yes. I am recommending that 10% of the Company's administrative and general and customer accounting expenses be disallowed because of the Company's failure to properly follow the Commission's rule. The Company has the burden of proof to

demonstrate the reasonableness of charges from its affiliates. Since the Company, in my opinion, has failed to justify the reasonableness of these charges, I believe that the Commission could disallow 100% of these expenses since they are unsupported. I have nevertheless taken a more conservative approach, and recommend disallowance of 10% of these charges. As shown on Schedule 8, my recommendation reduces test year wastewater expenses by $36,795.

Q. What is the next adjustment that you propose?

A. As shown on Schedule 9, the next adjustment relates to the Company's request to include $13,949 in rate case expense from Florida Cities Water Company. I have removed this from the Company's requested rate case expense because the Company has not demonstrated that these charges are not already included in the Company's 1994 test year expenses. Florida Cities Water Company prepares MFRs and testimony with in-house staff. As such these costs would be included in the Company's test year operating expenses. If they are included in the 1994/95 test year operating expenses then inclusion in rate case expense would double count the expense. Ratepayers would be charged for this service twice. As depicted on this schedule, with the four-year amortization, my adjustment reduces test year expense by $3,487.

V. Rate Base Adjustments

Q. What rate base adjustments do you recommend?

A. I am recommending several adjustments. The first adjustment, depicted on Schedule 10, relates to working capital. To develop its working capital request the Company

included Other Deferred Debits, but failed to also include cost-free Other Deferred Credits. Accordingly, I have adjusted the Company's working capital request to allow for the cost-free Other Deferred Credits. As shown on this schedule, this reduces the Company's request by $539,071 on a 13-month average basis and by $538,664 on a year-end basis. After application of the North Fort Myers allocation factor, the Company's working capital requirement is reduced to $48,138 on a 13-month average basis and to $89,222 on a year-end basis. For purposes of developing my recommended rate base, I have used the 13-month average working capital requirement. As shown on Schedule 10, my recommendation reduces the Company's working capital requirement by $76,636. After considering the adjustment for a portion of these cost free deferred credits included in the Commission's PAA Order, my recommendation reduces test year working capital by $67,139. I recommend use of the 13-month average working capital requirement because it is more representative of the Company's working capital needs than the year-end approach.

Q. The Company recently increased the capacity of its wastewater plant. Has the Company requested that the entire cost of the plant be included in rate base as 100% used and useful?

A. Yes, it has. As shown on Schedule 11, the Company calculated the used and useful percentage to be 98.61% including a 3-year margin reserve. According to the Company, although the calculated non-used and useful percentage is 1.4%, the increment of capacity added was the most economical and therefore the plant should

be considered 100% used and useful.

Q. Do you agree with the Company?

A. No. As shown on Schedule 11, I have determined that the Company's wastewater treatment plant should be considered 49.34% used and useful. I have also shown an alternative recommendation which shows that the plant is 59.21% used and useful. In addition, I have shown what the used and useful percentage of the plant would be under two different capacities, i.e., 1.25 MGD and 1.5 MGD, using the methodology adopted by the Commission in its last rate case for this Company, and including a margin reserve of 18 months. As shown, using a plant capacity of 1.25 MGD, the plant is 72.51% used and useful, at a plant capacity of 1.5 MGD it is 60.42% used and useful.

Q. Why did you use a plant capacity of 1.50 MGD, when the Company claims that the plant's capacity is only 1.25 MGD?

A. According to the Company's construction and operating permit, the plant was expanded to 1.5 MGD, limited to 1.3 MGD disposal capacity. In essence, the hydraulic rated capacity of the plant is 1.5 MGD, but the plant is limited to disposing of only 1.3 MGD of effluent. Thus, according to the construction and operating permit, the cost to increase the plant's capacity is based upon a plant that has the capacity to meet a demand of 1.5 MGD. In its PAA Order the Commission touched on this issue, stating that the treatment plant has a hydraulic capacity of 1.5MGD, but is limited in effluent disposal due to the river discharge and golf course irrigation.

Despite the Commission recognition that the plant's rated capacity was 1.5 MGD, it used a capacity of only 1.25 MGD when calculating the used and useful percent for this plant.

Q. Do you agree with the PAA Order concerning use of 1.25 MGD as opposed to the rated capacity of the plant of 1.5 MGD?

A. No. The cost of the plant is partly determined by its size. Bigger plants cost more than smaller plants. Consequently, by using the lower 1.25 MGD as the denominator in the used and useful calculation, the Commission and the Company, have overstated the used and useful percentage for the plant. The Commission's and the Company's calculation fails to recognize that there is an increment of capacity of the plant, specifically, .25 MGD, that will and can be used to meet the needs of future customers. It is unfair to require current customers to pay for plant than can and will be used by future customers.

Q. The Company used a peak month average daily flow of 1.1753, why did you use a peak month flow of .7283?

A. My peak month flow differs from the Company's because I adjusted the peak month flow for excessive infiltration and inflow. As shown on Schedule 12, during the historic test year peak month, the Company experienced infiltration and inflow of 50.90%. Customers should not be required to pay for extra plant due to excessive infiltration and inflow problems. Furthermore, the Company expended money during the test year and in the past to alleviate some of its infiltration and inflow problems.

The problem, however, tends to recur. The Company has produced no cost/benefit study to show that it is more cost effective to expand the treatment plant to process excessive infiltration and inflow, than to cure it by other means. Without such an analysis, the Commission should not automatically include as used and useful the added increment of capacity needed to treat excessive infiltration and inflow.

Q. How did you develop the amount of inflow and infiltration that should be allowed for this system?

A. Schedule 13, shows the calculations I developed to determine an appropriate level of inflow and infiltration for this system. Using the criteria set forth in the Water Pollution Control Federation, Manual of Practice No. 9 and the Recommended Standards for Wastewater Facilities, I developed the amount of infiltration and inflow that should be permitted for this Company. As shown on this schedule, the former manual shows a high allowance for inflow and infiltration of 5,000 gpd/per mile for pipe that is 8 inches or less, 6,000 gpd/per mile for pipe that is 9 to 12 inches, and 12,000 gpd/per mile for pipe that is 13 to 24 inches. Using the pipe parameters of North Fort Myers and the criteria set forth in this manual, the permitted amount of infiltration and inflow for this system for the peak month is 4,538,494 gallons. This compares to the actual infiltration and inflow of 17,947,289 or an excessive amount of 13,408,794. Subtracting the excessive amount of inflow and infiltration from the actual flow, shows that the peak month flow adjusted for excessive infiltration and inflow is .728 MGD, as opposed to the actual flow of 1.1753 MGD.

Similar calculations using the low estimate provided by Water Pollution Control Federation, Manual of Practice No. 9, which I have labeled as my medium recommendation because it is higher than that recommended by the Recommended Standards for Wastewater Facilities, shows that during the peak month, the Company had 14,741,738 gallons of excessive infiltration and inflow. Removing this from the actual flow, shows that .684 MGD should be used to calculate used and useful percentage of this plant.

The low recommendation shown on this schedule uses the criteria set forth by the Recommended Standards for Wastewater Facilities, and it provides for an allowance of 200 gallons per inch of pipe diameter per mile per day. As shown, if this criterion is used, during the peak month the Company experienced 16,506,293 of excessive infiltration and inflow. Removing this from actual flows, shows that .625 MGD should be used to calculate the used and useful percentage for this plant.

This schedule also depicts the amount of excessive infiltration and inflow based upon the Staff's recommended default formulas in the engineering rulemaking proceeding. As shown, using their criterion, the Company's system has excessive infiltration and inflow of11,876,670 gallons. Removing this from actual flows, shows that .779 MGD should be used to calculate the used and useful percentage of this plant.

This schedule also depicts the amount of excessive infiltration and inflow using the criteria allowed by the Commission in its Order No. PSC-92-0594-FOF-SU. In that case, the Commission found that 10,000 gpd per mile of pipe was a reasonable standard to use to test for excessive infiltration and inflow. Using that standard for the peak month shows that the amount of excessive infiltration and inflow associated with this system is 9,127,289. This would result in a peak month MGD of .871 to be used for proposes of calculating the used and useful percentage of the plant.

Excluding the column concerning the Commission's order in the last rate case, I used the most conservative number, i.e., allowing for the most infiltration and inflow, to develop my recommended used and useful calculations. Using an average daily flow for the max month of .728 MGD, I have determined that the plant is 49.34% used and useful. For comparative purposes, if the low end of infiltration and inflow allowance were used, the plant would only be 42.34% used and useful.

Q. Based upon your calculations, what increment of capacity is associated with excessive infiltration and inflow?

A. Based upon the calculations depicted on Schedule 13, the excessive infiltration and inflow experienced by the Company during the peak month amounts to .447 MGD. This is more than the capacity, i.e., .25 MGD, the Company claims it needed to add to meet near term increased customer flow. As such, the capacity added by the Company would not have been necessary if it were not for the excessive infiltration

and inflow experienced at this plant.

Q. The Company claims that there is no excessive infiltration and inflow associated with its collection system. Would you care to comment?

A. Yes. Mr. Dick states that the infiltration and inflow for the wastewater system is 25% based upon a comparison between the average annual daily flow of wastewater treated versus the average wastewater flow. These calculations differ from mine in several respects. First, while Mr. Dick adjusted the water sold for the number of wastewater customers, he did not adjust for the fact that not all water that is sold to the wastewater customers in is returned to the wastewater system. As shown on Schedule 12 to account for this fact, I multiplied the amount of water sold by 70.89%. (This figures takes into consideration that only a portion of the a water customers use the wastewater system and that of those customers, not all of the water used is returned to the wastewater system.) This is the percentage of water returned to the wastewater system by wastewater only customers. Mr. Dick accounted for the fact that not all water customers use the Company's sewer system, but he failed to account for the fact that some of this water is used for purposes that do not require it to be returned to the wastewater system--for example, irrigation and car washing. If his figures were adjusted correctly, it would show an average annual amount of infiltration and inflow of 35% as opposed to 25%. The former figure is about the same as depicted on my Schedule 12.

Second, the evaluation that I preformed was based upon the peak month, not the average flow of the system. The Company must design its plant to meet peak requirements. Accordingly, it must also consider the capacity required during the peak period to treat infiltration and inflow. By examining the issue on an average annual basis, as opposed to a peak basis, the Company has not recognized that the peak month was largely driven excessive infiltration and inflow, and that the capacity additions were required in order to treat this infiltration and inflow.

Third, in selecting the standard by which to compare the Company's infiltration and inflow, the Company chose a liberal standard. The Water Pollution Control Manual presents several allowances that can be used to plan for infiltration and inflow--most of which are less than the one selected by the Company. In addition, as noted above, the standard selected by the Company is much greater than the standard selected by the Commission's Staff when designing the default formulas for the used and useful rulemaking proceeding. Moreover, the standard selected by the Company is greater than the one used by the Company in its last rate case and the one adopted by the Commission that case.

Q. Did you include a margin reserve in your used and useful calculations?

A. No, I did not. In my opinion, it is not appropriate to include margin reserve in the used and useful calculations. Margin reserve represents capacity required to serve future customers, not current customers. I have, however, included an increment of

demand associated with use of a projected test year. As shown on Schedule 11, this increased the demand placed on the system by .0118 MGD.

The inclusion of a margin reserve to account for future customers above and beyond the future test year level represents investment that will not be used and useful in serving current customers. If the Commission includes margin reserve in the used and useful calculations this will result in current ratepayers paying for plant that will be used to serve future customers. This causes an intergenerational inequity between ratepayers. If no margin reserve is allowed, the Company will still be compensated for the prudent cost of its plant with Allowance for Prudently Invested Funds (AFPI). The wastewater rates proposed by this Company are extremely high--they will be one of the highest in the state. To include in current rates to customers the cost of plant designed to serve future customers would add insult to injury.

Q. If the Commission agrees with you, will North Fort Myers be harmed?

A. Not if the plant was prudently constructed. The Company is permitted to accrue AFPI on prudently invested plant that is not used and useful. The Commission established AFPI for the very purpose of protecting utilities from under recovering the cost of plant that is not used and useful, but was prudently constructed. Consequently, if the Commission does not grant the Company's request to include margin reserve in the used and useful calculations, North Fort Myers will still recover the carrying costs associated with the assets that are currently considered non-used

and useful through the AFPI charges at some point in the future. These costs would be collected from the customers who actually benefit from the capacity, not from current customers who do not need the capacity.

Q. If the Commission decides that margin reserve should be included in the used and useful calculations, should a corresponding adjustment be made to CIAC?

A. Yes. If margin reserve is included in the used-and-useful calculations, then, to achieve a proper matching, an amount of CIAC equivalent to the number of equivalent residential connections (ERCs) represented by the margin reserve should be reflected in rate base. This is especially important in this case because the Company is adding the cost of additional capacity to serve future customers. Because of this addition, the Company is proposing to increase its plant capacity charges. In calculating the imputation of CIAC, the Commission should use the proposed, interim, or final new capacity charges. The CIAC that will be collected from these future customers would at least serve to mitigate the impact on the existing customers resulting from requiring them to pay for plant that will be utilized to serve future customers.

Q. Would you care to comment on Mr. Acosta's concerns about the imputation of CIAC on margin reserve?

A. Yes. Mr. Acosta makes two arguments against the Commission's policy of imputing CIAC on margin reserve. First, he claims that the imputation of CIAC prevents the utility from earning a return on its investment--in this case the imputation of margin

reserve completely offsets the increment of plant allowed by the margin reserve. What Mr. Acosta fails to consider is that if the Commission did not impute CIAC on margin reserve, then the Company would be permitted to over earn on the increment of plant added by margin reserve. As the Company collects CIAC from customers, if this CIAC is not reflected in the rate base used to set rates, then the Company will earn more on its investment than allowed by the Commission. If the Company's projections of future customers does not materialize, then the Company bears the risk that it will not collect the CIAC imputed during the test year. This is precisely where the risk should lie. Current customers should not bear the risk that the Company has not accurately forecasted future connections, this is a risk that should be borne by the Company.

Furthermore, there is an additional mismatch the Commission should consider. While the Commission usually imputes CIAC associated with margin reserve, it does not likewise recognize the additional revenue that will also be generated by these future customers. In other words, the Company is allowed an additional increment of plant in rate base, but it is not required to recognize the revenue that will be generated as these future customers connect. As such, even with the imputation of CIAC on margin reserve, the Company is still given the opportunity to earn in excess of the return allowed by the Commission, because the future revenue is not recognized for ratemaking purposes.

Mr. Acosta's second argument is that the Commission's present practice of offsetting margin reserve by imputing CIAC combined with the limited time frame allowed for margin reserve provides disincentives for utilities to expand wastewater facilities beyond the five year window identified in Section 62-600, F.A.C. This, Mr. Acosta claims, leads utilities to make small incremental expansions to avoid economic loss. As I mentioned above, there is no economic loss to the utility, unless, its plant was not prudently constructed or the utility's projections are not realized. It would appear from these comments that the Company does not make economical decisions because of the Commission's regulatory policy. It is not the Commission's responsibility to provide incentives for the Company to make economical decisions. If the Company fails to make the most economical decision for its ratepayers then the Commission should disallow all costs associated with any uneconomical decision. Furthermore, the Company has provided no support for its suggestion that ratepayers are better off with a larger plant today rather than smaller plants built over time.

Although I do not support an allowance for margin reserve, if the Commission does allow one, it should reject the Company's request, and impute CIAC on the margin reserve.

Q. What is the result of your used and useful calculations?

A. The amount of plant in service, accumulated depreciation, and depreciation expense that should be removed from the test year are depicted on Schedules 14, 15, and 16.

As shown on Schedule 14, my used and useful adjustment reduces plant in service by $4,429,591. Accumulated depreciation should also be reduced by $761,162, as shown on Schedule 15. Depreciation expense should be reduced by $232,848, as shown on Schedule 16. In addition, I have also reduced property taxes by $34,553 to account for the adjustments that I recommend concerning the Company's plant in service. This adjustment is depicted on Schedule 2.

Q. Does this complete your direct testimony, prefiled on March 13, 1996?

A. Yes, it does.

APPENDIX

OF

KIMBERLY H. DISMUKES

APPENDIX I

QUALIFICATIONS

Q. What is your educational background?

A. I graduated from Florida State University with a Bachelor of Science degree in Finance in March, 1979. I received an M.B.A. degree with a specialization in Finance from Florida State University in April, 1984.

Q. Would you please describe your employment history in the field of Public Utility Regulation?

A. In March of 1979 I joined Ben Johnson Associates, Inc., a consulting firm specializing in the field of public utility regulation. While at Ben Johnson Associates, I held the following positions: Research Analyst from March 1979 until May 1980; Senior Research Analyst from June 1980 until May 1981; Research Consultant from June 1981 until May 1983; Senior Research Consultant from June 1983 until May 1985; and Vice President from June 1985 until April 1992. In May 1992, I joined the Florida Public Counsel's Office, as a Legislative Analyst III. In July 1994 I was promoted to a Senior Legislative Analyst. In July 1995 I started my own consulting practice in the field of public utility regulation.

Q. Would you please describe the types of work that you have performed in the field of Public Utility Regulation?

A. Yes. My duties have ranged from analyzing specific issues in a rate proceeding to

managing the work effort of a large staff in rate proceedings. I have prepared testimony, interrogatories and production of documents, assisted with the preparation of cross-examination, and assisted counsel with the preparation of briefs. Since 1979, I have been actively involved in more than 160 regulatory proceedings throughout the United States.

I have analyzed cost of capital and rate of return issues, revenue requirement issues, public policy issues, market restructuring issues, and rate design issues, involving telephone, electric, gas, water and wastewater, and railroad companies.

In the area of cost of capital, I have analyzed the following parent companies: American Electric Power Company, American Telephone and Telegraph Company, American Water Works, Inc., Ameritech, Inc., CMS Energy, Inc., Columbia Gas System, Inc., Continental Telecom, Inc., GTE Corporation, Northeast Utilities, Pacific Telecom, Inc., Southwestern Bell Corporation, United Telecom, Inc., and U.S. West. I have also analyzed individual companies like Connecticut Natural Gas Corporation, Duke Power Company, Idaho Power Company, Kentucky Utilities Company, Southern New England Telephone Company, and Washington Water Power Company.

Q. Have you previously assisted in the preparation of testimony concerning

revenue requirements?

A. Yes. I have assisted on numerous occasions in the preparation of testimony on a wide range of subjects related to the determination of utilities' revenue requirements and related issues.

I have assisted in the preparation of testimony and exhibits concerning the following issues: abandoned project costs, accounting adjustments, affiliate transactions, allowance for funds used during construction, attrition, cash flow analysis, construction monitoring, construction work in progress, contingent capacity sales, cost allocations, decoupling revenues from profits, cross-subsidization, demand-side management, depreciation methods, divestiture, excess capacity, feasibility studies, financial integrity, financial planning, incentive regulation, jurisdictional allocations, non-utility investments, fuel projections, mergers and acquisitions, pro forma adjustments, projected test years, prudence, tax effects of interest, working capital, off-system sales, reserve margin, royalty fees, separations, settlements, and resource planning.

Companies that I have analyzed include: Alascom, Inc. (Alaska), Arizona Public Service Company, Arvig Telephone Company, AT&T Communications of the Southwest (Texas), Blue Earth Valley Telephone Company (Minnesota), Bridgewater Telephone Company (Minnesota), Carolina Power and Light Company, Central

Maine Power Company, Central Power and Light Company (Texas), Central Telephone Company (Missouri and Nevada), Consumers Power Company (Michigan), C&P Telephone Company of Virginia, Continental Telephone Company (Nevada), C&P Telephone of West Virginia, Connecticut Light and Power Company, Danube Telephone Company (Minnesota), Duke Power Company, East Otter Tail Telephone Company (Minnesota), Easton Telephone Company (Minnesota), Eckles Telephone Company (Minnesota), El Paso Electric Company (Texas), Florida Cities Water Company, General Telephone Company of Florida, Georgia Power Company, Jasmine Lakes Utilities, Inc. (Florida), Kentucky Power Company, Kentucky Utilities Company, KMP Telephone Company (Minnesota), Idaho Power Company, Oklahoma Gas and Electric Company (Arkansas), Kansas Gas & Electric Company (Missouri), Kansas Power and Light Company (Missouri), Lehigh Utilities, Inc. (Florida), Mad Hatter Utilities, Inc. (Florida), Mankato Citizens Telephone Company (Minnesota), Michigan Bell Telephone Company, Mid-Communications Telephone Company (Minnesota), Mid-State Telephone Company (Minnesota), Mountain States Telephone and Telegraph Company (Arizona and Utah), North Fort Myers Utilities, Inc., Northwestern Bell Telephone Company (Minnesota), Potomac Electric Power Company, Public Service Company of Colorado, Puget Sound Power & Light Company (Washington), Sanlando Utilities Corporation (Florida), Sierra Pacific Power Company (Nevada), South Central Bell Telephone Company (Kentucky), Southern Union Gas Company (Texas), Southern Bell Telephone & Telegraph

Company (Florida, Georgia, and North Carolina), Southern States Utilities, Inc. (Florida), Southern Union Gas Company (Texas), Southwestern Bell Telephone Company (Oklahoma, Missouri, and Texas), St. George Island Utility, Ltd., Tampa Electric Company, Texas-New Mexico Power Company, Tucson Electric Power Company, Twin Valley-Ulen Telephone Company (Minnesota), United Telephone Company of Florida, Virginia Electric and Power Company, Washington Water Power Company, and Wisconsin Electric Power Company.

Q. What experience do you have in rate design issues?

A. My work in this area has primarily focused on issues related to costing. For example, I have assisted in the preparation of class cost-of-service studies concerning Arkansas Energy Resources, Cascade Natural Gas Corporation, El Paso Electric Company, Potomac Electric Power Company, Texas-New Mexico Power Company, and Southern Union Gas Company. I have also examined the issue of avoided costs, both as it applies to electric utilities and as it applies to telephone utilities. I have also evaluated the issue of service availability fees, capacity charges, and conservation rates as they apply to water and wastewater utilities.

Q. Have you testified before regulatory agencies?

A. Yes. I have testified before the Arizona Corporation Commission, the Connecticut Department of Public Utility Control, the Florida Public Service Commission, the Georgia Public Service Commission, the Missouri Public Service Commission, the Public Utility Commission of Texas, and the Washington Utilities and Transportation

Commission. My testimony dealt with revenue requirement, financial, and class cost-of-service issues concerning AT&T Communications of Southwest (Texas), Cascade Natural Gas Corporation (Washington), Central Power and Light Company (Texas), Connecticut Light and Power Company, El Paso Electric Company (Texas), Florida Cities Water Company, Kansas Gas & Electric Company (Missouri), Kansas Power and Light Company (Missouri), Houston Lighting & Power Company (Texas), Lake Arrowhead Village, Inc. (Florida), Lehigh Utilities, Inc. (Florida) Jasmine Lakes Utilities Corporation (Florida), Mad Hatter Utilities, Inc. (Florida), Marco Island Utilities, Inc. (Florida), Mountain States Telephone and Telegraph Company (Arizona), North Fort Myers Utilities, Inc. (Florida), Southern Bell Telephone and Telegraph Company (Florida and Georgia), Southern States Utilities, Inc. (Florida), St. George Island Utilities Company, Ltd. (Florida), Puget Sound Power & Light Company (Washington), and Texas Utilities Electric Company.

I have also testified before the Public Utility Regulation Board of El Paso, concerning the development of class cost-of-service studies and the recovery and allocation of the corporate overhead costs of Southern Union Gas Company and before the National Association of Securities Dealers concerning the market value of utility bonds purchased in the wholesale market.

Q. Have you been accepted as an expert in these jurisdictions?

A. Yes.

Q. Have you published any articles in the field of public utility regulation?

A. Yes, I have published two articles: "Affiliate Transactions: What the Rules Don't Say", Public Utilities Fortnightly, August 1, 1994 and "Electric M&A: A Regulator's Guide" Public Utilities Fortnightly, January 1, 1996.

Q. Do you belong to any professional organizations?

A. Yes. I am a member of the Eastern Finance Association, the Financial Management Association, the Southern Finance Association, the Southwestern Finance Association, the Florida and American Water Association, and the National Society of Rate of Return Analysts.

EXHIBIT

OF

KIMBERLY H. DISMUKES

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Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 1

Florida Cities Water Company-North Fort Myers
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Docket No. 950387-SU
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 2

Florida Cities Water Company-North Fort Myers
Wastewater Net Operating Income

Description	Base Year Per Books 12/31/94	Company Test Year Adjustments	PAA Adjustments	Recommended Test Year Adjustments	Projected Test Year 12/31/95
Operating Revenues	$2,085,157	$26,755	($197)	$8,760	$2,120,475
Operation & Maintenance:					
Source of Supply/Sewage Coll. Exp.	$35,615	$1,315			$36,930
Pumping Expenses	81,218	2,970			84,188
Treatment Expenses	430,646	23,341	-1,352		452,635
Transmission & Distribution Exp.	0	0			0
Customer Accounting Expenses	57,245	6,428		-6,053	57,620
General & Administrative Expenses (1)	315,080	15,463		-34,229 *	296,314
Expenses Adj. for CPI and Cust. Growth				-7,494	-7,494
Total Operation & Maintenance Exp.	$919,804	$49,517	($1,352)	($40,281)	$927,688
Depreciation, net of CIAC Amort.	379,659	73,908	-28,771	0	424,796
Amortization (Leasehold Improvements)	949	0			949
Taxes Other Than Income	$205,132	$16,186		-34,553	186,765
Provision for Income Taxes	105,294	-106,526	11,261	31,457	41,486
Operating Expenses	$1,610,838	$33,085	($18,862)	($43,378)	$1,581,683
Net Operating Income	$474,319	($6,330)	$18,665	$52,138	$538,792

Revenue Requirement	
Rate Base	$4,466,842
Operating Income	$538,792
Recommended ROR	8.64%
Required Net Operating Income	$385,894
Income Deficiency (Excess)	($152,898)
Revenue Conversion Factor	1.6789
Recommended Revenue Increase (Decrease)	($256,700)

* Includes $30,742 for affiliate charges and $3487 for rate case expense.

(1) Includes an additional $9,169 in rate case expense requested by the Company.

Source: Florida Cities Water Company, MFRs.

Docket No. 950387-SU
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 3

Florida Cities Water Company-North Fort Myers
Wastewater Rate Base - Year End

Description	Balance Per Books 12/31/94	Utility Adjustments	Projected Test Year Balance 12/31/95	PAA Adjustments	Recommended Adjustments	Recommended Rate Base
Utility Plant in Service (Excl. Land)	$11,649,007	$1,728,332	$13,377,339	($257,101)		$13,120,238
Utility Land & Land Rights	5,000	0	5,000			5,000
Total Utility Plant in Service	$11,654,007	$1,728,332	$13,382,339	($257,101)	$0	$13,125,238
Less: Non-Used & Useful Plant	0	0	0		3,668,429	3,668,429
Construction Work in Progress	91,345	-91,345	0			0
Less: Accumulated Depreciation	2,558,856	584,542	3,143,398	-50,564	0	3,092,834
Less: CIAC	3,183,270	136,760	3,320,030	-85,792		3,234,238
Accumulated Amortization of CIAC	1,159,806	172,988	1,332,794	732		1,333,526
Acquisition Adjustments	0	0	0			0
Accum. Amort. of Acq. Adjustments	0	0	0			0
Less: Advances For Construction	0	0	0			0
Working Capital Allowance	0	124,774	124,774		-67,139	57,635
Unfunded FASB 106 Obligation	0	0	0	-81,855	0	-81,855
Other: Allocation of General Office	0	27,799	27,799			27,799
Total Rate Base	$7,163,032	$1,241,246	$8,404,278	($201,868)	($3,817,423)	$4,466,842

Source: Florida Cities Water Company, MFRs.

Docket No. 950387-SU
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 4

Florida Cities Water Company-North Fort Myers
Cost of Capital

Class of Capital	Test Year 12/31/95	Adjustments (Explain)	Test Year Adjusted	Reconciled To Rate Base
	Balance @ Year End			5.87%
Year-End Capital Structure				
Long-Term Debt	$ 36,820,000	-	$ 36,820,000	2,162,478
Short-Term Debt	-		-	-
Preferred Stock	9,000,000		9,000,000	528,580
Common Equity	20,782,539	-	20,782,539	1,220,581
Customers Deposits	1,013,037		1,013,037	59,497
Tax Credits - Zero Cost	-		-	-
Tax Credits - Wtd. Cost	1,678,281		1,678,281	98,567
Accumulated Deferred Income Tax	6,762,006		6,762,006	397,140
Other (Explain)	-		-	-
Total	$ 76,055,863	-	$ 76,055,863	$ 4,466,842
Rate Base				
Wastewater				$ 4,466,842
Total				$ 4,466,842
Ratio				5.87%

Capital Structure	Amount	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	$ 2,162,478	48.41%	8.34%	4.04%
Short-Term Debt	$ -			
Preferred Stock	$ 528,580	11.83%	9.00%	1.07%
Common Equity	$ 1,220,581	27.33%	11.88%	3.25%
Customers Deposits	$ 59,497	1.33%	6.00%	0.08%
Tax Credits - Zero Cost	$ -		0.00%	0.00%
Tax Credits - Wtd. Cost	$ 98,567	2.21%	9.53%	0.21%
Accumulated Deferred Income Tax	$ 397,140	8.89%	0.00%	0.00%
Other (Explain)	$ -			
Total	$ 4,466,842	100.00%		8.64%

Calculation of Tax Credit Cost	Amount	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	$ 2,162,478	55.28%	8.34%	4.61%
Short-Term Debt	$ -			
Preferred Stock	$ 528,580	13.51%	9.00%	1.22%
Common Equity	$ 1,220,581	31.20%	11.88%	3.71%
Other (Explain)	$ -			
Total	$ 3,911,638	100.00%		9.53%

Source: Florida Cities Water Company, MFRs.

Docket No. 950387-SU
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 5

Florida Cities Water Company-North Fort Myers
Embedded Cost of Debt

	Coupon Rate	Amount Outstanding	Unamortized Issue Exp.	Amortization Issue Exp.	Interest Expense	Total Interest	Effective Cost Rate
Series D		0					
Series F		0					
Series H		0					
Series I	8.50%	$3,820,000	$22,704	$9,084	$324,700	$333,784	8.79%
Series J	9.19%	7,000,000	137,085	25,836	643,300	669,136	9.75%
Series K	7.79%	6,000,000	96,961	14,268	467,400	481,668	8.16%
Series L	7.27%	18,000,000	402,313	42,622	1,308,600	1,351,222	7.68%
Credit Line	9.00%	0			0	0	0.00%
Intercompany Payable	9.00%	2,000,000			180,000	180,000	9.00%
		$36,820,000	$659,063	$91,810	$2,924,000	$3,015,810	8.34%

Source: Florida Cities Water Company, MFRs and MFRs, Docket No. 951258-WS.

Docket No. 950387-SU
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 6

Florida Cities Water Company-North Fort Myers
Reuse Revenue

	Lochmoore Golf Course
Gallons (000)	109,500
Company Proposed Rate	$0.13
Company Proposed Revenue	$14,235
Recommended Rate	$0.21
Recommended Revenue	$22,995
Adjustment to Revenue	$8,760

Source: Florida Cities Water Company, MFRs; PSC Order No. 95-1360-FOF-SU.

Docket No. 950387-SU
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 7

Florida Cities Water Company-North Fort Myers
Wastewater Expenses Affected by Customer Growth and PSC Index

	Test Year 6/30/93	Test Year 12/31/94	Percent Change	Customer + CPI Change	Company Adjustment	Recommended Adjustment
Fuel	$0	$1,272		5.21%	$45	
Materials and Supplies	12,249	6,348	-48.18%	5.21%	227	-227
Contract - Audit	3,632	7,618	109.75%	5.21%	272	
Contract - Legal	679	6,999	930.78%	5.21%	0	
Contract - Engineering	0	0		5.21%	0	
Contract - Other	53,278	75,400	41.52%	5.21%	5,492	-2,800
Transportation	38,877	35,548	-8.56%	5.21%	1,269	-1,269
Insurance - Vehicle	2,861	5,733	100.38%	5.21%	205	
Insurance - General Liability	8,064	11,473	42.27%	5.21%	410	
Insurance - Worker's Comp.	5,156	11,288	118.93%	5.21%	403	
Insurance Property	4,000	11,850	196.25%	5.21%	423	
Miscellaneous	41,751	89,586	114.57%	5.21%	4,465	-3,198
	$170,547	$263,115	54.28%		$13,211	($7,494)

Total ($7,494)

Source: Florida Cities Water Company, MFRs.

Docket No. 950387-SU
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 8

Florida Cities Water Company-North Fort Myers
Adjustment for Affiliate Charges

	Wastewater
Customer Service Expenses	$60,526
10% Disallowance	($6,053)
Administrative and General Less Rate Case Expense	$307,418
10% Disallowance	($30,742)

Source: Florida Cities Water Company, MFRs.

Docket No. 950387-SU
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 9

Florida Cities Water Company-North Fort Myers
Rate Case Expense Adjustment

	Wastewater
Florida Cities Water Company Charges	$13,949
Disallowance	($13,949)
Four-Year Amortization	($3,487)

Source: Florida Cities Water Company, MFRs.

Docket No. 950387-SU
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 10

Florida Cities Water Company-North Fort Myers
Working Capital

	13-Month Average	Year-End
Total Company Requested	$1,268,430	$1,890,518
Adjustments:		
Other Deferred Credits	($539,071)	($538,664)
Adjusted Working Capital	$729,359	$1,351,854
Allocation to NFM-Sewer	6.60%	6.60%
Adjusted NFM Working Capital	$48,138	$89,222
Company Request NFM Working Capital	$124,774	$124,774
Adjustment to Working Capital	($76,636)	($35,552)
Reverse Commission PAA Adjustment	9,497	9,497
Net Adjustment to Working Capital	($67,139)	($26,055)

Source: Florida Cities Water Company, MFRs; Commission Order No. PSC-95-1360-FOF-SU.

Docket No. 950387-SU
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 11

Florida Cities Water Company-North Fort Myers
Used and Useful Calculations - Wastewater

	Company	Recommendation	Alternative Recommendation	Last Order	Last Order
Plant Capacity (mgd)	1.2500	1.5000	1.2500	1.2500	1.5000
Average Daily Flow Max Month	1.1753	0.7283	0.7283	0.8711	0.8711
Margin Reserve (1)	0.0573	0.0118	0.0118	0.0353	0.0353
Total Demand	1.2326	0.7401	0.7401	0.9064	0.9064
Used and Useful	98.61%	49.34%	59.21%	72.51%	60.42%
Requested Used and Useful	100.00%				

(1) Under the recommended and alternative columns the margin reserve includes the increment of capacity associated associated with the projected test year. Under the last order column it reflects the increment of capacity associated with the projected test year and an 18 month margin reserve.

Source: Florida Cities Water Company, MFRs.

Docket No. 950387-SU
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 12

Florida Cities Water Company-North Fort Myers
Infiltration and Inflow (000)

1994

	Water Sold	70.89% Adjusted Water Sold	Wastewater Treated	Inflow Infiltration	Rainfall	36-Year Average Rainfall
January	27,311	19,361	27,345	29.20%	2.92	2.13
February	26,152	18,540	24,962	25.73%	2.17	2.28
March	26,257	18,614	27,667	32.72%	0.99	2.93
April	32,430	22,990	26,886	14.49%	5.68	1.56
May	25,358	17,977	24,561	26.81%	0.34	3.66
June	28,290	20,055	24,497	18.13%	4.73	9.61
July	27,187	19,273	29,231	34.07%	9.70	8.71
August	21,576	15,296	31,417	51.31%	9.18	9.40
September	24,420	17,312	35,259 *	50.90%	7.67	7.88
October	23,467	16,636	32,582	48.94%	2.96	3.09
November	24,360	17,269	29,151	40.76%	2.50	1.53
December	26,443	18,746	30,322	38.18%	3.82	1.56
Total	313,251	222,068	343,880	35.42%	52.66	54.34

1995

	Water Sold	70.89% Adjusted Water Sold	Wastewater Treated	Inflow Infiltration	Rainfall	36-Year Average Rainfall
January	29,016	20,570	34,968	41.18%	3.12	2.13
February	26,488	18,778	28,336	33.73%	1.40	2.28
March	26,753	18,966	28,427	33.28%	0.88	2.93
April	29,220	20,715	26,190	20.91%	5.34	1.56
May	26,071	18,482	26,784	31.00%	1.38	3.66
June	28,890	20,481	35,310	42.00%	13.97	9.61
July	22,971	16,284	39,525	58.80%	12.14	8.71
August						
September						
October						
November						
December						
Total	189,409	134,275	219,540	63.50%		

Estimate of Water Returned to Sewer System

	Water Sold	Wastewater Customers	Water Sold to Wastewater Customers	Standard Percent of Water Returned To Sewer	Water Returned To Sewer	Percent of Total Water Sold Returned To Sewer
Residential	168,589	82.33%	138,806	80.00%	111,045	65.87%
Commercial	84,658	72.93%	61,737	100.00%	61,737	72.93%
Public Author	7,437	100.00%	7,437	100.00%	7,437	100.00%
Multi-Family	52,452	79.63%	41,767	100.00%	41,767	79.63%
Total	313,136		249,748	88.88%	221,987	70.89%

Source: Florida Cities Water Company, Additional Engineering MFRs: South Carolina Department of Natural Resources.

Docket No. 950387-SU
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 13

Florida Cities Water Company-North Fort Myers
Infiltration and Inflow Allowance

Inches Gravity Mains	Type	Feet 8 or less Inches	Feet 9 -12 Inches	Feet 13 - 24 Inches	Inches Per Feet Total	High Recommended MGD Wastewater Flow	Medium Recommended MGD Wastewater Flow	Low Recommended MGD Wastewater Flow	Staff Proposed MGD Wastewater Flow	Last Order MGD Wastewater Flow
15	VCP			1,550	23,250					
14	VCP			30	420					
12	VCP		2,146		25,752					
10	VCP		760		7,600					
10	PVC		2,025		20,250					
8	VCP	119,283			954,264					
8	PVC	25,481			203,848					
8	DIP	90			720					
6	VCP	940			5,640					
6	DIP	40			240					
4	PVC	2,349			9,396					
4	DIP	322			1,288					
Manholes										
24				642	15,408					
Total Feet		148,505	4,931	2,222	1,268,076					
Total Miles		28	1	0.4	240					
Inflow/ Infiltration Allowance-High		5,000	6,000	12,000						
Gallons per Day - High Allowance		140,630	5,603	5,050	151,283					
Inflow/ Infiltration Allowance-Medium		3,500	4,500	10,000						
Gallons per Day - Medium Allowance		98,441	4,203	4,208	106,852					
Inflow/ Infiltration Allowance-Low					200					
Gallons per Day - Low Allowance					48,033					
Inflow/ Infiltration Allowance-Staff					500					
Gallons per Day - Staff					120,083					
Inflow/ Infiltration Allowance-Last Order					10,000					
Gallons per Day - Last Order					294,000					
Peak Month Water Treated						17,311,711	17,311,711	17,311,711	17,311,711	17,311,711
Peak Month Wastewater Treated						35,259,000	35,259,000	35,259,000	35,259,000	35,259,000
Infiltration/Inflow						17,947,289	17,947,289	17,947,289	17,947,289	17,947,289
Permitted Infiltration/Inflow						4,538,494	3,205,551	1,440,995	6,070,619	8,820,000
Excessive Infiltration/Inflow						13,408,794	14,741,738	16,506,293	11,876,670	9,127,289
Peak Month Wastewater Treated Removing Excessive Infiltration and Inflow						21,850,206	20,517,262	18,752,707	23,382,330	26,131,711
Peak Month Wastewater Treated Removing Excessive Infiltration and Inflow-MGD						0.728	0.684	0.625	0.779	0.871

Source: Florida Cities Water Company, MFRs, 1994 Annual Report.

Docket No. 950387-SU
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 14

Florida Cities Water Company-North Fort Myers
Wastewater Plant in Service by Primary Account

Acct. No.	Description	Test Year 12/31/95	Test Year 13-Mon Avg.	Company Test Year Adjustments	Recommended Test Year Adjustments	Recommended Adj Test Yr. 12/31/95	Percent Non-Used and Useful	Recommended Non-Used & Useful Plant
	Intangible Plant							
351	Organization	$ -	$ -	$ -		$ -		$ -
352	Franchises	250	250	-		-		
	Collection Plant							
353.1	Land & Land Rights	-	-	-		-		
354.1	Structures & Improvements	39,529	39,529	-		39,529		
360	Collection Sewers -Force	2,307,011	2,307,011	-		2,307,011		
361	Collection Sewers -Gravity	900,163	900,163	-		900,163		
362	Spec. Collect. Structures	2,505	2,505	-		2,505		
363	Services to Customers	164,562	164,562	-		164,562		
364	Flow Measuring Devices	3,288	3,288	-		3,288		
365	Flow Measuring Install.	-	-	-		-		
	System Pumping Plant					-		
353.2	Land & Land Rights	1,200	1,200	-		1,200		
354.2	Structures & Improvements	165,921	165,921	-		165,921		
370	Receiving Wells	52,444	52,444	-		52,444		
371	Pumping Equipment	780,540	696,525	84,015		780,540		
	Treatment & Disposal Plant					-		
353.3	Land & Land Rights	3,800	3,800	-		3,800		
354.3	Structures & Improvements	560,086	560,086	-		560,086	50.66%	283,721
380	Treatment & Disposal Equip	5,823,902	5,823,902	(15,000)		5,808,902	50.66%	2,942,599
380.1	Adv Treat & Disposal Equip	1,679,387	135,381	1,544,006		1,679,387	50.66%	850,722
381	Plant Sewers	3,874	3,874	-		3,874	50.66%	1,962
382	Outfall Sewer Lines	692,083	692,083	-		692,083	50.66%	350,586
383	Effluent Services	-	-	-		-		
384	Effl. Meters & Mtr Install	-	-	-		-		
389	Other Plant & Misc Equip	139,775	139,775	-		139,775		
	General Plant					-		
353.5	Land & Land Rights	-	-	-		-		
354.5	Structures & Improvements	-	-	-		-		
390	Office Furniture & Equip.	449	449	-		449		
391	Transportation Equipment	-	-	-		-		
392	Stores Equipment	-	-	-		-		
393	Tools, Shop & Garage Equip	4,230	4,230	-		4,230		
394	Laboratory Equipment	10,550	10,550	-		10,550		
395	Power Operated Equipment	59,895	59,895	(20,357)		39,538		
396	Communication Equipment	18,889	18,889	-		18,889		
397	Miscellaneous Equipment	-	-	-		-		
398	Other Tangible Plant	938	938	-		938		
390.2	Computer Equipment	2,425	2,425	-		2,425		
	Total	$ 13,417,696	$ 11,789,675	$ 1,592,664	$ -	$ 13,382,089		$ 4,429,591
	Total Less Land	$ 13,412,696				$ 13,377,089		$ (4,429,591)

Source: Florida Cities Water Company, MFRs.

Property Tax Adjustment	
Property Taxes Test Year	104349
Plant Test Year	$ 13,377,089
Ratio	0.007800576
Adjustment to PIS	$ (4,429,591)
Adjust Property Taxes	$ (34,553)

Docket No. 950387-SU
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 15

Florida Cities Water Company-North Fort Myers
Accumulated Depreciation - Wastewater

Acct. No.	Description	Test Year 12/31/95	Recommended Test Year Adjustments	Adj Test Yr. 12/31/95	Percent Non-Used and Useful	Recommended Non-Used & Useful Plant
	Intangible Plant					
351	Organization	$ -		$ -		$ -
352	Franchises	250		-		
	Collection Plant					
353.1	Land & Land Rights	-		-		
354.1	Structures & Improvements	13,176		13,176		
360	Collection Sewers -Force	1,056,966		1,056,966		
361	Collection Sewers -Gravity	145,015		145,015		
362	Spec. Collect. Structures	91		91		
363	Services to Customers	60,600		60,600		
364	Flow Measuring Devices	3,344		3,344		
365	Flow Measuring Install.	-		-		
	System Pumping Plant					
353.2	Land & Land Rights	-		-		
354.2	Structures & Improvements	81,204		-		
370	Receiving Wells	14,594		14,594		
371	Pumping Equipment	202,045		202,045		
	Treatment & Disposal Plant					
353.3	Land & Land Rights	-		-		
354.3	Structures & Improvements	115,022		115,022	50.66%	58,266
380	Treatment & Disposal Equip	1,199,722		1,199,722	50.66%	607,740
380.1	Adv Treat & Disposal Equip	92,303		92,303	50.66%	46,758
381	Plant Sewers	437		437	50.66%	221
382	Outfall Sewer Lines	95,104		95,104	50.66%	48,177
383	Effluent Services	-		-		
384	Effl. Meters & Mtr Install	-		-		
389	Other Plant & Misc Equip	31,629		31,629		
	General Plant					
353.5	Land & Land Rights	-		-		
354.5	Structures & Improvements	-		-		
390	Office Furniture & Equip.	362		362		
391	Transportation Equipment	-		-		
392	Stores Equipment	-		-		
393	Tools, Shop & Garage Equip	1,886		1,886		
394	Laboratory Equipment	4,592		4,592		
395	Power Operated Equipment	22,218		22,218		
396	Communication Equipment	6,712		6,712		
397	Miscellaneous Equipment	-		-		
398	Other Tangible Plant	714		714		
390.2	Computer Equipment	938		938		
	Less: Retired WIP	(5,525)				
	Total	$ 3,143,399	$ -	$ 3,067,470		$ 761,162
						$ 761,162

Source: Florida Cities Water Company, MFRs.

Docket No. 950387-SU
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 16

Florida Cities Water Company-North Fort Myers
Depreciation Expense - Wastewater

Acct. No.	Description	Test Year Adjusted Balance	Plant Adjustments	Depreciation Rate	Adjustment	Adjusted Depreciation	Percent Non-Used and Useful	Recommended Non-Used & Useful Depreciation
	Intangible Plant							
351	Organization	$ -	$ -	0	$ -	$ -		$ -
352	Franchises	-	-	0		-		
	Collection Plant					-		
353.1	Land & Land Rights	-	-			-		
354.1	Structures & Improvements	1,225	-	3.10%		1,225		
360	Collection Sewers -Force	76,131	-	3.30%		76,131		
361	Collection Sewers -Gravity	19,804	-	2.20%		19,804		
362	Spec. Collect. Structures	63	-	2.50%		63		
363	Services to Customers	4,279	-	2.60%		4,279		
364	Flow Measuring Devices	658	-	20.00%		658		
365	Flow Measuring Install.	-	-	0.00%		-		
	System Pumping Plant		-			-		
353.2	Land & Land Rights	-	-			-		
354.2	Structures & Improvements	5,144	-	3.10%		5,144		
370	Receiving Wells	1,731		3.30%		1,731		
371	Pumping Equipment	43,710		5.60%		43,710		
	Treatment & Disposal Plant					-		
353.3	Land & Land Rights							
354.3	Structures & Improvements	17,363		3.10%		17,363	50.66%	8,796
380	Treatment & Disposal Equip	325,299		5.60%		325,299	50.66%	164,786
380.1	Adv Treat & Disposal Equip	94,046		5.60%		94,046	50.66%	47,641
381	Plant Sewers	112		2.90%		112	50.66%	57
382	Outfall Sewer Lines	22,839		3.30%		22,839	50.66%	11,569
383	Effluent Services	-		2.90%		-		
384	Effl. Meters & Mtr Install	-		2.00%		-		
389	Other Plant & Misc Equip	7,827		5.60%		7,827		
	General Plant					-		
353.5	Land & Land Rights	-				-		
354.5	Structures & Improvements	-		2.50%		-		
390	Office Furniture & Equip.	30		6.70%		30		
391	Transportation Equipment	-		33.33%		-		
392	Stores Equipment	-		0.00%		-		
393	Tools, Shop & Garage Equip	266		6.30%		266		
394	Laboratory Equipment	707		6.70%		707		
395	Power Operated Equipment	3,124		7.90%		3,124		
396	Communication Equipment	1,700		9.00%		1,700		
397	Miscellaneous Equipment	-		6.70%		-		
398	Other Tangible Plant	94		10.00%		94		
390.2	Computer Equipment	405		16.70%		405		
	Total	$ 626,557	$ -		$ -	$ 626,557		$ 232,848
								$ (232,848)

Source: Florida Cities Water Company, MFRs.

CERTIFICATE OF SERVICE
DOCKET NO. 950387-SU

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by U.S. Mail or by *Hand-delivery to the following party representatives on this 13th day of March, 1996:

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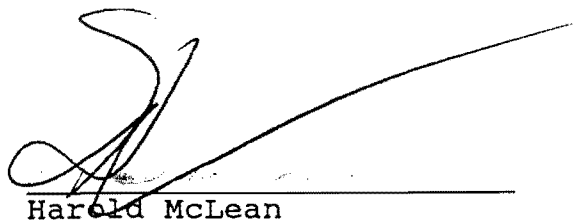

Harold McLean
Associate Public Counsel