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March 8, 1996

**HAND DELIVERY**

960329-1015

Ms. Susan F. Clark, Chairwoman  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-0850

**RECEIVED**

MAR 11 1996

Florida Public Service Commission  
Division of Water and Wastewater

RE: Request for Test Year Approval for an  
Application of Gulf Utility Company for  
a Water and Wastewater Rate and Service  
Availability Charge Adjustment in Lee County, Florida

Dear Chairwoman Clark:

Gulf Utility Company requests the approval of a projected year end test year ending December 31, 1996 with a historic year end test year ending December 31, 1995. It is Gulf's intention to file an application based on these test years for approval of adjusted water/wastewater rates and service availability charges.

Gulf believes that its permanent rates and charges should be determined on a projected year end test year ending December 31, 1996 because such test year will more accurately reflect the cost of service at the time adjusted rates and charges would be placed into effect.

Approximately \$1,045,300 of additional investment in water facilities and approximately \$2,047,000 of additional investment in wastewater facilities have been placed in service in the past 18 months. This investment has been closed on the books as of December 31, 1995.

During 1996 Gulf will invest in plant-in-service additions for water at a budgeted cost of \$1,476,576 and for wastewater at a budgeted cost of \$1,124,761. These extraordinary additions will increase water plant-in-service from \$15,887,055 to \$17,363,630, and wastewater from \$13,949,063 to \$15,074,364. A substantial portion of these additions will be completed on or before December 31, 1996.

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FFSD DEPT. OF REG. & REPORTING

Letter to Chairwoman Susan F. Clark.

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Gulf has been informed that the Commission Staff is currently in the process of determining whether Gulf is realizing earnings for its water operations in excess of those allowed by the last allowed rate of return. Further, Gulf understands that this determination is being made based on a test year ending June 30, 1995 for water only without giving consideration to revenue requirements of wastewater. As indicated above, significant additional investments will be made by Gulf in not only its water operations since that date, but in its wastewater operations as well. Therefore, the determination by Staff as of June 30, 1995, of the revenue requirement of Gulf's water operation would not reflect Gulf's cost of service for the immediate future.

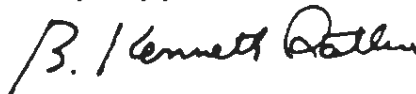
Gulf wishes to inform the Commission that it is currently in the process of refinancing all of the remaining \$9,775,000 industrial revenue bonds which represents 99% of the debt component and 87.4% of its total capital structure. Lenders in the present financing and any future financing will look at the total earnings of Gulf to serve this debt. They have no interest in the regulatory split of water and wastewater revenues. It is imperative, therefore, that Gulf have stable earnings in order to successfully complete this financing. For this reason, Gulf in this letter is requesting permission from the Commission to bring before it all of the rates and charges of Gulf to be considered in one proceeding at one time. If the Commission will consider all of Gulf's rates and charges, and establish them on the projected test year as requested, it is likely that Gulf will be able to refinance and decrease the cost of debt thereby benefiting the customers. Attached hereto is a copy of a letter dated March 6, 1996 from William R. Hough & Company which is the firm engaged to place Gulf's refinancing.

Gulf does not intend to ask that this application be processed under the proposed agency action procedure of the Commission.

Gulf does intend to request the approval of interim rates for both water and wastewater based on the historic year ending December 31, 1995.

Thank you for your attention to this matter.

Very truly yours,



B. Kenneth Gatlin

BKG/met

cc Mr. Marshall Willis, Div of Water and Wastewater

# William R. Hough & Co.

100 SECOND AVENUE SOUTH  
SUITE 800  
ST. PETERSBURG, FLORIDA 33701-4384  
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March 6, 1996

Mr. James W. Moore  
President  
Gulf Utility Company  
POB 350  
Ft. St. Rocco, Florida 33928-0350

Dear Mr. Moore:

We appreciate you keeping us apprized of the status of the FPSC inquiry related to Gulf's potential overearnings as it relates to water revenues.

While we still believe a refunding of your URB's can benefit you and your customers through reduced interest expense, I trust you understand the problem this presents to us as your underwriter.

Until such time as the uncertainty of your future revenue stream is resolved, we believe it may not be prudent to proceed with your bond refunding.

Please keep us posted. We look forward to proceeding with this project as soon as it is practical.

Sincerely,

WILLIAM R. HOUGH & CO



Craig M. Hunter  
Manager of Public Finance

CMH/dlp