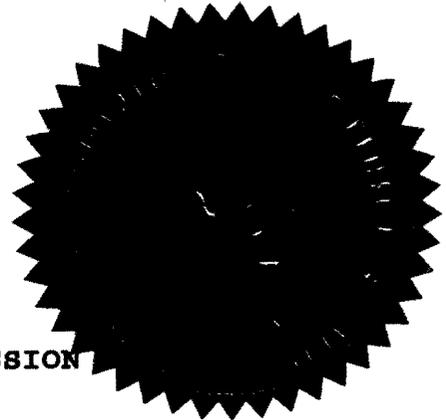


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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of
Application for
increased Wastewater
Rates by Florida Cities
Water Company - North
Ft. Myers Division in
Lee County

DOCKET NO. 950387-SU



SECOND DAY - MID-MORNING SESSION

VOLUME 6

Pages 628 through 805

PROCEEDINGS: HEARING

BEFORE: COMMISSIONER JULIA L. JOHNSON
COMMISSIONER DIANE K. KIESLING
COMMISSIONER JOE GARCIA

DATE: Thursday, April 25, 1996

TIME: Commenced at 8:00 a.m.
Concluded at 1:30 p.m.

PLACE: Sheraton Harbor Place
Ballroom
2500 Edwards Drive
Fort Myers, Florida

REPORTED BY: JOY KELLY, CSR, RPR
Chief, Bureau of Reporting

APPEARANCES:

(As heretofore noted.)

FILED
APR 29 1996
COMM. REP. DIVISION

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P R O C E E D I N G S

(Transcript continues from Volume 5.)

COMMISSIONER JOHNSON: We're going to reconvene the hearing. Ms. Walla.

MS. WALLA: I apologize for all of the -- on that matter.

COMMISSIONER JOHNSON: That's fine.

THOMAS A. CUMMINGS

resumed the stand on behalf Florida Cities Water Company, and having previously been duly sworn, testified as follows:

CONTINUED CROSS EXAMINATION

BY MS. WALLA:

Q Mr. Cummings, I had asked you what you considered a short-term variation, and you considered a day a short-term variation that they can treat above the 1.25; is that correct?

A The design is based on -- what I had said and what came out of the exhibit previously -- I don't remember what page it was on now, I believe the statement was short-term loadings. The plant will experience short-term loadings, and we would consider short-term loadings to be that of a day, roughly.

Q Okay. Would you look at the monthly operating report of Florida Cities Waters, and especially July at the additional flows, July 18th

1 through the 31st. I believe it's 1.458, 2.458, 1.457,
2 and on.

3 A Yes.

4 Q At the time this was -- and it still is
5 rated at 1 million gallons per day in the treatment
6 capacity, correct?

7 A Yes.

8 Q Okay. Did Florida Cities not treat these
9 additional flows in July of 1995?

10 A Yes.

11 Q And wasn't this duration from the 18th to
12 the 31st approximately two weeks worth of additional
13 flows over 1 million gallons that they treated daily?

14 A Yes. These are hydraulic flows.
15 Hydraulically, the plant can pass probably, typically,
16 three times the average daily flow. And it wouldn't
17 surprise me if you would find numbers approaching
18 3 MGD on a particular day, but that's hydraulics.

19 Q So what you're stating is they didn't treat
20 this amount of flow?

21 A No, it was treated, but I would suspect if
22 we looked at it, we would find the BOD, CBOD and TSS
23 would probably be lower on those days with higher
24 flows. It gets into biological treatment. And
25 typically as flows rise, the constituents in the

1 flows, the solids, the -- what we call loads or wastes
2 are typically more dilute. They still get treated.
3 They are not as strong, the wastewater is probably not
4 as strong as it would be on a period of lower flows.

5 When plants are designed, they look at two
6 areas. They look at hydraulics and waste loads or
7 biological loads. And we need to be able to handle
8 both of those. And, obviously, in a rainstorm event,
9 you need to be able to pass all the flow that comes
10 into the plant, we don't want it spilling over the
11 tanks backing up in the sewer system and such, so we
12 apply a peaking factor on the hydraulic design of the
13 plant which could approach three times the average
14 daily flow. And I think that's borne out in this
15 these reports here where we see that we do, indeed,
16 get flows, hydraulic flows, which is if you're looking
17 at the item, I assume it's the second line in the
18 chart which says flow MGD which does get above 1.0,
19 and that is to be expected. There will be days where
20 it's below 1.0, thereby we get the annual average.

21 Q So my question was they were treated
22 properly then?

23 A Yes. And that is probably borne out in the
24 effluent indications on these chart, also. And the
25 fact that Florida Cities continues to meet their

1 discharge limits on effluent, which would indicate
2 that the flow does, indeed, get treated.

3 Q Had you not stated that the limiting factor
4 on the plant, even with the expansion, was the
5 treatment process?

6 A I don't understand the question.

7 Q You're saying that the capacity of the plant
8 at 1.25, is hydraulically at 1.5; is that correct?

9 A No.

10 Q It can hydraulically hold -- handle 1.5
11 flows, or are you stating --

12 A No.

13 Q -- that it can't even handle hydraulically
14 1.5?

15 A No. Hydraulically it can handle more than
16 1.5.

17 Q Okay. The treatment process is the
18 question, correct?

19 A Biologically, it can only handle 1.25.

20 Q But yet on this term of 14 days, it did
21 treat these flows properly?

22 A Right. When we talk about 1.0, 1.25, we are
23 talking annual average. As I had stated before, and
24 as you had pulled out of my testimony, we do also
25 design for a peak load condition which, as I'd stated

1 would be a maximum day for loads. But we look at also
2 maximum months and see what the heaviest months are
3 and try to design for those, also.

4 The plant needs to be able to handle both
5 the heavy days and the light days, but there's a
6 balance there as to how the treatment plant is
7 designed. We didn't want to design that every day is
8 the maximum day because that wouldn't be economically
9 prudent. So we look at all of the loads and all of
10 the days, and we statistically pick what we think is
11 going to be the design level and that's what we design
12 for.

13 Q So your design level is?

14 A On an annual average day, our design level
15 is 1.25.

16 COMMISSIONER GARCIA: What's the maximum
17 capacity? It's 1.25, but what could you handle?

18 WITNESS CUMMINGS: Hydraulically? It's
19 designed for three times with a peaking factor of
20 three. Currently it's 3, 3.0. Three times the 1. --

21 COMMISSIONER GARCIA: And biologically?

22 WITNESS CUMMINGS: Biologically, I can't
23 answer that. I would have to go back and look at the
24 charts. Back in preliminary design there were
25 readings taken and charts prepared that indicated the

1 total TSS, the total BOD and total phosphorous and
2 nitrogen loads coming into the plant. We looked at
3 the peaks and the averages on there and selected a
4 point so far off the standard deviation of those lines
5 on the upper side, and that's what we designed for.

6 COMMISSIONER GARCIA: And that was?

7 WITNESS CUMMINGS: I don't know without
8 looking at the charts again.

9 Q (By Ms. Walla) So let me understand this,
10 Mr. Cummings. The design hydraulically now is 3.0,
11 correct?

12 A No, The annual average design currently is
13 1.0. It does include a peaking factor to allow for
14 days like you've pointed out, and the peaking factor,
15 I believe, on the current plant, which I didn't
16 design, is 3.

17 Q Peaking factor for hydraulically. Is that
18 correct?

19 A Yes, hydraulic peaking factor.

20 Q What's the peaking factor for treatment?

21 A That is what I can't answer without looking
22 at the old records. As I had stated before, we tried
23 to identify what the max day load is and what the --
24 another indicator is a maximum month. Some months
25 will have heavier loadings than others, especially if

1 in areas of Florida where the population is seasonal,
2 your winter months are going to be heavier than your
3 summer months. Especially with the rain in the
4 summer, it dilutes the flow so you need to take those
5 things into account, too. And once you plot all of
6 the loads from the chemical constituents coming into
7 the plant, then you see what your peak is, you see
8 what your average is and you pick some kind of peaking
9 factor that's going to handle that biological load.
10 And offhand I don't know what that is.

11 COMMISSIONER GARCIA: Can I ask just for my
12 own edification if you could submit that later to us
13 in a late-filed exhibit, just finding out what the
14 peak is on that just for my own edification, if that's
15 all right with you, Mr. Gatlin?

16 MR. GATLIN: Commissioner, the current peak
17 or the peak of the design?

18 COMMISSIONER GARCIA: The peak in the design
19 biological. He gave us the peak in hydraulic, which
20 is 3.0, so I'd like to see the peak biologic.

21 MR. McLEAN: Commissioner Garcia, we'd like
22 to see it, too. I assume you mean submitted as part
23 of this record?

24 COMMISSIONER GARCIA: Correct.

25 MR. McLEAN: Thank you, sir.

1 COMMISSIONER JOHNSON: What do we call that
2 peak biological design capacity.

3 MR. GATLIN: Can you prepare that,
4 Mr. Cummings?

5 WITNESS CUMMINGS: Yes.

6 COMMISSIONER JOHNSON: We'll identify it as
7 Exhibit 27 to be a late-filed.

8 (Late-Filed Exhibit No. 27 identified.)

9 MR. GATLIN: Commissioner, I don't want to
10 belabor the point, but what I was concerned about was
11 whether you were asking in relation to the 1. point
12 capacity or the 1.25 capacity is really what my
13 question was.

14 COMMISSIONER GARCIA: I think what we're
15 here for, the existing plant.

16 WITNESS CUMMINGS: For the 1.0?

17 MR. GATLIN: For the 1.0, I think.

18 WITNESS CUMMINGS: I don't have that
19 information.

20 MR. GATLIN: But we can furnish that.

21 WITNESS CUMMINGS: I assume Florida Cities
22 can.

23 COMMISSIONER GARCIA: You have that for the
24 1.25?

25 WITNESS CUMMINGS: Yes, we have that.

1 COMMISSIONER GARCIA: Let's get both of them
2 just so we be on the safe side. Let's have both of
3 them.

4 MR. GATLIN: Do you have the 1.25 here in
5 the hearing room?

6 WITNESS CUMMINGS: I don't know.

7 MR. GATLIN: Okay.

8 COMMISSIONER JOHNSON: We'll do both as
9 late-filed then. Any further questions, Ms. Walla.

10 MS. WALLA: Yes.

11 MR. GATLIN: 27, was that?

12 COMMISSIONER JOHNSON: Yes, sir. 27.

13 Q (By Ms. Walla) Mr. Cummings, what is your
14 understanding of the late-filed exhibit? What is it
15 going to include then?

16 A It is going to indicate the peaking factors
17 used for the biological design of the plant.

18 Q At 1.0 and 1.25, correct?

19 A Yes.

20 Q Okay. Sir, do you have Ms. Jerilyn Victor's
21 testimony up there? (Pause)

22 Could you turn to the --

23 A I don't have it here. Just a minute.

24 Q Oh, he doesn't have it. (Hands document to
25 witness.)

1 When we submitted our supplemental
2 testimony, some of the smaller maps did not include
3 the entire page on it, and Jerilyn is handing out --
4 so that you can see that on the top it states
5 standard.

6 COMMISSIONER JOHNSON: So this is part of
7 Ms. Walla's --

8 MS. WALLA: It's already filed, but when we
9 had them copied, the standard, we hadn't realized it
10 hadn't shown up on this.

11 COMMISSIONER JOHNSON: Okay. Very good.

12 COMMISSIONER KIESLING: Just so that I'm
13 clear, this is one of your exhibits, Ms. Walla?

14 MS. WALLA: Yes.

15 COMMISSIONER KIESLING: Not Ms. Victor's.

16 MS. WALLA: We both sponsored it.

17 COMMISSIONER JOHNSON: It was admitted as
18 part of your composite. It was admitted as part of
19 your composite exhibit?

20 MS. WALLA: Yes.

21 COMMISSIONER JOHNSON: Okay.

22 MR. GATLIN: Mr. Cummings, do you have the
23 maps?

24 WITNESS CUMMINGS: Yes, I do.

25 Q (By Ms. Walla) Your firm, sir, submitted

1 these maps to the Florida -- the South Florida Water
2 Management District and the Department of
3 Environmental Protection from '91 and '93. Are you
4 familiar with these?

5 A Yes, I'm familiar with these.

6 Q Okay. The smaller maps, CW-15, where it
7 states the standard drainage flows on the top, was
8 this one -- when was this one submitted?

9 A I don't remember the exact date. It was
10 submitted during our preliminary design phase of the
11 water treatment plant.

12 Q Okay. And the larger map where it says
13 "denotes irrigation drainage flow," when was that map
14 submitted?

15 A I don't see --

16 COMMISSIONER GARCIA: Where are you now?

17 MS. WALLA: It's part of the Exhibit CW-15.
18 It's the larger map made up of two sheets. Last two
19 pages. Do you have it?

20 COMMISSIONER KIESLING: I don't. I don't
21 know what you're referring to.

22 MS. WALLA: Okay. Could you just like hold
23 it up so I can look at it.

24 There's two pages that equal one map.

25 COMMISSIONER KIESLING: And they are

1 CW-what?

2 MS. WALLA: 15.

3 COMMISSIONER GARCIA: It's the one after
4 that says Figure 8 on the bottom, it's the next page
5 over, and it's two maps split.

6 COMMISSIONER KIESLING: Okay.

7 MS. WALLA: Yes.

8 Q (By Ms. Walla) Sir, the second map, the
9 split map, are you familiar with this map?

10 A It appears to be the same as the other one.

11 Q Okay. Would you please take a look at the
12 arrows that denote the standard flow and denote the
13 irrigation drainage flow.

14 A Okay.

15 Q What purpose do the arrows serve on each of
16 these maps?

17 A They appear to denote the flow of water
18 between ponds.

19 Q So the standard drainage flow on the smaller
20 map denotes the flow, especially between pond 5 and
21 pond 4, could you look at those two, the two
22 differences on the two maps?

23 COMMISSIONER GARCIA: I'm sorry, that's what
24 I was about to ask. You're pointing out the
25 differences. Could you repeat the question because I

1 missed it.

2 MS. WALLA: I just wanted to know from him
3 what the purpose of the arrows served, and he said
4 that they were irrigation flows and standard flows. I
5 just wanted to know why the arrows on the preliminary
6 design go one way, and why the arrows on the design
7 for the system go the other way.

8 COMMISSIONER GARCIA: Okay. Forgive me,
9 could you point out where the arrows -- oh, okay, 27,
10 is that --

11 MS. WALLA: If you look at -- at the large
12 map the arrow number 28, it's halfway in the middle of
13 the page there and it's pointing to the left.

14 COMMISSIONER GARCIA: Okay.

15 MS. WALLA: And on the smaller map, the
16 preliminary design they are pointing to the right.

17 COMMISSIONER GARCIA: So you don't testify,
18 why don't you put that in the form of a question so
19 that we can --

20 Q (By Ms. Walla) Is there a difference
21 between the way the arrows are on the two different
22 maps, Mr. Cummings?

23 A Yes.

24 Q Could you explain to us why that is?

25 A Under the operation of the ponds, in ponds,

1 as I had stated before, ponds No. 3 and No. 8 contain
2 the wells -- I'm sorry, contain the pumps that supply
3 the sprinkler system for the plant. I believe that
4 the map that denotes standard flow is the operation of
5 the system under the storm water condition, or the
6 rainy condition. And the arrows indicate the path the
7 water travels between ponds to get to those two ponds
8 that contain the pumps that feed the irrigation
9 system.

10 The other or -- the other map would indicate
11 the path of flow under the reuse supply system in
12 which water is introduced into pond 5 and then flows
13 to ponds No. 8 and 3 to provide water to the
14 irrigation system.

15 COMMISSIONER GARCIA: Just to make sure I'm
16 understanding and maybe you can be more specific.
17 Nowhere is water defying gravity here, right?

18 WITNESS CUMMINGS: That's correct.

19 COMMISSIONER GARCIA: And one of them is
20 being pumped, and the other one is not being pumped.
21 Is one a natural flow, or it's simply one is the flow
22 for irrigation, and one is the flow for drainage?

23 WITNESS CUMMINGS: It's all natural flow.
24 One is for irrigation, and one is for drainage.

25 COMMISSIONER GARCIA: It's all natural flow.

1 How do you get natural flow to flow if it's not being
2 pumped in different directions?

3 WITNESS CUMMINGS: Water will take the path
4 of gravity, if you will, and flow downhill. Ponds 3
5 and 8 are the ponds that contain the pumps. Because
6 they contain those pumps, those ponds will typically
7 operate at a lower water elevation because that is
8 where the water is being withdrawn. As the water gets
9 withdrawn out of ponds 3 and 8, if the supply is not
10 as much as the withdrawal rate, then that pond level
11 will drop, which would then -- forces water to come
12 from the other ponds and enter that pond with the
13 pumps.

14 The situation that's set up under their
15 current situation is just that; when the pumps are on,
16 those ponds operate at a lower level, and they are
17 allowed to collect water from all of the other ponds.
18 There is yet another division to their pond system,
19 and there are a set of dams up at the north end or the
20 top of the map to further separate those other ponds.
21 So there is a hydraulic gradient, if you will, across
22 the whole golf course.

23 So by lowering levels within the ponds with
24 the pumps, then you create a flow pattern. And if you
25 introduce -- if you have two ponds and introduce water

1 into one pond and it's at a higher elevation than the
2 other ponds and those ponds are connected, that water
3 will flow down to the pond with the lower level.

4 COMMISSIONER GARCIA: I'm still trying to
5 figure it out.

6 COMMISSIONER JOHNSON: Go ahead, Ms. Walla.

7 MS. WALLA: Okay.

8 Q (By Ms. Walla) Did Florida Cities Water's
9 Company supply new pumps to Lochmoor Golf Course just
10 to create this feed to go that far? No new pumps into
11 the ponds?

12 A Florida Cities is pumping water into pond
13 No. 5. The pump is located on the plant site which
14 delivers water into pond No. 5. There are no other --
15 there are no other pumps that we are providing on
16 site.

17 Q Okay. So the pumping stations that Lochmoor
18 Golf Course already has within their ponds, okay, they
19 can sufficiently pull the water from pump 5 to the
20 pump 8, for instance. They are sufficient pumps to
21 pull from pump 5?

22 A Are you talking about the pump stations that
23 are indicated on the map?

24 Q Yes.

25 A The maps were supplied to us by Lochmoor

1 Golf Course. They are maps that were generated by
2 Lochmoor Golf Course to indicate their current system.
3 And as we develop this system, it was hand in hand
4 with Mr. Bishop, owner of the Lochmoor Golf Course.
5 The pump stations that are indicated on the maps here
6 are the pump stations that feed the sprinkler system,
7 and that is their sole purpose. They are not
8 transferring water from one pond to another. They are
9 pulling water out of those two ponds and pressurizing
10 the sprinkler system.

11 The water, under either condition, finds its
12 way across the golf course site naturally due to the
13 hydraulic gradient that's already established in the
14 system.

15 Q The hydraulic pump at the wastewater
16 treatment plant, you're saying?

17 A No.

18 Q In the system that exists right now on the
19 Lochmoor Golf Course?

20 A The system that exists now is twofold: there
21 is a what we might call a collections system that
22 involves all of the ponds. That system operates
23 naturally under its own hydraulic conditions. Then
24 there are pumps within that pond system that
25 pressurize the sprinkler system. Those are the only

1 pumps there on site. Just those pumps that pressurize
2 the sprinkler system, similar to what you would have
3 in your own home or yard, except they are larger.

4 Florida Cities has a pump that supplies
5 water from the treatment plant down Inlet Drive, down
6 Orange Grove, and across into pond No. 5. That is the
7 only pump supplied by Florida Cities.

8 Q So you're stating that even though the
9 gravity fed the pond system, that was initially in
10 place for the Lochmoor Golf Course, the flow is being
11 totally reversed on this, and it is because -- this is
12 what I'm trying to understand. It is because of the
13 hydraulic pump at the wastewater treatment plan that
14 this can happen?

15 A No. Flow is not totally being reversed in
16 the system. Flow to pond No. 8 takes the same course
17 that it typically does. Flow to pond No. 3 is
18 changing direction from pond 5 to 4, and it is not
19 being pumped. It occurs naturally based on the
20 operating level of the water in pond No. 3. And as
21 Lochmoor takes water out of that pond to supply water
22 to their sprinkler system, that pond level naturally
23 drops. It does today. As that water level drops,
24 water will flow from pond No. 5 to pond No. 3. Not
25 pumped, flow by gravity.

1 Q Will the wells at Lochmoor Golf Course be
2 vacated that Mr. Bishop was using there presently for
3 irrigation once reclaimed water use is in position to
4 go on line?

5 A I don't know. That's a condition of his
6 permit with the South Florida Water Management
7 District.

8 Q The contract, the reuse contract, it states
9 that Lochmoor has the option to use the reuse or not.
10 So if at all, right? Why do you think -- all right.
11 Thank you, Mr. Cummings.

12 COMMISSIONER JOHNSON: Staff.

13 **CROSS EXAMINATION**

14 BY MR. JAEGER:

15 Q Mr. Cummings, I'm going to go back to what
16 Mr. McLean was talking about. It was both Attachment
17 A and -- improvements we're going to have to be made
18 to go from the 1.25 to the 1.5. You didn't say
19 anything in equipment about whether there would be
20 additional tanks required. Would any additional tanks
21 need to be added?

22 A No additional tanks would be required.

23 Q And you talked about transfer of pumps and
24 that they were inadequate and that you'd have to add
25 transfer pumps. I didn't hear a cost associated with

1 that. Do you have a ballpark figure for that?

2 A I don't have a cost figure for that. I know
3 there are two pumps. Their purchase and installation
4 may approach six figures.

5 Q When you say six figures, you mean 100,000
6 or more in cost?

7 A Right.

8 Q So you have the additional diffusers, the
9 reclaimed water pumping system, the effluent filters
10 and now the transfer pumps, all may be six figures,
11 100,000?

12 A They may be. I'm reluctant to put a cost on
13 that without taking a harder look at it.

14 Q Right. I understand. So you really don't
15 have an estimate or ballpark figure as to what the
16 total cost of all of this would be?

17 A Not right now.

18 Q Now, you state that the expansion was
19 originally designed to treat 1.3 million gallons per
20 day on an average annual daily flow basis. Has this
21 original design changed?

22 A Yes.

23 Q Could you tell me how?

24 A The aeration system has been revised. Parts
25 of it were not installed and that reduced the

1 capacity, has reduced the treatment capacity of the
2 plant.

3 Q And we keep referring to average annual
4 daily flow basis and I think you touched on what is
5 meant by that, but could you explain that again? What
6 is meant by average annual daily flow?

7 A It would be the average of -- for example,
8 it would be the average of flows, all flows over the
9 course of a year divided by 365, something along those
10 lines.

11 Q Are there any other parameters for
12 wastewater treatment plant design other than an
13 average annual daily flow basis, average annual flow
14 basis?

15 A Yes. There are peak day flows, there are
16 maximum month flows that are looked at to help us
17 design the biological treatment system.

18 Q And when would they be used?

19 A During the design phase to size the plant,
20 to size it from a treatment capacity, a biological
21 treatment capacity. We get into a use of maximum
22 month flows to decide how much chemical storage to put
23 on site. We look at peak day flows to decide how much
24 aeration we need to provide to the basins to ensure
25 that we can cover that peak load that comes into the

1 plant.

2 Q So you're saying you really didn't just use
3 average annual flow, you used a combination of all of
4 these factors?

5 A Yes.

6 Q And --

7 A Annual average flow, annual average day flow
8 is a value that DEP uses in order to size and rate
9 plants.

10 Q So when -- could the plant capacity change
11 if a different flow parameter was used?

12 A I don't know what you mean by flow
13 parameter.

14 Q DEP uses -- are they the ones that use the
15 average annual daily flow for?

16 A Yes. It's a typical way of establishing or
17 labeling a plant.

18 Q Is this the same design you use for other
19 plants?

20 A Yes.

21 Q Okay. Could you turn to Page 5, Line 18, of
22 your testimony. You state there that Florida Cities
23 requested you to change the design flow of this
24 facility to a maximum of 1.25 million gallons per day
25 based on average annual daily flow and waste

1 concentration.

2 A Yes.

3 Q What changes are necessary due to average
4 annual daily flow consideration?

5 A It would be the waste concentrations
6 associated with that flow.

7 Q So it is not annual daily flow, it's waste
8 concentrations?

9 A Right. It's hydraulics and waste loads.
10 Typically when we do an initial study for a plant,
11 we'll look at flows and loads, which would be
12 hydraulic flows and waste loads or waste constituents,
13 chemical loads, biological loads, and things like
14 that. We need to be able to handle bulk.

15 Q You also note in your testimony that there
16 was a decrease in the provision of reclaimed water to
17 Lochmoor at something less than the original 300,000
18 gallons per day. Do you know why there was this
19 decrease?

20 A No, I don't know. I have ideas but I don't
21 know for certain why there's a decrease.

22 Q Do you know the amount of the decrease?

23 A From .3 to .25.

24 Q What's the amount of reuse as anticipated to
25 be sent to Lochmoor as a result? What's the current

1 permitting? I'm sorry. Answer the first question
2 first.

3 A Okay. On an annual average daily basis the
4 amount of flow to be sent to Lochmoor is 250,000
5 gallons per day on an annual average basis.

6 Q So that's just an average. It could go as
7 high as 300,000, say, on a dry day or in dry times or
8 considerably less in wet times?

9 A Yes. And that correlates with their pumping
10 records from their wells as submitted to the South
11 Florida Water Management District. They have months
12 where they don't pump any water out of their wells.
13 We would have months where we wouldn't supply any
14 water to the golf course.

15 Q Turn to Page 6, Line 19. You note in your
16 testimony a capacity change was not noted in the
17 construction permit from DER but, rather, was
18 addressed in the operation permit?

19 A Yes.

20 Q What caused this decision?

21 A At the time the construction application was
22 submitted it was not known that the decrease would be
23 made from 300,000 -- it was not known that the
24 capacity of the plant would change from 1.3 to 1.25.
25 The construction application is submitted and approved

1 prior to starting any construction work. The change
2 to the capacity was made after construction had
3 started.

4 Q Okay. So the operating permit is the
5 actual --

6 A The operating permit issued by DEP after
7 construction is the actual permit that allows Florida
8 Cities to use that plant at whatever rated condition
9 is on that permit.

10 Q Page 7, Lines 10 through 12, in there your
11 testimony states that the operating permit application
12 will be submitted in early May 1996. Is this still
13 true?

14 A That would be a question for Florida Cities.
15 It's been completed. The application has been
16 completed.

17 Q But at this point in time you still
18 anticipate requesting a 1.25 million gallon per day
19 design capacity?

20 A Yes.

21 Q And in your opinion what's the likelihood
22 that DEP will approve the 1.25?

23 A I assume it very likely that they will
24 approve it since the change has gone to a lesser
25 capacity than what they had approved before. And

1 their applications allow us to point out any changes
2 that have taken place from the time of the
3 construction permit application to the time of the
4 operation permit application and those changes have
5 been pointed out.

6 Q Do you still have your Exhibit TAC-1 there?
7 I noticed at one time you had trouble finding that.

8 A Is this the letter from --

9 Q That's a notification of completion of
10 construction. It's your exhibit.

11 MR. GATLIN: Exhibit attached to your
12 testimony.

13 A Yes. Just a minute. Let me have it. Yes.
14 I have it.

15 Q (By Mr. Jaeger) The fifth page back, it's
16 designated as Page 7 from the fax, again. It's 3-96,
17 Wednesday, 13:51, entitled "Operating Protocol."

18 A Yes.

19 Q It states in the first paragraph that, "the
20 plant has a present design capacity of 1.25 million
21 gallons per day that can be expanded to 1.5 million
22 gallons per day upon installation of additional
23 mechanical equipment." What mechanical equipment
24 other than what you explained to Mr. McLean in any
25 other questions is necessary to expand this plant to

1 1.5 million gallons per day? Have you hit all of
2 them?

3 A The portion that was overlooked in our
4 discussion of allowing the plant to discharge 1.5 is
5 the extension of the reuse system.

6 As pointed out in the DEP letter, DEP looks
7 at treatment capacity and now, within this region, DEP
8 also looks at the mode of discharge. And it is
9 currently DEP's stand that the Utility can no longer
10 discharge additional flow in to the Caloosahatchee
11 River as it is a classified body of water.

12 So along with any expansions in the plant to
13 increase treatment capacity, hand in hand with that
14 would need to go an expansion of their discharge
15 system, which anything above 1.0 has to go to reuse.

16 Q Can you estimate the cost of this equipment?

17 A This gets into the issues that were
18 discussed earlier about providing reuse water to those
19 areas that were previously identified in testimony,
20 such as El Rio Golf Course or the high school or the
21 medians of adjacent streets. DEP will not approve --
22 it is my belief DEP will not approve any increase in
23 plant capacity unless the Utility can show an increase
24 in allowable reuse discharge.

25 Q Okay. So Lochmoor is maxed out at 250,000,

1 and you would have to extend lines to get to these
2 other reuse customers?

3 A That's correct.

4 Q And I think somebody else testified as to
5 how much the cost of that extension would be. Do you
6 have an estimate of that?

7 A I do not.

8 Q So that's pretty much it. All the
9 additional construction of tank -- well, you say you
10 don't need tanks, but structures is necessary -- in
11 order to enlarge this plant capacity, you don't have
12 to do any other expansion?

13 A Only what was discussed previously and the
14 extension of the reuse system now for disposal.

15 Q Turn to the next page of the operating
16 protocol, if you would, please. You explain
17 conditions. Where reclaimed water will not be sent to
18 Lochmoor. And in the middle of the page under
19 "Immediate Action," the first item is that,
20 "irrigation pumps will be shut off by computer."
21 Which irrigation pumps are you referring to?

22 A Those are the pumps that are delivering
23 water from the plant through the pipeline to the golf
24 course.

25 Q Pumps at the treatment plant, then?

1 A Pumps at the treatment plant. There was a
2 control system on that pipeline that senses and tracks
3 the level in the ponds. If that level is higher than
4 what it should be, then it will shut the pumps down
5 and not allow water to discharge into the pond.

6 Q I apologize. I'm going to take you back
7 into your testimony, Page 8, if you would, Lines 7
8 through 10. You state that flows to the plant vary
9 due to seasonal and tourist population. How much
10 variance does this plant incur due to seasonal and
11 tourist population?

12 A I would have to look at the influent
13 documents to give a good feel for that. I don't
14 recall offhand.

15 Q There's been testimony that this really is a
16 fairly stable community, I believe. Would you agree
17 that there's actually very little due to seasonal and
18 tourist?

19 A I'd have to look at the documents.

20 Q So you can't classify it, whether it's a
21 little or a lot?

22 A That's correct.

23 MR. JAEGER: That's all the questions I
24 have.

25 COMMISSIONER JOHNSON: Commissioners?

1 Redirect.

2 MR. GATLIN: No redirect. I move

3 Exhibit 24.

4 COMMISSIONER JOHNSON: Show it admitted
5 without objection.

6 MR. McLEAN: Citizens move Exhibit 25.

7 COMMISSIONER JOHNSON: Show it admitted
8 without objection. Ms. Walla you had Exhibit 26.

9 MS. WALLA: Yes, we'd like to move
10 Exhibit 26.

11 COMMISSIONER JOHNSON: Show it admitted
12 without objection, and then we'll have Peak Biological
13 Design, 27 as a late-filed.

14 (Exhibit Nos. 24, 25, 26 received in
15 evidence.)

16 COMMISSIONER JOHNSON: You may be excused,
17 Mr. Cummings.

18 WITNESS CUMMINGS: Thank you.

19 (Witness Cummings excused.)

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MICHAEL ACOSTA

1
2 was called as a rebuttal witness on behalf of Florida
3 CITIES Water Company, North Fort Myers Division and,
4 having been duly sworn, testified as follows:

DIRECT EXAMINATION

5
6 BY MR. GATLIN:

7 Q Mr. Acosta, you are still under oath and
8 testified earlier; is that correct?

9 A That's correct.

10 Q Have you prepared rebuttal testimony in the
11 form of questions and answers for presentation at this
12 proceeding?

13 A Yes, sir.

14 Q If I were to ask you those questions today,
15 would your answers be the same?

16 A Yes.

17 MR. GATLIN: Madam Chairman, we ask that the
18 prepared testimony be inserted into the record as
19 though read.

20 COMMISSIONER JOHNSON: It will be inserted
21 as though read.

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1 **FLORIDA CITIES WATER COMPANY**
2 **NORTH FORT MYERS DIVISION**
3 **WASTEWATER OPERATIONS**
4 **REBUTTAL TESTIMONY OF MICHAEL ACOSTA**
5 **Docket No. 950387-SU**

- 6 Q. Please state your name.
- 7 A. Michael Acosta.
- 8 Q. Have you previously provided testimony in this
9 Docket?
- 10 A. Yes.
- 11 Q. What is the purpose of your rebuttal testimony?
- 12 A. The purpose of my testimony is to rebut certain
13 aspects of the direct testimony of Kimberly H.
14 Dismukes, appearing on behalf of the Citizens of the
15 State of Florida.
- 16 Q. Specifically which part of Witness Dismukes
17 testimony will you rebut?
- 18 A. I will rebut Witness Dismukes' testimony regarding
19 margin reserve, imputation of Contributions In Aid of
20 Construction (CIAC) and Allowance for Funds
21 Prudently Invested (AFPI).
- 22 Q. On Page 25 Line 19 Witness Dismukes does not include
23 margin reserve in the used and useful calculations
24 which she performed. Do you agree with this position.
- 25 A. Absolutely not. As stated in my direct testimony, it

1 has been longstanding Commission practice to include
2 margin reserve in used and useful plant because it is
3 recognized as necessary for a utility to meet its
4 statutory responsibility to have sufficient capacity
5 to serve the existing and changing demands of present
6 customers and the demands of potential customers
7 within a reasonable time period. In her testimony
8 Witness Dismukes says that "margin reserve
9 represents capacity required to serve future
10 customers, not current customers", this statement
11 fails to recognize several important issues
12 regarding margin reserve. First, the margin reserve
13 is in no way restricted only to future customers, the
14 changing demands of existing customers can use margin
15 reserve. Second, as stated in my direct testimony on
16 Page 2 lines 17-25 and Page 3 lines 1-25, the
17 requirements placed on wastewater utilities under
18 Section 62-600 F.A.C. are completely ignored by
19 Witness Dismukes. Finally, it is not practical from
20 an engineering, economic, or common sense points of
21 view to build capacity as each additional customer
22 connects to the system. It is in the best interests of
23 existing customers and future customers to build
24 economical increments of plant capacity to minimize
25 the cost per gallon of capacity. It must be

1 remembered that existing customers were once future
2 customers and capacity was available when they wanted
3 to connect.

4 Q. Witness Dismukes asserts that the Company will be
5 compensated for investment in margin reserve through
6 AFPI. Do you agree.

7 A. No. AFPI is used when non used and useful plant is
8 built to maximize economies of scale. In the instant
9 case, the expanded plant is 100% used and useful,
10 therefore AFPI does not apply.

11 Q. Witness Dismukes testifies that if the Commission
12 includes a margin reserve in used and useful plant
13 then a rate base adjustment should be made that
14 reflects the equivalent residential connections
15 represented by the margin reserve. Do you agree.

16 A. No. As stated in my direct testimony, to offset the
17 margin reserve by imputing anticipated CIAC
18 effectively takes away the ability to earn on the
19 investment in the margin reserve, thereby rendering
20 the margin reserve meaningless. No other component
21 of plant or expense is adjusted beyond the test
22 period. Adjusting the margin reserve by offsetting
23 anticipated CIAC, beyond the test period, leads to a
24 mismatch of speculative future CIAC collections
25 against current investment in used and useful plant.

1 It is my position that if the Commission recognizes
2 that margin reserve is a necessary component of used
3 and useful plant, the utility should be allowed to
4 earn a return on its investment.

5 Q. On Page 28 of her direct testimony Witness Dismukes
6 asserts that if the Commission did not impute CIAC on
7 margin reserve, FCWC collects CIAC from customers and
8 if this CIAC is not reflected in the rate base used to
9 set rates, then FCWC will overearn on its investment.
10 Do you agree?

11 A. No. Rate base changes continuously due to additional
12 investment in plant, depreciation and CIAC. The lack
13 of imputation of CIAC is not a causal factor that
14 ultimately leads to overearning on used and useful
15 investment.

16 Q. On page 28 of her direct testimony Witness Dismukes
17 states that even with imputation the company will
18 have the opportunity to earn in excess of the return
19 allowed by the Commission because the future revenue
20 is not recognized for ratemaking purposes. Do you
21 agree?

22 A. I agree that revenue from any future customers is not
23 included, beyond the test period, for ratemaking
24 purposes. However, expenses associated with serving
25 future customers beyond the test period are also not

1 recognized. Therefore the mismatch and opportunity
2 for overearning are simply not there.

3

4 Q. On page 29 of her direct testimony Witness Dismukes
5 insinuates that FCWC does not make economical
6 decisions because of the Commission's regulatory
7 policy. Do you have any comments?

8 A. Witness Dismukes' testimony is groundless, without
9 support and in gross error. To my knowledge she has
10 not made any attempt to audit the plant expansion
11 increment.

12 Witness Dismukes states that it is not the
13 Commission's responsibility to provide incentives
14 for the Company to make economical decisions. I
15 disagree, it would be in the best interest of all
16 parties to provide sufficient, necessary service to
17 both existing customers and future customers at the
18 minimum reasonable cost. This will necessarily
19 require investment in margin reserve to provide the
20 economies of scale that will lead to the minimization
21 of plant costs.

22 Witness Dismukes states that FCWC provided no
23 support for its suggestion that ratepayers are better
24 off with a larger plant today rather than smaller
25 plants built over time. FCWC built the increment of

1 capacity which would meet the regulatory
2 requirements of the Florida Department of
3 Environmental Protection. As I have previously
4 stated, it is not practical or economically feasible
5 to build plant capacity as each customer connects to
6 the system. In order to minimize costs and realize
7 economies of scale plant capacity must be built in
8 logical increments; this normally means building
9 capacity in larger, rather than smaller increments.

10 Q. Please summarize your rebuttal testimony.

11 A. The Commission should disregard Witness Dismukes
12 remarks regarding margin reserve, the imputation of
13 CIAC against the margin reserve and AFPI. The
14 Commission should recognize, as they have
15 historically done, margin reserve and not offset the
16 margin reserve, by imputing anticipated CIAC, beyond
17 the test period. AFPI should not be considered
18 because the plant is 100% used and useful.

19 Q. Does this conclude your rebuttal testimony?

20 A. Yes.

1 MR. GATLIN: And the witness is available
2 for questioning.

3 COMMISSIONER JOHNSON: Public Counsel.

4 MR. McLEAN: No questions.

5 COMMISSIONER JOHNSON: Ms. Walla.

6 CROSS EXAMINATION

7 BY MS. WALLA:

8 Q Mr. Acosta, when you stated the amounts
9 previously for each year for your I&I program, could
10 you just restate them? You said them very quickly. I
11 could not get them down as fast as you were speaking.
12 For '92 what was the total amount?

13 A Hang on. Let me get that out. That's not
14 in my rebuttal. (Pause) '92 was 20942. '93 was
15 29985. '94, 30207. If I said '95, I meant '94. '95
16 is 18069.

17 Q In your I&I program you were speaking of the
18 manholes and linear footage. Could you give us the
19 total linear footage that was completed from '94 to
20 '95 on the system?

21 A In regards to TVing and --

22 Q Grouting.

23 A Not off the top of my head. I would have to
24 add the numbers up from the individual contracts.

25 Q Well, I did that. Do you need the contracts

1 to look at.

2 A Yes.

3 Q It would be in in your I&I documents that
4 you supplied me.

5 COMMISSIONER KIESLING: Ms. Walla, I have a
6 question. What does this have to do with his rebuttal
7 testimony?

8 MS. WALLA: I'll defer the questions to
9 another witness then.

10 COMMISSIONER JOHNSON: Any further
11 questions?

12 MS. WALLA: No.

13 COMMISSIONER JOHNSON: Staff.

14 MR. JAEGER: No questions.

15 COMMISSIONER JOHNSON: I'm assuming there's
16 no redirect.

17 MR. GATLIN: No redirect.

18 COMMISSIONER JOHNSON: And there were no
19 exhibits. You may be excused.

20 WITNESS ACOSTA: Thanks.

21 COMMISSIONER JOHNSON: Next witness.

22 (Witness Acosta excused.)

23 MR. GATLIN: Ms. Karleskint.

24 COMMISSIONER JOHNSON: And you have been
25 sworn?

1 WITNESS KARLESKINT: Yes.

2 JULIE L. KARLESKINT

3 was called as a rebuttal witness on behalf of Florida
4 Cities Water Company, Fort Myers Division and, having
5 been duly sworn, testified as follows:

6 DIRECT EXAMINATION

7 BY MR. GATLIN:

8 Q Ms. Karleskint, have you prepared rebuttal
9 testimony in this docket in relation to the testimony
10 of Ms. Walla and Ms. Dismukes?

11 A Yes, I have.

12 Q And if I were to ask you the same questions
13 stated therein, would your answers be the same?

14 A Yes, it would.

15 MR. GATLIN: May we have this testimony
16 inserted into the record as though read?

17 COMMISSIONER JOHNSON: Show it so inserted.

18 Q (By Mr. Gatlin) Attached to your rebuttal
19 testimony is an exhibit entitled JLK-4, which is a
20 letter dated May 2nd 1995, addressed to Mr. Bishop of
21 Lochmoor Golf Club, and signed by you; is that
22 correct?

23 A Yes.

24 MR. GATLIN: May we have that identified as
25 the next exhibit?

1 COMMISSIONER JOHNSON: Okay. Let me just
2 make sure I understand. Is everything else -- the
3 other things are just attachments to the exhibit?

4 MR. GATLIN: Yes. The reclaimed water use
5 agreement is attached to the letter.

6 COMMISSIONER JOHNSON: Okay. Yes, we'll
7 identify this as JLK letter and number it 28.

8 (Exhibit No. 28 marked for identification.)
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FLORIDA CITIES WATER COMPANY
NORTH FORT MYERS DIVISION
WASTEWATER OPERATIONS
REBUTTAL TESTIMONY OF JULIE L. KARLESKINT
TO DIRECT TESTIMONIES OF
KIMBERLY H. DISMUKES
AND
CHERYL WALLA
Docket No. 950387-SU

Q. Please state your name?
A. Julie L. Karleskint.
Q. Have you prefiled direct testimony in this docket?
A. Yes.
Q. What is the purpose of this rebuttal testimony?
A. It is the purpose of FCWC in this testimony to refute the positions of OPC Witness Dismukes and intervenor Walla regarding our rate application, the reuse rate and odor.
Q. Witness Dismukes on Page 6 of her testimony indicates that the Commission should increase the rate charged to the Lochmoor Golf Course for reuse from the proposed rate of \$.13 to \$.21 per 1000 gallons. Does FCWC have any comments concerning this rate?
A. Yes. It must be understood by all Parties to rate making that pricing of reclaimed water is market

1 driven. If the price is higher than the market,
2 little or none will be sold, thus forcing wastewater
3 utilities to pursue other, and often more costly
4 disposal options. The reclaimed water must be priced
5 to induce reuse customers to accept reclaimed water.
6 FCWC is required by the FDEP to dispose of all
7 effluent flows over one million gallons per day as
8 reclaimed water. As long as the purchaser has options,
9 as is the case with Lochmoor Country Club, then the
10 purchaser has the dominate hand in pricing. The
11 Country Club is not required to accept reclaimed water
12 if it can demonstrate that it is not economically
13 feasible. If the price of reclaimed water is
14 increased to the point of being uneconomical, the
15 Lochmoor Country Club would have the right to
16 terminate the use of reclaimed water with notice in
17 accordance with the termination clause in the
18 agreement, see Exhibit 28 (JLK-4). Lochmoor Country
19 Club is the nearest reuse site to the treatment plant
20 and is presently the only reclaimed water customer
21 that can be served with the reclaimed water main, and
22 it would be at an additional cost to the rate payers
23 to extend reclaimed water service to serve other
24 customers should Lochmoor decide not to take reclaimed
25 water.

1 Q. Witness Walla states on Pages 5 and 6 of her testimony
2 that if the utility were permitted only the plant and
3 expenses needed to serve the wastewater generated by
4 their customers with no more than a 10% infiltration,
5 it would have several direct consequences. First, the
6 new increase in capacity of 0.25 gpd would not have
7 been needed. Second, the existing means of effluent
8 disposal was adequate: the reuse facilities would
9 never have been needed. Do you agree with this
10 statement?

11 A. No, the increase in capacity of 0.25 MGD was required
12 due to regulatory requirements and increasing flows
13 from customers including allowable I/I. If FCWC were
14 to rehabilitate the collection system in order to meet
15 the specifications stated by Witness Walla, the cost
16 would have been significantly more than present
17 improvements and therefore would not be economically
18 feasible. It should also be noted that in addition to
19 reuse being required by the FDEP for the plant
20 upgrade/expansion, the SFWMD Water Use Permit for the
21 Waterway Estates Water Treatment Plant requires that
22 a reclaimed water source be made available, prior to
23 the permit expiration date in 1995.

24 Q. Witness Walla on Page 7 of her testimony indicates
25 that 54 customers presented a petition to the

- 1 Commission which stated that there is odor emanating
2 from the treatment plant. Do you have any comments
3 concerning this matter?
- 4 A. The majority of those customers that signed the
5 petition do not live near the treatment plant and
6 therefore would not have the opportunity to notice any
7 odors from the plant. The facility in question is a
8 wastewater treatment plant and there may be an
9 occasion, due to the nature of the process, that those
10 living in close proximity to the plant may notice some
11 odors. The FDEP has inspected the treatment plant
12 site eight times in the past year and has not found
13 any obnoxious odors emanating from this facility.
- 14 Q. Can the odors that are occasionally produced by the
15 treatment process be eliminated?
- 16 A. It is technologically feasible to reduce odors to
17 minimal levels. However this technology is extremely
18 expensive and is not warranted in this case.
- 19 Q. Does this conclude your testimony?
- 20 A. Yes it does.

1 Q (By Mr. Gatlin) Ms. Karleskint, I wish to
2 ask you to identify an exhibit which I'll give to you
3 now and pass it out.

4 MR. GATLIN: Madam Chairman, this is an one-
5 page exhibit, Florida Cities Water Company, North Fort
6 Myers Comparison of Cost. May we have the next
7 exhibit number assigned to this exhibit?

8 COMMISSIONER JOHNSON: Certainly, we will
9 identify the Comparison of Costs as Exhibit 29.

10 (Exhibit No. 29 marked for identification.)

11 Q (By Mr. Gatlin) Now, Ms. Karleskint, did
12 you prepare this exhibit?

13 MR. McLEAN: I have an objection as to any
14 questions regarding this exhibit.

15 After having the issue of I&I at issue for
16 months, and after suggesting to the Commission that it
17 may have even been the case that an incremental plant
18 was built to treat impermissible I&I, we have, for the
19 first time, what they should have presented on the
20 first day, and that is a study which suggests to the
21 Commission that it was cheaper to transport and treat
22 I&I than it is to alleviate it.

23 Now, I'd like to hand this exhibit -- I
24 would like to have handed this exhibit to an expert
25 three months ago to see whether it is reasonable. It

1 may be. But I have no way to tell. This is the first
2 opportunity I have had to address this, whatever it
3 is, a study. The first opportunity I have had to test
4 it. And I have essentially no effective point of
5 entry to suggest to the Commission that is not a
6 valid -- I don't know whether it's good study or not.
7 It may be an excellent study. But the point is, this
8 has been at issue for three months, minimum, maybe
9 longer than that. I have no idea. I have no
10 opportunity to test this study. And I'm going to
11 suggest to you that this study is likely to be
12 dispositive of the case. It is critical to the theory
13 of our case and to the theory of the Utility's case
14 and they should have presented it, if at all, a long
15 time ago. This is a very -- this is a 12th hour
16 attempt to bolster that which they should have done to
17 start with.

18 MR. GATLIN: It's no more than a rebuttal
19 exhibit to the testimony of Mr. Bidy who -- and we
20 did not get his testimony until after the prehearing
21 conference, and we understood we would have latitude
22 in rebutting that testimony and present it late.

23 MR. MCLEAN: This exhibit is offered to
24 address the proposition that it was cheaper to
25 transport and treat I&I than it would be to alleviate

1 it. Mr. Bidy didn't say anything about that. He
2 didn't present a study with respect to Apalachicola.
3 And Mr. Bidy couldn't even say that Apalachicola --
4 he said he had no evidence before him to suggest
5 whether Apalachicola was similar to this or not.

6 The main thing this exhibit purports to
7 say -- and I would expect that this would be based
8 upon literally hundreds of pages of an engineering
9 study -- I'm just guessing because I'm not a
10 engineer -- but this is being presented to you,
11 Commissioners, to support the notion that it was
12 cheaper to transport and treat than it would be to
13 alleviate. Its a pretty big issue, and I'd sure like
14 to test the Utility's case on that issue and I don't
15 have any opportunity to.

16 MR. GATLIN: I had understood the reason
17 that Mr. Bidy was allowed to testify was he was
18 rebutting the quote, "notion," end of quote, that
19 there was a question out there as to the advisability
20 of rehabilitating a system instead of building a
21 plant. And he suggested that that was the case
22 because he was familiar with the Apalachicola case and
23 gave the situation in Apalachicola, and I assume he
24 was suggesting that that situation in Apalachicola
25 showed that rehabilitation was less expensive than

1 building plant. And that's what the second column on
2 this -- under rehab cost, used the city of
3 Apalachicola estimate is about.

4 MR. McLEAN: Mr. Gatlin had more than
5 adequate opportunity to depose Mr. Bidy on that issue
6 and, in fact, did and asked him a number of questions
7 about Apalachicola and whether that's a reasonable
8 number.

9 Now, with respect to the \$6,533,000 cost
10 over here, I'd like a similar opportunity with that.

11 And, by the way, if there's a convenient way
12 to do that I don't have any objection to it. If we
13 can depose the author of this document at some later
14 point in time after I have had some opportunity to
15 evaluate it, perhaps we can stipulate that deposition
16 into the record or something.

17 My point is I don't want to exclude this
18 information from the Commission, but I can't test the
19 information. On behalf of the customers I can't
20 really test this information. It is suggested that
21 \$6 million was the cost of rehabilitation and that
22 798,000 was the cost of expanding it, and that is a
23 very significant issue to this case. It addresses --
24 the gravamen of our case is right here and I'd sure
25 like to test it.

1 MR. GATLIN: Madam Chairman, this is in
2 response to Exhibit 9 which Mr. Bidy identified as
3 the cost of Apalachicola. And we have extrapolated
4 numbers and figures from that and the witness can say
5 how she did it, but it's in reponse to Mr. Bidy's
6 position.

7 COMMISSIONER JOHNSON: Staff.

8 MR. JAEGER: This is the problem, I mean,
9 when we got into this late and wide latitude on
10 rebuttal, I believe. I have seen the solution done by
11 Mr. McLean in circuit courts where they have taken, if
12 there was a stipulation, let them do a deposition and
13 put it into the evidence. And I think it would be a
14 viable solution, because I think, as he says, this is
15 a lot to be sprung on the Office of Public Counsel at
16 this time. And I believe he should have a chance to
17 do more than just cross Ms. Karleskint at this time.
18 So I believe that the solution offered by Mr. McLean
19 would be a viable solution.

20 MR. McLEAN: There may be -- I heard
21 Mr. Gatlin say that this exhibit was extrapolated from
22 the numbers on Mr. Bidy's exhibit, which,
23 incidentally, I did not sponsor. Mr. Gatlin sponsored
24 that exhibit. If these are simply numbers derived
25 from Mr. Bidy's exhibit, then I can lessen my

1 objection to it quite a bit. If we can establish
2 that, then I don't mind it coming in.

3 MR. GATLIN: Let me ask the witness how she
4 prepared it.

5 MR. MCLEAN: That's fine.

6 Q (By Mr. Gatlin) Ms. Karleskint, would
7 you --

8 MR. MCLEAN: Let me interrupt you. I'm
9 sorry, Mr. Gatlin, I don't mean to waive any objection
10 I have by allowing Mr. Gatlin to voir dire on this
11 particular issue.

12 Q (By Mr. Gatlin) Would you describe this
13 exhibit and how you prepared it, please?

14 A Yes, sir. What we did is we took the length
15 of the VCP pipe, which is the older pipe, it's clay
16 pipe, and that's the area that usually overages. It's
17 about 25 years old, and as it ages it does deteriorate
18 and you do have hairline cracks in that pipe.

19 In order to rehab it -- because the cost
20 that they were presenting to us, they said that we
21 needed to meet the specifications of the brand-new
22 pipe. That was in someone's deposition that -- I
23 believe it was Ms. Walla or Ms. Dismukes that
24 indicated that we needed to meet the specifications of
25 new pipe. All I was trying to do is illustrate in

1 order for 25-year-old VCP pipe to meet the
2 specifications they were showing, it would -- I used a
3 nominal number. It's a very low number in the report.
4 That was my estimate. It was \$40 per linear foot, and
5 that's what we found for 8-inch pipe when we rehab
6 that, what it cost to line 8-inch pipe. And I just
7 ran some quick calculations to try to figure out what
8 it would cost to meet the specifications they had
9 indicated in their testimony.

10 So basically we just took the linear feet of
11 our pipe, multiplied it by \$40 per linear foot and
12 came up with a rehab cost of approximately \$5 million.
13 Then we took the number of manholes, because manholes
14 are another source of I&I, and we figured out what it
15 would cost to line about 80% of our manholes. And we
16 just put in a low figure of \$3,000 to determine that
17 and came out with a manhole rehab cost of
18 \$1.5 million. And that's how we came up with the 6.5.

19 We also looked at the cost Mr. Bidy had
20 indicated in his Apalachicola report. And he had said
21 that the average rehab cost was \$69 per linear foot,
22 and we just used that to show based on his numbers.

23 So that would give you a range of what it
24 would cost to rehab the system to meet the
25 specifications and new pipe.

1 Q What's the number down at the bottom, the
2 \$798,301?

3 A 798,000 is the cost that it took for the
4 plant, increasing it from 1.0 MGD to 1.25 MGD.

5 MR. McLEAN: Commissioner, I want to renew
6 my objection to any questions on the exhibit. It's
7 clear that it's derived from a great deal more than
8 simply an exhibit to the deposition of Mr. Bidy.
9 This is the first opportunity I have had to evaluate
10 it, and I simply don't have the technical expertise to
11 weigh it and tell whether it is reasonable or not.
12 And if there is a convenient way to depose the author
13 of the document after I have had some access to
14 someone who can advise me, then we have no problem
15 with it. It's essentially a due process argument.
16 This is the first I've seen of it.

17 MR. GATLIN: Madam Chairman, I don't think
18 it's a due process argument. Mr. McLean was at the
19 deposition and I asked Mr. Bidy for this information.
20 He gave it to me. I did not know whether Mr. Bidy
21 was going to be allowed to testify or not until
22 yesterday, and we had this prepared in case he did
23 testify. And he testified, so I think we're entitled
24 to address that issue. I don't know that it could be
25 a surprise.

1 MR. McLEAN: This is not an answer to
2 Mr. Bidy's testimony. This is a representation to
3 the Commission that it would have been much cheaper to
4 transport and treat than it would have been to
5 alleviate.

6 MR. GATLIN: That's been our position all
7 along.

8 MR. McLEAN: Yes, but you haven't -- Ms.
9 Chairman, that may well have been their position all
10 along, and we have looked, and somewhat in vain, for
11 any evidence to that effect. This is the first
12 evidence we've seen of that.

13 Now, you have the testimony of the witness
14 which in my interpretation doesn't suggest that this
15 is a very scientific study, and if it weren't pivotal
16 to the case, if it weren't of critical importance to
17 the case, I'd let it slide. But this is too important
18 to the case to receive no answer from our side.

19 COMMISSIONER JOHNSON: Are you moving for
20 the admission of the exhibit?

21 MR. GATLIN: I do move for the admission of
22 the exhibit.

23 COMMISSIONER JOHNSON: You said you did
24 move?

25 MR. GATLIN: Yes, I do move.

1 COMMISSIONER JOHNSON: I'm going to deny it.
2 I do believe that it is outside the scope of the
3 rebuttal testimony that was prepared by Mr. Bidy and
4 that was orally articulated yesterday. It is pivotal
5 to the case, and I think it would be too prejudicial
6 at this point in time to allow this particular
7 document into evidence.

8 MR. GATLIN: May it stand as a proffer,
9 Madam Chairman?

10 COMMISSIONER JOHNSON: Certainly.

11 MR. GATLIN: That's all the questions I have
12 of this witness. She's available for questions.

13 MR. MCLEAN: No questions. Thank you,
14 ma'am.

15 MR. JAEGER: I have a few.

16 COMMISSIONER JOHNSON: Ms. Walla, do you
17 have any questions?

18 MS. WALLA: Yes, I do.

19 **CROSS EXAMINATION**

20 BY MS. WALLA:

21 Q Ms. Karleskint, in your rebuttal testimony,
22 Page 1, Line 22, you're speaking of the proposed rate
23 13 cents, 21 cents. Could you tell me what it does
24 cost Florida Cities Water to treat the water per
25 thousand gallons for reclaimed?

1 A I haven't prepared those numbers.

2 Q You don't have any idea?

3 A No, ma'am, not right now.

4 Q Okay. And the additional cost, you don't
5 know whether it would be passed on to the customers or
6 not?

7 A I believe all of the costs are included in
8 the MFRs of what we expect that to be. The cost for
9 sending reclaimed water to the operating cost would
10 basically be the chlorine and the power.

11 COMMISSIONER KIESLING: Hold on. I'm sorry.
12 Ms. Karleskint?

13 WITNESS KARLESKINT: Karleskint.

14 COMMISSIONER KIESLING: Yes. I was going to
15 do it by memory, it just took me a minute. Could you
16 talk closer to the mike, because I'm just not hearing
17 you.

18 WITNESS KARLESKINT: Yes, ma'am.

19 Q (By Ms. Walla) So you worked the cost of 13
20 cents per thousand out for Mr. Bishop at Lochmoor Golf
21 Course, but you never really worked out per thousand
22 gallons what the cost was to treat it?

23 A If I remember correctly, Larry Coel prepared
24 something in response to a question from Marshall
25 Willis. (Pause) A reuse facility schedule. And he

1 did calculate -- he would be the best person to ask
2 about this.

3 MR. GATLIN: Who would?

4 A Larry Coel. He prepared this reuse facility
5 schedule that was a reponse to a question provided to
6 us by Mr. Willis of the PSC.

7 Q Okay. Page 2 of the rebuttal testimony,
8 Lines 8 through 25. Was it not poor management on
9 Florida Cities Water Company's behalf not to have
10 determined these factors beforehand?

11 MR. GATLIN: I didn't understand the
12 factors.

13 MS. WALLA: Well, in her testimony -- do you
14 want me to read the testimony?

15 MR. GATLIN: Well, you referred to a line,
16 and I don't remember what line you referred to. If I
17 may just have the line.

18 MS. WALLA: Okay. It was Lines 8 through
19 25. "As long as the purchaser has options, as in the
20 case with Lochmoor Country Club, then the purchaser
21 has the dominate hand in pricing. The country club
22 not required to accept reclaimed water if it can
23 demonstrate that it is not economically feasible. If
24 the price of reclaimed water is increased to the point
25 of being uneconomical, the Lochmoor Country Club would

1 have the right to terminate the use of reclaimed water
2 with notice in accordance with the termination clause
3 in the agreement."

4 Q (By Ms. Walla) Would you like me to restate
5 the question?

6 A Yes, please.

7 Q Is it not poor management on Florida Cities
8 Water Company's behalf not to have determined these
9 factors beforehand, before putting it to Lochmoor Golf
10 Course?

11 A No, ma'am, not at all. Our main objective
12 was to get Lochmoor as a customer to accept reclaimed
13 water. And they were the closest people to go to in
14 order to minimize the cost. We negotiated with
15 Lochmoor to except reclaimed water.

16 When we negotiated with them we did advise
17 them of our current rate in South Ft. Myers of 13
18 cents per thousand gallons, but we also advised them
19 that the PSC would be setting the final rate. We had
20 no say on -- I guess we could make a recommendation,
21 but we didn't -- it was the ultimate -- the PSC to
22 determine that rate and we let them me know that. So
23 we negotiated to the best of our availability. If the
24 PSC had imposed a rate, let's say, at \$2 per thousand
25 gallons, they wanted to have that option of getting

1 out of the contract and they would not have signed a
2 contract with us, and, therefore, we would not have
3 had a reclaimed water customer. So we put that clause
4 in for them at their request.

5 Q Shouldn't there have been another reclaimed
6 water customer that should have been investigated
7 before Lochmoor Country Club, which has their own
8 irrigation system, that it really was not essential
9 that they needed the reclaimed water at this time,
10 and -- yes.

11 A We investigated all of the reclaimed water
12 customers. Lochmoor was the closest, therefore, it
13 was the most economical to go to.

14 Q Even though they may not accept the water?

15 A Well, you had that chance with just about
16 anybody. I mean, you're going to be taking a chance.
17 sending out reclaimed water to people, you're taking
18 that chance that they are not going to accept it.
19 That's just one of the risks of the business.

20 Q Risk of the business? And the customers
21 should bear that risk of the business?

22 A Now you're getting into rulemaking, and I
23 think we all have to abide by the same rules. And
24 you, as the customers, we're all residents of Florida,
25 and the state of Florida has said, the legislature has

1 said that we have to go with reuse and, therefore, we
2 all have to brunt the cost.

3 Q Okay. On Page 2, Line 22 of your testimony,
4 "It would be at an additional cost to the ratepayers
5 to extend reclaimed water service to serve other
6 customers should Lochmoor decide not to take reclaimed
7 water."

8 My point would be -- or I should still like
9 to ask you now that the line is already in, and
10 Lochmoor may decide not to take it, was that not poor
11 judgment or decision-making putting that line over
12 there when they may not take it?

13 A No, ma'am. We had a signed contract with
14 Lochmoor saying they will accept the reclaimed water.
15 That was the best -- (pause) that was the best option
16 we had. I have to finish the sentence.

17 Q Ms. Karleskint, in the MFRs there's a letter
18 to you from Mr. Bishop. It's -- of the MFRs, it's
19 Page 288 and 290. I think this is Schedule G.

20 A I didn't bring up my MFRs. (Hands document
21 to witness.)

22 COMMISSIONER KIESLING: Do you have copies
23 of that for everyone?

24 WITNESS KARLESKINT: They should be in the
25 docket.

1 COMMISSIONER KIESLING: Well, but the MFRs
2 are a big pile of stuff; and ordinarily when anyone is
3 going to use a particular page or pages from it, they
4 pull those out, make copies, and they are made an
5 exhibit.

6 MR. GATLIN: What was the page?

7 MS. WALLA: 288 and 290. 289, also, I'm
8 sorry. 289, 289 and 290.

9 WITNESS KARLESKINT: Yes, I have that.

10 Q (By Ms. Walla) In your exhibit you have the
11 reclaimed water use agreement, correct?

12 A Yes, ma'am.

13 Q Are these amendments that are called for by
14 Mr. Bishop in this agreement?

15 A I believe the majority of them are. Some of
16 them we negotiated with, but I believe we did work
17 with him on that.

18 Q So did you negotiate after this rate case
19 was submitted and after these were submitted?

20 A I don't believe so. I believe this was
21 dated December 1st, 1995. I'm not sure, but I think
22 the rate case was submitted after that date. The MFR
23 was submitted after that date.

24 Q Is there a reason why you didn't include it
25 with the contract as your exhibit in your rebuttal

1 testimony?

2 A I don't understand the question.

3 Q In the MFRs these are changes that
4 Mr. Bishop wanted, and in the contract it doesn't have
5 any -- specifically any of those changes noted in
6 there. And we were wondering what had happened to the
7 changes and what had happened in the agreement.

8 A Okay. The main purpose we put this letter
9 in is so people would know where we got 300,000
10 gallons per day. It wasn't some number that we had
11 just dreamed up previously -- earlier, it was what
12 Mr. Bishop had estimated that they could accept of
13 reclaimed water, the 300,000 gallons. So that was
14 the purpose of putting this letter in the MFR, to show
15 the basis of where we were getting the 300,000.

16 The contract I believe was signed in June or
17 July of 1995?

18 Q March 1995.

19 A March of '95. At that time I guess we
20 didn't think it needed to be put into the MFR.

21 Q He states how the average daily flow was
22 estimated to be around 300,000 gallons per day. He
23 states that the wording here should include provisions
24 that we can even hold any more water, whatever, but
25 full lakes during the rainy season. None of this was

1 amended in the contract then?

2 A Oh, ma'am, yes, it was. Most of these -- we
3 had a draft agreement which is an old draft agreement.
4 We sent that to him. He made comments on that draft
5 agreement. These are his comments on our draft
6 agreement.

7 We sat down, we worked it out, we revised
8 the agreement based upon his comments, and then the
9 final contract did incorporate most of these changes
10 that he requested.

11 Q Okay. So this contract is the definite
12 contract?

13 A Yes, ma'am.

14 Q Okay. (Pause) I'd like to go to Page 4 of
15 your testimony, Lines 4 through 7.

16 A Yes, ma'am.

17 Q Are you aware of how many customers who
18 signed the older petition live in the immediate area
19 of the plant?

20 A Yes, ma'am. When I responded to that
21 question, I asked Mr. Dick, our division manager, to
22 list all of the addresses of those people in there
23 that signed the petition and put them on a map for me
24 so I could see where the problems were.
25 Unfortunately, when I looked at the map, I noticed

1 that people, you know, a mile away were complaining
2 about the odor of the plant, and I realized that
3 that's probably not the case. Those living in the
4 immediate vicinity -- I didn't bring it with me. I
5 probably should have, but it was just maybe five.

6 Q In the immediate vicinity of the plant?

7 A Right.

8 Q There were 24 within a one-mile radius.

9 COMMISSIONER KIESLING: Wait a minute. Wait
10 a minute. You can't testify right now.

11 MS. WALLA: I'm sorry. I'm sorry.

12 COMMISSIONER KIESLING: She is testifying to
13 her best memory.

14 Q (By Ms. Walla) Would you not better
15 estimate that at 24 in the immediate --

16 A I wouldn't consider a mile to be in the
17 immediate area, ma'am. You know, I've worked around
18 wastewater treatment plants for a long time; and when
19 you're a mile away from a wastewater treatment plant,
20 you usually cannot smell it. You need to be pretty
21 close to that wastewater plant and there needs to be a
22 pretty strong wind for you to get some odors because
23 of the dispersion with the air.

24 Q Are you aware that the plant is next to
25 Shuckers Restaurant and Caloosa Island Marina?

1 A Yes, I am, ma'am.

2 Q Do you know how many of your customers
3 frequent the restaurant or the marina or simply are
4 walkers or boaters in the area?

5 A I would assume that there would be quite a
6 few.

7 Q Did you not consider these facts when
8 deciding these customers would not have the
9 opportunity to notice odors from the plant?

10 A I did not consider that, ma'am. I looked at
11 where their addresses were.

12 Q Are you also aware -- Page 4, Line 14, I'm
13 referring to in your rebuttal testimony.

14 A Yes.

15 Q Are you aware we have been told since 1992
16 that these odors would be taken care of, and now
17 you're telling us in your testimony on Line 18 it is
18 not warranted and it's extremely expensive?

19 A Yes, ma'am. This is a wastewater treatment
20 plant. And at a wastewater treatment plantt it's the
21 nature of the business based upon what you're
22 receiving. You're receiving raw sewage in a
23 wastewater treatment plant. And there will be
24 problems. I mean, occasionally you will have odors,
25 regardless.

1 Unless you domed the entire wastewater
2 treatment plantt is the only way I could guarantee you
3 that there would be no odors whatsoever. And then
4 even if you domed it, you may, from a pump station or
5 something like that, there could be a periodic
6 problem.

7 What I was trying to point out to you is,
8 yes, we could eliminate every single odor from that
9 wastewater treatment plant, but the cost of that would
10 be extremely prohibitive. And I would not want to be
11 attending that rate case when we were raising the
12 customers rates another, let's say, \$2 to \$3 million
13 to cover odor control.

14 Q So are you saying that we should just bear
15 the odor?

16 A No, ma'am. We're doing the best we can. We
17 have put in as many controls -- we have put in
18 recirculating the sludge. I've worked with Shuckers
19 Restaurant. We've changed our procedures for hauling
20 sludge. But you have to understand these people,
21 there is a wastewater treatment plantt. I mean, I
22 can't change that. It is.

23 COMMISSIONER GARCIA: Has Shucker's
24 complained in the past?

25 WITNESS KARLESKINT: Not recently. Not

1 since we've changed our -- I haven't heard a complaint
2 from them since we solved that problem in over the
3 past year. It's been over a year.

4 COMMISSIONER GARCIA: I'm finished. You can
5 keep going.

6 MS. WALLA: Okay.

7 Q (By Ms. Walla) Were you present when
8 Mr. Barienbrock spoke yesterday?

9 A Yes, ma'am.

10 Q Do you remember the question to him about
11 what a treatment plantt should smell like, an
12 efficiently operated treatment plant?

13 A Yes, ma'am.

14 Q Do you remember what he said?

15 A An earthy, musty odor.

16 Q Any other odor that you believe should be
17 tolerated than an earthy, musty odor?

18 A Everyone's definition of an odor is
19 different. You can go to a treatment plant and what I
20 would consider an earthy, musty odor may be different
21 than what Mr. Gatlin considers an earthy, musty odor
22 or what Mr. Garcia considers an odor. Everyone's
23 perception of that -- that odor is very difficult to
24 define because everyone's perception is different.

25 I mean, I will say this: There will be an

1 occasion, I wish we could totally prevent that, but
2 there is going to be occasion that you are going to
3 get a septic odor. You're going to get the odor from
4 the digesters, which is the lime; to a lot of people
5 they do not find that offensive. But when you mix the
6 lime with the sludge, some people do. I don't
7 personally find it offensive.

8 But there are a lot of different odors from
9 that treatment plant. I mean, when someone you live
10 with flushes the toilet and you go into the bathroom,
11 you may find that odor very objectionable. You may
12 not. I mean, that's your prerogative.

13 Q So the DER rule is not going to be
14 accommodated then for the --

15 A No, ma'am, we're going to do the best we can
16 to keep all odors to the minimum so we do not cause
17 any adverse effects to our customers.

18 MS. WALLA: Thank you.

19 COMMISSIONER JOHNSON: Any further
20 questions? Ms. Walla, any further questions?

21 MS. WALLA: No.

22 COMMISSIONER JOHNSON: Staff.

23 MR. JAEGER: I have got a few, yes.

24 Did she keep a copy of the MFRs over there?

25 MR. GATLIN: Yeah, she's got them.

CROSS EXAMINATION

1
2 BY MR. JAEGER:

3 Q Turn to the front -- on the front of that
4 document there, and is there a document number date
5 stamped on the front of the MFRs? Just the very cover
6 page at the bottom. Cover page.

7 COMMISSIONER GARCIA: Cover page?

8 COMMISSIONER JOHNSON: Cover page.

9 WITNESS KARLESKINT: No. No. (Hands
10 document to witness)

11 Q (By Mr. Jaeger) I'm going to show you mine.
12 This is the MFRs and on my document it has a document
13 number date, and it says, "MFR filing, May 2nd, 1995."
14 Mr. Walden will bring his over.

15 MR. GATLIN: Madam Chairman, I'll stipulate
16 as to the date it was filed, if that's the problem
17 right now.

18 MR. JAEGER: Okay. Well, she was confused
19 about when it was filed.

20 MR. GATLIN: Yes, I understand. Whatever
21 you say, Mr. Jaeger.

22 Q (By Mr. Jaeger) Now, attached to that -- go
23 to Page 288. Ms. Walla was questioning you about this
24 letter from Jim Bishop to you, and it's dated
25 December 1st, 1995. Could that date be correct if

1 this was filed on May 2nd, 1995?

2 A No, I believe it was December 1st, 1994.

3 Q Okay. Is that the confusion, then? This
4 letter was before this final contract that you
5 attached to you testimony?

6 A Yes, sir. In fact, if you look you can see
7 he faxed that letter to me, and it was 12-1-94 in the
8 top corner. So you can see that was the day it was
9 faxed.

10 Q Okay. So this was a year off?

11 A It was a year off.

12 Q Okay. Go to your testimony, if you would,
13 just Pages 1 and 2, Lines 25 and the top of the next
14 page. It says, "Pricing of reclaimed water is market
15 driven."

16 Isn't it true that the only other utilities
17 that provide reuse in Lee County are Lee County itself
18 and the Florida Cities, South Fort Myers Division?

19 A I believe the City of Cape Coral also
20 provides reclaimed water.

21 Q Do you know what they are charging?

22 A No, I do not.

23 Q Now, the rates for these utilities, isn't
24 Lee County currently charging 21 cents per thousand
25 gallons?

1 A I believe that is correct, sir.

2 Q And South Fort Myers is still charging 13
3 cents?

4 A I believe that is correct, sir.

5 Q And that was set back in '92; is that
6 correct?

7 A Yes, sir.

8 MR. JAEGER: Okay. I'm going to hand you a
9 handout we were going to take judicial notice of, and
10 this is Order No. PSC-920266. This was one of those
11 they said they'd take judicial notice. I gave it to
12 the parties and said we would be --

13 Q (By Mr. Jaeger) Now, that's the order for
14 the Florida Cities Water Company back in '92; is it
15 not?

16 A Yes, sir.

17 Q And on Pages 29 and 30, according to the
18 order of the rate, the 13 cents per thousand gallons
19 was chosen for the South Fort Myers Division; and
20 that's because the rate was charging for reuse was for
21 Lee County?

22 A Yes, sir.

23 Q Now that Lee County is charging 21 cents,
24 isn't 21 cents -- wouldn't you consider 21 cents to be
25 the proper rate?

1 A I can't say that for sure, sir.

2 My only point in this was to make the
3 Commission aware and the Public Service Commission
4 aware is when we did impose that 13 cents per thousand
5 gallons at Lee County in South Fort Myers, we
6 automatically received -- people stopped using
7 reclaimed water. They minimize their use of reclaimed
8 water, and we saw a drop in our demands for reclaimed
9 water considerably because they did not like paying
10 the 13 cents per thousand gallons.

11 So eventually, over time, they got used to
12 it and they realized it wasn't that bad and so they
13 got used to paying the 13 cents per thousand gallons.
14 What I expect with Lochmoor is -- I don't think that
15 -- I think the 21 cents -- we impose 21 cents per
16 thousand gallons, what I believe is going to happen is
17 they are going to drop how much water they accept.

18 Q You think Lochmoor will drop?

19 A That's just what I believe. I believe
20 there's a very good possibility of that. If you keep
21 the rate low people will use more reclaimed water.
22 And I realize we are keeping it artificially low and
23 that's not probably the true rate of what it's costing
24 us.

25 Q Isn't it true that Lochmoor's consumptive

1 use permit requires it to take reuse when reuse is
2 available?

3 A Yes, sir. But they may be able to get away
4 with only accepting 100,000 gallons per day instead of
5 300,000 gallons per day; and, therefore, they will
6 accept less reclaimed water because they are paying a
7 higher price for it.

8 Q Has Lochmoor accepted the 13 cents? Was
9 that agreed on?

10 A In negotiations with Lochmoor Golf Course
11 they have said they would accept 13 cents.

12 Q And turn to your -- the contract there. Let
13 me see. I had it and I lost it. I think it's
14 Page 3 -- well, you've got two page numbers down
15 there. Let me make sure. It's 4 in the black pen and
16 Page 3 of the actual agreement. It's Page 4 of the
17 exhibit. And under charges, Paragraph 5, it says,
18 "For furnishing of the reclaimed water the user shall
19 pay the utility at the rates and charges specified in
20 its tariff as approved by the FPSC"?

21 A Yes, sir.

22 Q So Lochmoor agreed to just pay what the PSC
23 approved?

24 A Yes, sir. But they also wanted the
25 termination clause in that agreement, so if the price

1 was too high they would have the right to terminate
2 that contract.

3 Q And they have to give you a year notice; is
4 that correct?

5 A Yes, sir.

6 MR. JAEGER: I have no further questions.

7 COMMISSIONER KIESLING: I have one. Since
8 we're speculating a lot about what might happen in the
9 future, I'd like to engage in a little speculation,
10 too.

11 And based on testimony that we heard
12 earlier, isn't it also fair to speculate that once the
13 reuse water is available to them and they do have to
14 take it for a year, that the Water Management District
15 is going to reduce their consumptive use permit so
16 that they have to take it?

17 WITNESS KARLESKINT: They very well could do
18 that. But Lochmoor also has -- they can do a reuse
19 feasibility study. If they can show that it's not
20 technically or economically feasible for them to
21 accept reclaimed water, then the Water Management
22 District would go ahead and give them a permit. So
23 Lochmoor does have that right to do the reuse
24 feasibility study.

25 COMMISSIONER KIESLING: Yes. But, I mean,

1 we did hear testimony earlier, didn't we, that the
2 Water Management District was going to review the
3 consumptive use permit after the reuse project was in
4 place?

5 WITNESS KARLESKINT: I believe that's
6 correct, ma'am.

7 COMMISSIONER KIESLING: Thank you.

8 COMMISSIONER JOHNSON: Mr. Gatlin.

9 **REDIRECT EXAMINATION**

10 BY MR. GATLIN:

11 Q What did you mean when you said "dome," put
12 a dome on the wastewater treatment plant?

13 A Basically I meant covering all of the tanks,
14 doming all of the tanks that could possibly be a
15 source of odor, which would include the aeration
16 tanks, beyond.

17 Q A roof.

18 A Basically.

19 Q An enclosure?

20 A Enclosure, right, over the entire tanks and
21 putting in scrubbers.

22 MR. GATLIN: That's the only question I had.
23 I move Exhibit 28.

24 COMMISSIONER JOHNSON: Show it admitted
25 without objection. You may be excused.

1 (Exhibit No. 28 received in evidence.)

2 (Witness Karleskint excused.)

3 - - - - -

4 MR. GATLIN: Call Mr. Young.

5 COMMISSIONER JOHNSON: You have been sworn,
6 Mr. Young?

7 WITNESS YOUNG: Yes, I have.

8 **DOUGLAS R. YOUNG**

9 was called as a rebuttal witness on behalf of Florida
10 Cities Water Company and, having been duly sworn,
11 testified as follows:

12 **DIRECT EXAMINATION**

13 BY MR. GATLIN:

14 Q Have you prepared rebuttal testimony for
15 presentation in this proceeding?

16 A Yes, I have.

17 Q And if I were to ask you those questions
18 would your answers be the same today as is in that
19 prepared testimony?

20 A Yes.

21 MR. GATLIN: Madam Chairman, we would like
22 to have this testimony inserted into the record as
23 though read.

24 COMMISSIONER JOHNSON: It will be so
25 inserted.

1 of the Waterway Estates Advanced Wastewater Treatment
2 Plant (WWEAWTP)?

3 A. No. The correct maximum capacity is 1.25 MGD as
4 certified to the Florida Department of Environmental
5 Protection on the Notification of Completion of
6 Construction by the engineer of record (see Exhibit
7 24 (TAC-1)).

8 Q. Are you an engineer?

9 A. Yes, I am a professional engineer licensed to practice
10 in Florida. My license number is 44204.

11 Q. When addressing her used and useful calculations
12 (pages 19 of her testimony), witness Dismukes reduced
13 the peak month average daily flow to the WWEAWTP due
14 to excessive infiltration and inflow (I&I). On pages
15 2 through 6 of her testimony, intervenor Walla stated
16 that I&I are excessive. In your professional opinion,
17 are I&I excessive?

18 A. No.

19 Q. Please explain.

20 A. The Water Pollution Control Federation Manual of
21 Practice No. 9 (WPCF MOP-9) is the accepted reference
22 in the industry for determination of acceptable I&I.
23 The Commission has also accepted WPCF MOP-9 as
24 reliable reference and authority (Docket No.910756-
25 SU). The standard for the North Fort Myers wastewater

1 collection system is found on page 31 of WPCF MOP-9
2 which provides the following:

3 "For small to medium-sized sewers (24 in.
4 and smaller) it is common to allow 30,000
5 gpd/mile for the total length of main
6 sewers, laterals, and house connections,
7 without regard to sewer size."

8 Q. On page 21 of her testimony, witness Dismukes cited
9 WPCF MOP-9 as her source for allowable I&I. Why does
10 her allowable I&I differ from FCWC's when citing the
11 same source? Which is correct?

12 A. The allowable I&I of 5,000 gpd/mile of pipe 8" or less
13 in diameter, 6,000 gpd/mile of pipe 9" to 12", and
14 12,000 gpd/mile of pipe for 13" to 24" presented in
15 witness Dismukes' testimony are taken from Table VII on
16 page 30 of WPCF MOP-9. Table VII refers to allowable
17 infiltration into newly constructed extensions to
18 existing wastewater collection systems, and is the
19 wrong reference. The extensions would be constructed
20 of new pipe and compression type joints. The third
21 paragraph on page 30 of WPCF MOP-9 states:

22 "Existing sewerage systems frequently
23 are very leaky. Infiltration rates
24 as high as 60,000 gpd/mile of sewer
25 have been recorded for systems below

1 ground water, with rates up to and
2 exceeding 1 mgd/mile for short
3 stretches."

4 The following appears on page 31 of WPCF MOP-9:

5 "With non-compression type joints it is
6 possible to meet the average specification
7 allowance of 500 gpd/in. diam/mile in
8 workmanship, but this low infiltration rate
9 is not likely to be maintained where the
10 system is in groundwater."

11 Allowances for infiltration into old systems are
12 greater than infiltration test allowances for new
13 pipe. The pipe in the North Fort Myers wastewater
14 collection system is below ground water.
15 Approximately 80% of the gravity collection system was
16 constructed using non-compression type joints. The
17 system has been in service in excess of 20 years. The
18 allowances chosen by witness Dismukes are totally
19 incorrect for the North Fort Myers wastewater
20 collection system and should be rejected. She has
21 incorrectly applied engineering criteria. The
22 allowance of 30,000 gpd/mile of sewer used by FCWC is
23 correct.

24 Q. Intervenor Walla and FDEP witness Barienbrock referred
25 to an allowable I&I of 5% to 10% of the WWEAWTP

1 capacity. Should allowable I&I be based on a
2 percentage of a WWTP's permitted capacity?

3 A. No. Allowable I&I should be based on the length of
4 the wastewater collection system. Basing allowable
5 I&I on plant capacity is totally without justification
6 for utilities with a large service area and small
7 plant capacity.

8 Q. On page 24 of her testimony, witness Dismukes stated
9 that she multiplied water sold by 70.89% to determine
10 the amount of water that would be treated by the
11 WWEAWTP. That quantity was compared with the quantity
12 of wastewater actually treated to determine I&I. She
13 also used peak month wastewater flows in her
14 calculations. Does FCWC agree with her approach to
15 calculating I&I?

16 A. No. The 70.89% factor understates the amount of water
17 sold that is treated by the WWEAWTP. Per capita water
18 usage has dropped each year for at least the last 7
19 years. Currently, the average per capita water
20 consumption is only 90 gpd. FCWC also disagrees with
21 using the peak month wastewater flows to determine
22 I&I. The maximum capacity of the WWEAWTP is based on
23 the annual average daily flow, not the peak month
24 average daily flow. The WWEAWTP is designed to
25 hydraulically handle peak flows based on factors in

1 *Recommended Standards for Wastewater Facilities* (Ten
2 States Standards). Those factors are based on
3 population, not on I&I. The biological treatment
4 process is not designed to consistantly treat peak
5 flows. The WWEAWTP is, therefore, not oversized due
6 to excessive I&I.

7 Q. On page 25 of her testimony, witness Dismukes stated
8 that the standard for allowable I&I used by FCWC was
9 greater than the standard used and accepted by the
10 Commission in the last rate case. Is this true?

11 A. No. The standard used by FCWC is the same as that
12 approved in the last wastewater rate case in North
13 Fort Myers. The Commission's Order No. PSC-92-0594-
14 FOF-SU states the following:

15 "According to Mr. Grigg's testimony, the
16 utility's goal is to maintain a volume of
17 I&I at the low end of the acceptable
18 allowable limits set forth by the Water
19 Pollution Control Federation (WPCF), which
20 is 10,000 gpd per mile of pipe. The utility
21 has 29 miles of pipe, or 290,000 gpd of
22 allowable infiltration. The high end of the
23 range would be 30,000 gpd per mile of pipe,
24 or 870,000 gpd, where the majority of pipe
25 exists in the water table. Mr. Griggs

1 further testified that using 290,000 gpd as
2 the low end of acceptable limits for
3 infiltration, the amount of infiltration is
4 a little less than 22 percent of the water
5 sold. Considerable testimony was offered
6 addressing the amount of infiltration
7 experienced by this system, a range of
8 acceptable limits set forth by the WPCF, and
9 the program the utility has in place to
10 monitor the amount of infiltration it has.
11 Upon consideration of the testimony and
12 based on the foregoing, we find that the
13 infiltration experienced by this system is
14 not excessive."

15 The criteria for evaluating I&I have not changed.
16 FCWC's goal remains to maintain infiltration at the low
17 end of the acceptable range of 10,000 gpd per mile of
18 pipe to 30,000 gpd per mile of pipe. The I&I of
19 234,000 gpd presented in Robert Dick's direct testimony
20 is less than 290,000 gpd, which is at the low end of
21 the acceptable range.

22 Q. Does FCWC take steps to reduce I&I?

23 A. Yes. Although I&I are not excessive, FCWC has an
24 ongoing I&I control program. Sources of infiltration
25 are identified by televising and videotaping

1 wastewater collection mains. The video tapes clearly
2 show the location and extent of deterioration or damage.
3 After the sources of infiltration are identified, repairs
4 are made using the most cost effective method.

5 Q. On page 19 of her testimony, witness Dismukes determined
6 the WWEAWTP to be 49.34% used and useful. Three
7 alternative recommendations of 59.21%, 60.42%, and 72.51%
8 were also presented. What percent used and useful is the
9 WWEAWTP?

10 A. Witness Dismukes arbitrarily reduced plant used and
11 useful without justification. She used the wrong plant
12 capacity, subtracted alleged excessive I&I from
13 wastewater flows, and incorrectly omitted margin reserve
14 in her used and useful calculations. Whether used singly
15 or in combination, the methods she used to reduce plant
16 used and useful are totally without merit and should be
17 rejected. As stated in my direct testimony, and shown in
18 the MFR (Exhibit (LC-1), Section F, Schedules F-6
19 and F-7, the WWEAWTP is 100% used and useful. The
20 maximum month average daily flow of 1.1753 MGD plus a
21 margin reserve of 0.0573 MGD for the test year equals
22 1.2326 MGD. A 0.25 MGD expansion is the most prudent and
23 economical way to increase the WWEAWTP capacity from 1.0
24 MGD and meet customer demand requirements.

25 Q. Does this conclude your rebuttal testimony?

1 A. Yes, it does.

2

1 MR. GATLIN: Mr. Young is available for
2 questions.

3 COMMISSIONER JOHNSON: Public Counsel.

4 MR. McLEAN: No questions.

5 COMMISSIONER JOHNSON: Ms. Walla.

6 CROSS EXAMINATION

7 BY MS. WALLA:

8 Q Mr. Young, on Page 3 of your testimony --
9 I'm sorry, Page 4, Line 22. The allowance of 30,000
10 gallons per day per mile of sewer used by Florida
11 Cities Water is correct?

12 A Yes.

13 Q That's your opinion on the infiltration?

14 A That's the allowance -- that would be an
15 acceptable allowance for I&I.

16 COMMISSIONER KIESLING: Speak into the mike.
17 I can't hear.

18 WITNESS YOUNG: That would be an acceptable
19 allowance for infiltration.

20 Q (By Ms. Walla) With Florida Cities Water's
21 particular system we were told by Mr. Crouch at our
22 customer meeting that the pipes in this system runs
23 the gamut, that they are not all old, that they run a
24 variety of different years and ages. Is that correct?

25 A I suppose they are put in at different

1 times. The majority of the system is clay pipe, which
2 would indicate that it's older pipe.

3 Q But there is some way to find out the age of
4 the different pipes throughout the system?

5 A Offhand, I don't know.

6 Q Because on Page 5 of your testimony, Line 3,
7 length of the wastewater collection system. Well,
8 included in that length isn't there different aged
9 pipes that should be used in consideration when
10 considering I&I by length?

11 A Now, there were -- again, the pipe was --
12 I'm assuming the pipe was put in at different times.
13 And, again, there are different types of pipe that are
14 in there. The vast majority of the pipe being clay
15 pipe, which is the older style pipe. We now use PVC
16 pipe.

17 Q Could you tell me what you believe their
18 infiltration level to be?

19 A The I&I level -- let's see, I think I have
20 that -- we have an I&I level of approximately 234,000
21 gallons per day. And that would be on an annual
22 average basis.

23 COMMISSIONER KIESLING: That would be what?

24 WITNESS YOUNG: 234,000 gallons per day on
25 an annual average basis.

1 COMMISSIONER GARCIA: Do you realize if that
2 were controlled you wouldn't need to increase the
3 plant capacity to 1.25?

4 WITNESS YOUNG: I'm not sure I understand
5 the question.

6 COMMISSIONER GARCIA: If that was completely
7 controlled, there wouldn't be a need for plant
8 capacity increase, would there? I know it's a utopic
9 picture. It's about 25% of what your capacity
10 presently is.

11 WITNESS YOUNG: Right. If all of that could
12 be completely controlled, you're correct.

13 Q (By Ms. Walla) Sir, are you familiar with
14 Schedule F-4 of the docket?

15 A I don't have that in front of me.

16 MR. GATLIN: F-4 of the MFRs?

17 MS. WALLA: Of the MFRs. I'm sorry. (Hands
18 document to witness.)

19 Commissioners, please bear with me on this.
20 It is the only point I'm going to be making here and
21 asking him questions about.

22 COMMISSIONER JOHNSON: Go ahead. That's
23 fine. (Pause)

24 Mr. Gatlin. You may want to come up here,
25 Mr. Gatlin.

1 COMMISSIONER GARCIA: It might be easier if
2 you put it on the table.

3 Q (By Ms. Walla) On Schedule F-4, we have
4 your peak usage month during the test year, and that
5 was 1.175300, that was your peak month. On F-11, in
6 Schedule F-11, we have -- on Page 2 of 3 we have --
7 this is set for September '94. All of these figures
8 will be for September of '94. We have water customers
9 totals for 3,119; is it not?

10 A Okay. Where are you --

11 Q F-11, Page 2 of 3. For September '94 the
12 water only customers.

13 A I'm sorry. Where are you talking about
14 here?

15 Q September '94, water only. Water.

16 A Okay.

17 Q That would be 3,000.

18 COMMISSIONER KIESLING: Wait a minute. I'm
19 confused, water only?

20 MS. WALLA: Water only customers and water
21 and water wastewater customers. Because the Company
22 contains water only customers.

23 COMMISSIONER KIESLING: I understand that,
24 but are you saying that this number represents water
25 only customers?

1 MS. WALLA: No, water and water-only -- was
2 and wastewater.

3 COMMISSIONER KIESLING: All of the water
4 customers.

5 MS. WALLA: Yes. All of them. Okay.

6 Q (By Ms. Walla) There's 3,119. Now, at
7 Page 12, Page 2 of 3, the water/wastewater customers
8 for September '94 was 2,551; is it not? (Pause)

9 A Okay.

10 Q Okay. Now we're going to take out the
11 water/wastewater customers away from the water only
12 customers, and we come up with an 81.8%. That would
13 be the ones that were returning flows to the plant,
14 okay?

15 COMMISSIONER KIESLING: Wait a minute.
16 Where is that?

17 MS. WALLA: Okay. Do you want me to write
18 it out, how it was done? We're taking these
19 customers, which are water and wastewater customers.

20 COMMISSIONER KIESLING: Those are wastewater
21 customers.

22 MS. WALLA: Right.

23 COMMISSIONER KIESLING: That's the
24 wastewater flow, subtracting that from the water.

25 MS. WALLA: It's the amount of customers.

1 And here's the water customers, water and
2 water/wastewater customers. So what I'm trying to
3 show is what Bob Dick came up with, the 81.8% of the
4 water demand is what should be returned to the plant.
5 That's the flow. We took out the water only customers
6 that have no wastewater pipes at all, and we're only
7 representing the flow for the customers which have
8 water and wastewater.

9 MR. GATLIN: Madam Chairman, could we have a
10 question? I object to this procedure.

11 MS. WALLA: Okay.

12 COMMISSIONER JOHNSON: Ms. Walla, you have
13 to ask a question.

14 MS. WALLA: Okay.

15 Q (By Ms. Walla) The total million gallons
16 sold for September '94 on F-11, Page 1 of 3, is
17 24,438; is it not?

18 A You bounced me around here.

19 Q F-11, Page 1 of 3.

20 A Okay.

21 Q Is 24,438, correct, for the month of
22 September '94?

23 COMMISSIONER KIESLING: Page 1 of 3?

24 WITNESS YOUNG: Yes. I'm not finding it.

25 Q (By Ms. Walla) I'm sorry, F-12, 3 of 3,

1 September '94. For the month of September.

2 A Okay. What was the question?

3 Q Okay. They arrived at a 1.175 gallons per
4 day for a peak month for that year. So every day was
5 1.175, correct?

6 A On an average basis, yes.

7 Q Okay.

8 COMMISSIONER KIESLING: Wait a minute. Wait
9 a minute. I'm sorry. I'm really trying, but I'm on
10 Schedule F-12, Page 3 of 3, and I can't figure out
11 where you're getting this number. September, I
12 have million gallons treated as 35,259.

13 MS. WALLA: Right. And you divide that by
14 the 30 days and they gave an average daily flow of
15 1.175. That was their peak month, September of '94.

16 COMMISSIONER KIESLING: Okay. I mean.
17 ,that's --

18 Q (By Ms. Walla) When you take the peak month
19 flow and you divide it by the 81.8% of the customers,
20 water/wastewater customers flow, the result would be
21 .667 gallons per day. Is that not correct?

22 A I didn't run the numbers.

23 Q If you take 81.8% of the average water sold
24 for the month of September '94, which was 815 gallons
25 per day -- 815,000 gallons per day. You take 81% of

1 this figure and you come up with this figure. Is that
2 not a logical figure?

3 MR. GATLIN: I object to the question.

4 A I haven't run the numbers myself. I don't,
5 you know --

6 COMMISSIONER GARCIA: But, subject to check.

7 WITNESS YOUNG: Subject to check, possibly.

8 MS. WALLA: Subject to check? Okay. Good.

9 Q (By Ms. Walla) So the difference would be
10 that this would be the flow from the water and
11 wastewater customers. This is the average daily flow
12 that they are receiving at the plant. This would even
13 be if the total water flow went back to the plant.
14 Could you please tell me what the difference of
15 508,300 gallons would be?

16 A I'm sorry.

17 MR. GATLIN: I'm sorry. I object to the
18 question.

19 COMMISSIONER KIESLING: I can't even figure
20 out what the question is. Where did you get the
21 .815?

22 MS. WALLA: .815 is the gallons sold to the
23 water and wastewater customers.

24 COMMISSIONER KIESLING: Where did you get
25 that figure from?

1 MS. WALLA: From the total million gallons
2 sold on Page F-11, Page 1 of 3. In September of '94
3 the total gallonage was 24,438,000, and I divided it
4 by the thirty days in September to get the average
5 gallons of water sold.

6 COMMISSIONER KIESLING: Where on Page 1 of 3
7 of F-11 is this? I don't see it. That's what I'm
8 just trying to figure out.

9 MR. JAEGER: Commissioner, I think that's
10 Page 3 of 3 of F-11, and it shows 24,438 for
11 September. And what she's saying, I believe, is she's
12 just dividing by 30, the number of days. I'm not
13 sure.

14 MS. WALLA: That's correct. That total
15 gallonage was for the whole month, and I just divided
16 it by 30 days in September. And that's where I came
17 up with 815,000 gallons per day average use by all
18 water and water and wastewater customers.

19 COMMISSIONER GARCIA: Okay. So you're
20 asking him to explain where all that water came from.
21 That's your question?

22 MS. WALLA: Yes. What is the difference in
23 the average daily flow to the plant and the gallons
24 per day used by the customers. What is this
25 gallonage, what is this attributed to? (Pause)

1 A Okay. We're talking the difference between
2 basically water sold and wastewater treated; is that
3 what we're talking?

4 Q (By Ms. Walla) Yes.

5 A I would assume it has to do with inflow
6 infiltration.

7 Q The 508,300 gallons per day.

8 A But that's just one point in time. You
9 know, we're not looking over an annual basis, you
10 know, an average annual basis or anything like that.
11 It just shows a snapshot in time here.

12 Q Was this not on F-4 your peak usage month?

13 In this document they asked for -- if this
14 is infiltration for the peak month, do you know if it
15 was influenced by that infiltration due to rainfall or
16 whatever?

17 A I don't know that it was.

18 Q Was there another document submitted with
19 this as asked for?

20 COMMISSIONER KIESLING: What document?

21 A What do you mean "as asked for"? I don't
22 know.

23 COMMISSIONER KIESLING: What document?

24 You're saying "on this document." You know, give me a
25 clue.

1 MS. WALLA: I'm sorry. This is the docket,
2 the MFRs.

3 COMMISSIONER KIESLING: The MFRs. What
4 schedule?

5 MS. WALLA: It's Schedule F-4, Page 1 of 1.
6 And we're looking specifically at No. 2, average daily
7 flow max month and it states --

8 COMMISSIONER KIESLING: You don't have to
9 read it to me. All you have to do in your question is
10 identify what paper you're looking at.

11 MS. WALLA: I'm sorry. This is what it is.

12 COMMISSIONER KIESLING: Okay.

13 Q (By Ms. Walla) My question is, if this is
14 infiltration, why was there not another document
15 submitted with this to explain what this was? It says
16 that was infiltration due to rainfalls or whatever.
17 And if this peak month was influenced by that at all,
18 why was there not another document submitted along
19 with this to explain it?

20 A I don't know. I didn't prepare this.

21 COMMISSIONER GARCIA: Could you explain the
22 anomaly? Why do we have that massive -- is the answer
23 inflow infiltration in this particular case?

24 WITNESS YOUNG: Okay. In this case we are
25 looking at, you know, a snapshot in time, a one-month

1 period here.

2 COMMISSIONER GARCIA: Correct.

3 WITNESS YOUNG: Okay. I don't know what the
4 rainfall conditions were that month. I have no idea
5 with the information I have in front of me. I have no
6 idea that if this is excessive or not.

7 Over an average annual basis, we look at the
8 I&I in our system and that equates to 234,000 gallons
9 per day. That is roughly, you know, 20% of the plant
10 capacity or plant flows. We also look at what that
11 equates to in terms of infiltration, you know, per
12 mile of pipe. And we are, you know, well under 30,000
13 gallons per day per mile of pipe that's stated in
14 Manual Practice 9.

15 COMMISSIONER GARCIA: That wasn't an answer
16 to my question. I guess the first part answered the
17 question, but what you're saying is that you don't
18 know what could have caused that in this particular
19 instance?

20 WITNESS YOUNG: Lacking other data, no.

21 COMMISSIONER GARCIA: Right. Okay. Thank
22 you.

23 MS. WALLA: I have no further questions.

24 COMMISSIONER JOHNSON: Staff.

25 MR. JAEGER: No questions.

1 COMMISSIONER JOHNSON: Redirect.

2 MR. GATLIN: No redirect.

3 COMMISSIONER JOHNSON: And there were no
4 exhibits.

5 MR. GATLIN: No exhibits.

6 COMMISSIONER JOHNSON: You may be excused,
7 Mr. Young.

8 Witness Young excused.)

9 - - - - -

10 COMMISSIONER JOHNSON: Let me take a --
11 figure out how much time it's going to take us to wrap
12 up the next three witnesses, if you can kind of
13 estimate how much time it will take you to complete
14 your questioning.

15 Public Counsel, Mr. Dick, what do you
16 estimate?

17 MR. McLEAN: Five minutes for Mr. Dick.

18 COMMISSIONER JOHNSON: Okay. What about
19 Joseph?

20 MR. McLEAN: I'm sorry.

21 COMMISSIONER JOHNSON: The next guy. I
22 don't know how to pronounce it.

23 MR. McLEAN: Schifano? Nothing.

24 COMMISSIONER JOHNSON: And Mr. Coel?

25 MR. McLEAN: Five minutes.

1 COMMISSIONER JOHNSON: Ms. Walla?

2 MS. WALLA: I have the questions all
3 prepared for these people, so I think I can go a
4 little faster. Mr. Dick will probably take about ten
5 minute and Mr. Coel will probably take about 15.

6 COMMISSIONER JOHNSON: Staff.

7 MR. JAEGER: Just for Mr. Coel, about ten.

8 COMMISSIONER JOHNSON: Let's try to keep
9 going.

10 MR. JAEGER: Commissioners, if we do keep
11 going, could we take a 15-minute break, just real
12 quick, not a lunch break, but at least --

13 COMMISSIONER JOHNSON: We'll take 15 minutes
14 and then we'll just try to come back and wrap it up.

15 (Brief recess.)

16 - - - - -

17 COMMISSIONER JOHNSON: Mr. Gatlin.

18 MR. GATLIN: Call Mr. Dick.

19 May I offer to stipulate Mr. Schifano's
20 testimony into the record as though read? I don't
21 think there were any questions for him.

22 MR. McLEAN: No problem from us.

23 MR. JAEGER: No problem.

24 COMMISSIONER JOHNSON: Ms. Walla?

25 MS. WALLA: Yes, that's fine.

1 COMMISSIONER JOHNSON: It will be -- we've
2 called someone else. We'll do it right after this
3 witness.

4 MR. GATLIN: All right.

5 - - - - -

6 **ROBERT DICK**
7 was called as a rebuttal witness on behalf of Florida
8 Cities Water Company, and, having been duly sworn,
9 testified as follows:

10 **DIRECT EXAMINATION**

11 BY MR. GATLIN:

12 Q Have you been sworn, Mr. Dick?

13 A Yes, sir.

14 Q Did you prepare rebuttal testimony in this
15 proceeding for presentation today?

16 A Yes, I did.

17 Q And would your answers be the same if the
18 questions were asked of you today?

19 A Yes, they would.

20 MR. GATLIN: Madam Chairman, we ask that the
21 testimony be inserted into the record as though read.

22 COMMISSIONER JOHNSON: It will be so
23 inserted.

24

25

1 had withdrawn their protest. I thought this had taken
2 place, but it did not. The mistake was brought to my
3 attention at the next meeting and I apologized for the
4 misinformation..

5 Q. Did Florida Cities Water Company utilize the
6 formalization of intervenor Walla's questions as an
7 opportunity to delay your answers.

8 A. No. Florida Cities Water Company had been preparing
9 the response to intervenor Walla's questions when we
10 received her set of interrogatories which contained
11 her original questions plus five additional questions.
12 Upon receipt of the additional questions, Florida
13 Cities Water Company responded to the entire set of
14 interrogatories and document requests at the same
15 time.

16 Q. Does this conclude your rebuttal testimony?

17 A. Yes.

1 MR. GATLIN: The witness is available for
2 questions.

3 CROSS EXAMINATION

4 BY MR. McLEAN:

5 Q Mr. Dick, I have a couple brief areas of
6 inquiry. Yesterday I seem to recall that more than
7 one customer testified as to objections about the way
8 the Company estimated their bill. Do you recall that
9 testimony?

10 A Yes, I was there.

11 Q Can you describe to the Commission what your
12 policy is with respect to estimated bills? First of
13 all, tell the Commission under what occasions you
14 would estimate a bill. And, secondly, how would you
15 go about that process?

16 A Certainly. First of all, we attempt to read
17 each and every meter and not have any estimated bills.
18 The only event that would require estimating a bill is
19 if sometimes during a lot of rains maybe some of the
20 meters -- which are all below ground, majority of them
21 are below ground -- sometimes they get flooded, maybe
22 sometimes a car may be parked on top of a meter box
23 where we cannot physically read it, so that would
24 involve estimating the reading or the usage. And what
25 we would do at that point, we would allow the computer

1 to estimate based on the previous 12 months of usage,
2 so it would be very, you know, very accurate on actual
3 consumption.

4 But, again, you know, we do that as
5 infrequently as possible and only because of abnormal
6 situations. Normally, we read every meter and attempt
7 to base the billing on actual readings.

8 Q Is there a notation to the customer on the
9 bill that the bill was, in fact, estimated?

10 A Yes, if it's computer estimated that will be
11 reflected on the bill.

12 Q Is there any consideration given to what the
13 customer's consumption was for the similar month for
14 the same month in the previous year?

15 A Yes, there is consideration for that, but it
16 is based on a 12-month average.

17 Q Okay. So the attempt -- you agree with me,
18 the attempt ought to be to accurately estimate what
19 the customer's actual consumption would have been if
20 possible?

21 A Certainly.

22 Q Okay. With respect to customer deposits,
23 there were several complaints about customer deposits.
24 And I believe I heard an observation from perhaps one
25 of the Commissioners that your collection and

1 retention of deposits was not required by the
2 Commission but permitted by the Commission and you
3 were permitted to keep the deposits under certain
4 conditions. Is that your understanding?

5 A Yes, sir.

6 Q Does the Company have any policy -- after
7 having heard the customer complaints, do you have any
8 amendment to your policy concerning deposits in the
9 works?

10 A No, they are not in the works as of last
11 night.

12 Q Okay. So you intend to continue to collect
13 deposits to the extent that the Commission rules
14 permit it?

15 A Well, the intend of the deposit is to ensure
16 final payment, which, in fact, protects all of our
17 customers, so we're not left with a bad debt expense
18 and people not paying their final bills.

19 Q Okay. Again, very briefly, a customer came
20 to the system who seemed to imply that he had a good
21 payment record before but that you made no effort to
22 inquire as to whether he had a good payment record.
23 Would you not agree with that customer that would be a
24 sound practice to follow, i.e., to determine whether
25 customers were likely to pay you in anything other

1 than a timely manner before you collect the deposit?

2 A I certainly agree that that's something we
3 can inquire or look into. Unfortunately, every
4 customer has good credit according to them, so we
5 would have to do a substantial check into that. I
6 don't think we could take the customer's word for
7 that.

8 Q I'm not suggesting that you would. But
9 other firms perhaps in the free market make some
10 inquiry as to whether customers have good payment
11 records, do they not?

12 A I think that's correct, yes.

13 Q Okay. Is there any reason why you can't do
14 that?

15 A Oh, as I said, we will look into alternative
16 methods, but at this time we do require a deposit.

17 Q And the last question is, one customer
18 testified that he had to come down from work. When he
19 came down from work to establish the connection, you
20 really didn't look beyond his word to establish who he
21 was or any of those things. Do you recall that
22 testimony?

23 A I recall the testimony. I don't recall his
24 specifically, but our policy is, you know, to come in,
25 show identification and actually sign up for service.

1 Q All right, sir. What Company interest is
2 served by the customer proving who is, stuff like
3 that?

4 A There could be several reasons. One example
5 I can give, if somebody just called up on the phone,
6 maybe we go out and turn the water on to a vacant
7 house or, you know, a house that's not prepared to
8 take service. You know, we certainly have to make
9 sure that the request of service is for that
10 particular customer.

11 Q And the only way you can do that is with a
12 personal visit from a customer?

13 A The most accurate way.

14 MR. McLEAN: Okay. No further questions.
15 Thanks.

16 COMMISSIONER JOHNSON: Ms. Walla.

17 **CROSS EXAMINATION**

18 BY MS. WALLA:

19 Q Mr. Dick, could you refer to Exhibit CW-8,
20 please, and also to Page 1 of your rebuttal testimony,
21 Line 25, please.

22 A CW-8. In my hurry to get up here, I left my
23 rebuttal testimony back there.

24 Q In your rebuttal testimony, Page 1, Line 25
25 and Page 2, Lines 1 and 3.

1 A Okay. I have that here.

2 COMMISSIONER GARCIA: I'm sorry. CW, what?

3 MS. WALLA: 8. It's actually going to be
4 regarding the first paragraph.

5 A Yes, I have that.

6 Q (By Ms. Walla) Where did you get your
7 information from that -- where did you get your
8 information that 12 customers had withdrawn from this
9 protest?

10 A I had gotten that information inner-company
11 information. I provided that information at the
12 utility committee meeting without having verified that
13 information. It was just an attempt to keep them
14 updated. You know, there was no other reason to, you
15 know, supply that information. Once it was brought to
16 my attention that it was not accurate, I apologized to
17 the committee. But it was hearsay information that I
18 did not take the time to verify the accuracy of the
19 information.

20 Q Was it not "irresponsibility" of you to make
21 such a statement without checking to make sure it to
22 be a fact?

23 A I think irresponsibility is stretching it.
24 I just attempt to inform that committee to as much
25 information that I have on a communications basis.

1 Nobody on that committee was involved with the
2 protest. It wasn't that I was trying to sway any of
3 the protestors at all.

4 Q Okay. Page 2, Lines 8 through 15.

5 A Okay.

6 Q Upon receiving my letter, Florida Cities
7 Water had stated they had been preparing a response,
8 yet there's no evidence in rate case expense to
9 suggest that they had been preparing. There is also
10 no reply after ten days of receiving the letter to
11 tell me when I could expect the responses asked for in
12 Exhibit CW-11 which was the letter I first wrote.

13 Could you show --

14 COMMISSIONER KIESLING: Wait a minute. Can
15 you tell me where in his testimony it says everything
16 you just said? Or were you testifying?

17 MS. WALLA: I'm referring to Lines 8 through
18 15, his response, about his response to my questions.

19 COMMISSIONER KIESLING: Right. But then you
20 put in a whole bunch of other stuff about -- or I
21 thought you did --

22 MS. WALLA: Okay. I'll just ask the
23 question.

24 COMMISSIONER KIESLING: Okay. That's good.

25 Q (By Ms. Walla) Could you show evidence of

1 any time prior to February 20th when the
2 interrogatories were hand-delivered -- especially
3 since your attorneys booked no hours previously on the
4 interrogatories or the letter, or the discussion of
5 the letter -- can you show any evidence of working on
6 the letter prior to the interrogatory delivery?

7 A No, I can't show any evidence. We were
8 working on the responses at the time I received your
9 interrogatories. Considering that your
10 interrogatories included the original questions, plus
11 the five additional, you know, I just felt it was
12 better to respond to them all at one time.

13 MS. WALLA: I have no further questions.

14 COMMISSIONER JOHNSON: Thank you. Staff.

15 MR. JAEGER: No questions.

16 COMMISSIONER JOHNSON: Redirect.

17 MR. GATLIN: No redirect.

18 COMMISSIONER JOHNSON: And there were no
19 exhibits.

20 MR. GATLIN: No exhibits.

21 COMMISSIONER JOHNSON: Mr. Dick, you may be
22 excused.

23 WITNESS DICK: Thank you.

24 COMMISSIONER JOHNSON: Thank you very much.

25 (Witness Dick excused.)

1 COMMISSIONER JOHNSON: Mr. Gatlin, you had
2 stated that the parties stipulated. You can renew
3 your --

4 MR. GATLIN: To Mr. Schifano's, my
5 understanding is that there's a stipulation as to
6 entering Mr. Schifano's rebuttal testimony as though
7 read without him appearing.

8 COMMISSIONER JOHNSON: Okay.

9 MR. JAEGER: If the parties agree, we have
10 no objection.

11 MR. McLEAN: Yes, ma'am, we agree.

12 COMMISSIONER JOHNSON: Okay. We'll show
13 that then inserted as though read. Were there any
14 exhibits?

15 MR. GATLIN: No exhibits.

16 COMMISSIONER JOHNSON: Okay. Thank you very
17 much.

18 (For the convenience of the record, Mr. Schifano's
19 prefiled rebuttal testimony as been inserted at Page 788.)
20
21
22
23
24
25

1 MR. GATLIN: Call Mr. Coel.

2 LARRY W. COEL

3 was called as a rebuttal witness on behalf of Florida
4 Cities Water Company and, having been duly sworn,
5 testified as follows:

6 DIRECT EXAMINATION

7 BY MR. GATLIN:

8 Q Have you been sworn, Mr. Coel?

9 A Yes, I have.

10 Q Have you prepared rebuttal and second
11 rebuttal testimony for presentation in this
12 proceeding?

13 A Yes, I have.

14 Q If I were to ask you the questions set forth
15 in those documents would your answers be the same
16 today?

17 A Yes.

18 MR. GATLIN: Madam Chairman, I request that
19 that rebuttal and second rebuttal testimony be
20 inserted into the record as though read.

21 COMMISSIONER JOHNSON: It will be to
22 inserted.

23 Q (By Mr. Gatlin) As part of your testimony
24 or attached to your testimony there are exhibits LC-3,
25 LC-4, LC-5 and LC-6; is that correct?

1 A Yes, it is.

2 MR. GATLIN: May we have those exhibits
3 identified as a composite exhibit, Madam Chairman?

4 COMMISSIONER JOHNSON: We will identify LC-3
5 through 6 as Composite Exhibit 30.

6 (Composite Exhibit No. 30 marked for
7 identification.)

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1 FLORIDA CITIES WATER COMPANY

2 NORTH FT. MYERS DIVISION

3 WASTEWATER OPERATIONS

4 REBUTTAL TESTIMONY OF LARRY N. COEL

5 Docket No. 950387-SU

6 Q. Please state your name and business address.

7 A. Larry N. Coel, 4837 Swift Road, P.O. Box 21597, Suite
8 100, Sarasota, Florida 34231.9 Q. Are you the same Larry N. Coel who previously filed
10 testimony in this rate proceeding, Docket No. 950387-
11 SU?

12 A. Yes.

13 Q. What is the purpose of this rebuttal testimony?

14 A. The purpose of this rebuttal testimony is to refute
15 the positions of certain issues presented in the
16 Direct Testimony and related exhibits of Office of
17 Public Counsel (OPC) witness Kimberly H. Dismukes and
18 intervenor Cheryl Walla.19 Q. What issues addressed by Kimberly H. Dismukes (KHD)
20 will you be refuting?

21 A. These issues are as follows:

- 22 1) Proposed income taxes as shown on Ms.
-
- 23 Dismukes Exhibit
- 21
- (KHD-1), Schedule 2.
-
- 24 2) Proposed taxes other than income as shown on
-
- 25 Ms. Dismukes Exhibit
- 22
- (KHD-1), Schedule

- 1 2.
- 2 3) Proposed revenue reduction for wastewater
- 3 operations (KHD page 3).
- 4 4) Proposed reduction to cost of long-term debt
- 5 (KHD pages 4-5).
- 6 5) Index increases to certain Operating and
- 7 Maintenance Expense items (KHD pages 6-9).
- 8 6) Affiliated company charges and cost
- 9 allocations (KHD pages 9-16).
- 10 7) Salary discrepancies (KHD page 13).
- 11 8) Reduce rate case expenses already included
- 12 in test year expenses (KHD page 17).
- 13 9) Working Capital Adjustments (KHD pages 17-
- 14 18).

15 Q. What issues addressed by Cheryl Walla will you be

16 refuting?

17 A. These issues are as follows:

- 18 1) Bill inserts (CW page 8).
- 19 2) DOJ legal expenses (CW page 9).

20 REBUTTAL TO MS. DISMUKES

21 Q. To your knowledge, has OPC's witness Kimberly H.

22 Dismukes performed an on-site financial audit of FCWC,

23 FCWC's North Ft. Myers Division, or FCWC's affiliated

24 company transactions at FCWC's General Office in

25 Sarasota Florida during this rate case proceeding to

- 1 obtain additional information?
- 2 A. No. To my knowledge Ms. Dismukes has not performed an
3 on-site audit.
- 4 Q. To your knowledge, has OPC's witness Kimberly H.
5 Dismukes generated or served any interrogatories or
6 document requests to FCWC or FCWC's North Ft. Myers
7 Division during this rate case proceeding to obtain
8 additional information?
- 9 A. No. To my knowledge Ms. Dismukes has not.
- 10 Q. To your knowledge, has the PSC performed an on-site
11 financial audit of FCWC, FCWC's North Ft. Myers
12 Division, and FCWC's affiliated company transactions
13 at FCWC's General Office in Sarasota Florida during
14 this rate case proceeding to obtain additional
15 information?
- 16 A. Yes. The PSC has performed an on-site audit.
- 17 Q. Does Ms Dismukes offer any testimony or exhibits in
18 support of a 13-month average rate base or in
19 opposition to a year end rate base for wastewater?
- 20 A. No.
- 21 Q. On Exhibit 22 (KHD-1), Schedule 2, of Ms. Dismukes'
22 Direct Testimony, income taxes is shown as \$41,486.
23 Do you know how she arrived at that figure?
- 24 A. No. Ms. Dismukes provides no supporting schedule or
25 backup for income taxes in her Direct Testimony.

- 1 Q. Do you believe that her income tax calculation is
2 correct?
- 3 A. No. The income tax amount shown on Schedule 2 appears
4 to be unreasonably too low.
- 5 Q. How did you come to this conclusion?
- 6 A. Ms. Dismukes' marginal income tax factor calculates
7 out to be income taxes divided by operating income
8 (\$41,486 / \$538,792) or 7.7%. Based on the MFR's,
9 page 30, this factor is 22.4% (\$171,292 / \$763,108)
10 and based on the PSC's PAA Order No. PSC-95-1360-FOF-
11 SU (11/2/95) this factor is 21.6% (\$155,245 /
12 \$718,465). Since the MFR based factor is reasonably
13 close to the PSC's PAA Order based factor, it would
14 appear that Ms. Dismukes calculation is in error.
- 15 Q. How would you propose that the income taxes be
16 calculated if any adjustments are made to your filing?
- 17 A. While this amount is subject to the resolution of
18 other issues, the PSC staff should recalculate income
19 taxes in a manner similar to that used in the PAA
20 Order Schedule 3-A, since it appears to be reasonable.
- 21 Q. On Exhibit 27 (KHD-1), Schedule 2, of Ms. Dismukes'
22 Direct Testimony, taxes other than income is adjusted
23 by (\$34,553). Do you know what this adjustment is for
24 and how she arrived at this figure?
- 25 A. Yes, I believe so. Ms. Dismukes provided a supporting

1 schedule titled "Property Tax Adjustment" after
2 Schedule 14 in her Direct Testimony. This schedule
3 calculates an adjustment (reduction) to property taxes
4 due non-used and useful plant. This calculation is
5 based on the non-used and useful percentage, which is
6 significantly in error. The treatment facilities are
7 100% used and useful as presented in the Direct
8 Testimony of Douglas R. Young.

9 Q. Do you believe that Ms. Dismukes' adjustment to taxes
10 other than income is correct?

11 A. No. The taxes other than income adjustment shown on
12 Schedule 2 is based on an incorrect used and useful
13 percentage. In addition, Ms. Dismukes did not make
14 any adjustment for regulatory assessment fees, which
15 is calculated as 4.5% of revenues and is part of taxes
16 other than income.

17 Q. Did you make such an adjustment for regulatory
18 assessment fees in the MFRs?

19 A. Yes, in the MFRs, page 37, line 11.

20 Q. How would you propose that taxes other than income be
21 calculated if any adjustments are made to your filing?

22 A. While this amount is subject to the resolution of
23 other issues, the PSC staff should recalculate taxes
24 other than income in a manner similar to that used in
25 the PAA Order Schedule 3-A, since it appears to be

1 reasonable.

2 Q. Do you have any comments regarding Ms. Dismukes'
3 proposed revenue reduction for wastewater operations?

4 A. Yes. On page 3, lines 8-9, of Ms. Dismukes' Direct
5 Testimony, Ms. Dismukes states, "As shown on Schedule
6 2, the adjustments that I propose produce a revenue
7 decrease of \$256,700. This compares to the Company's
8 requested rate increase of \$480,078 and the
9 Commission's PAA Ordered rate increase of \$377,772."
10 Ms. Dismukes' proposed decrease is based upon numerous
11 adjustments of which the most significant one is
12 determined by the used and useful percentage. FCWC's
13 witness Mr. Douglas R. Young will be rebutting Ms.
14 Dismukes 49.34% used and useful calculation. I will
15 be addressing primarily the balance of Ms. Dismukes'
16 adjustments, which are unsupported and should be
17 rejected. The revenue increase should be as proposed
18 in FCWC's MFRs and adjusted as the record is
19 developed.

20 Q. Do you have any comments regarding the cost of long-
21 term debt?

22 A. Yes. On pages 4-5 of Ms. Dismukes' Direct Testimony,
23 Ms. Dismukes proposes adjustments to account for the
24 \$18,000,000 bond issue that was anticipated in FCWC's
25 more recent Barefoot Bay rate case (Docket No. 951258-

1 WS). At the time of preparing the North Ft. Myers
2 MFRs, which were filed on May 19, 1995, the
3 anticipated capital balances were as presented in the
4 MFRs for North Ft. Myers. Since then there has been
5 an \$18,000,000, 7.27% senior note issue in December
6 1995 as well as a \$2,000,000 parent company equity
7 investment made in December 1995.

8 Q. Do you have any comments regarding Ms. Dismukes'
9 growth and index adjustments?

10 A. Yes. On page 6, lines 13-16, of Ms. Dismukes' Direct
11 Testimony, Ms. Dismukes states, "The Company
12 essentially assumed that regardless of the
13 circumstances or the account, its expenses would
14 increase in 1995 equal to the increase in customers
15 and inflation. I do not believe that it is realistic
16 to assume that expenses will automatically increase."
17 In the MFRs, FCWC made numerous such adjustments, some
18 based on customer growth and inflation, and some based
19 only on growth. FCWC used a 1.62% growth factor and
20 a 1.95% inflation factor (based on the PSC's 1995
21 Price Index Factor) for wastewater operations. FCWC's
22 utilization of the PSC's Price Index Factor to cover
23 anticipated inflation in the projected test year is in
24 lieu of filing a Price Index Application immediately
25 following this rate case proceeding. FCWC believes it

1 is reasonable and more prudent to incorporate this
 2 anticipated expense increase within this rate
 3 proceeding. While Ms. Dismukes does not "believe that
 4 it is realistic to assume that expenses will
 5 automatically increase", it is unrealistic to assume
 6 that expenses will remain exactly the same or
 7 decrease.

8 It has been FCWC's position in previous rate cases
 9 that when a projected test year is used, it is
 10 reasonable to utilize some growth and inflation
 11 factors and make other reasonable adjustments,
 12 increases, or decreases. Ms. Dismukes' total expense
 13 adjustments related to growth and inflation amounted
 14 to \$4,694 (\$7,494- \$2,800) (Ms. Dismukes' Schedule 7).
 15 Ms. Dismukes adjustments are unsupported and should be
 16 rejected.

17 Q. Do you have any specific comments regarding Ms.
 18 Dismukes' expense adjustments discussed on pages 5-9,
 19 beginning on line 5 regarding the following:

- | | | | |
|----|---------------------------|-----------|--------------|
| 20 | 1) Contract-Other | (\$2,800) | Postage |
| 21 | 2) Materials & Supplies | (\$227) | Growth/Infl. |
| 22 | 3) transportation | (\$1,269) | Growth/Infl. |
| 23 | 4) Miscellaneous Expenses | (\$3,198) | Growth/Infl. |

24 A. Yes. This portion of Ms. Dismukes' Direct Testimony
 25 addresses several items and eliminates from the

1 revenue requirement certain adjustments in the MFRs
2 which FCWC believes are reasonable and appropriate.

3 (1) On page 8, lines 6-8, Ms. Dismukes states that,
4 "Since the proposed cost increase is merely the
5 difference between the cost of sending a post
6 card versus an envelope, the Company's estimate
7 is over stated."

8 The cost associated with the stuffed bill
9 including the extra paper cost for the larger
10 bill, an envelope, and a return envelope are more
11 than the cost of the postcard bill. In addition
12 since the last rate application there has been an
13 increase in postage rates.

14 Ms. Dismukes recommends that there should be a
15 reduction of cost due to increased cash flow.
16 Ms. Dismukes provides no evidence to support her
17 position.

18 Ms. Dismukes also indicates that postage should
19 be reduced because there will be a lack of
20 separate mailings. In the past, separate
21 mailings have been rarely used because of the
22 expense. It was not until FCWC went to the
23 stuffed billings did FCWC have a cost effective
24 means to communicate with its customers.

25 The primary benefits of this full sized bill

1 format to FCWC customers, as addressed in the
2 Direct Testimony of Robert Dick, is the improved
3 readability, ability to include additional
4 information, such as historic usage, and messages
5 on the bill, and the inclusion of bill inserts in
6 lieu of separate mailings.

7 (2) On page 7, lines 5-8, Ms. Dismukes removes FCWC's
8 \$227 adjustment to materials and supplies, since
9 the actual expense decreased during the last half
10 on 1995. While this particular expense
11 decreased, surely other expenses have increased
12 above FCWC's projections. To adjust or true-up
13 one expense item creates a mismatch.

14 (3) On page 7, lines 5-8, Ms. Dismukes removes FCWC's
15 \$1,269 adjustment to transportation since the
16 actual expense decreased from 1993 to 1994.
17 While this particular expense decreased, other
18 expenses have increased. To adjust or true-up
19 one expense item creates a mismatch.

20 (4) On page 8, beginning on line 19, Ms. Dismukes'
21 removes \$3,198 of miscellaneous expenses
22 attributed to growth and projected inflation.
23 The basis of her adjustment begins on page 9,
24 lines 2-4, where Ms. Dismukes questions the
25 significant increase in this expense from the

1 year ending June 30, 1993 to the year ending
2 December 31, 1994.

3 Q. Can you comment on this significant increase?

4 A. Yes. Most of this increase is due to an increase
5 in required sample analysis as stated in the
6 MFRs, page 47. Sample analysis costs increased
7 from \$13,632 for the year ending June 30, 1993 to
8 \$20,138 for the year ending December 31, 1994.
9 Specifically, this expense increase is for
10 additional sample analysis testing related to the
11 State Operating Permit issued August 25, 1993
12 which required a significant increased sampling
13 requirements for this facility and the
14 Caloosahatchee River. The permit required
15 additional toxicity testing to be performed as
16 well as a quarterly monitoring program which
17 required testing for such parameters as Nitrogen,
18 Ammonia Nitrogen, Total Phosphorous, total
19 suspended solids, CBOD5, salinity, dissolved
20 oxygen, surface Ph, turbidity, chlorophyll, total
21 coliform and fecal coliform at the discharge,
22 upstream of the discharge and downstream of the
23 discharge within the Caloosahatchee River. The
24 permit also required sampling the effluent for
25 all applicable Class III Marine water standards

1 on a quarterly basis and annual sampling
2 thereafter. The permit also included weekly
3 testing for nitrogen and phosphorus which was not
4 required in the previous state operating permit.

5 FCWC's projections are reasonable, logical and
6 supported by changed conditions or past experience.
7 Ms. Dismukes adjustments are unsupported and should be
8 rejected.

9 Q. On page 13, beginning on line 3, of Ms. Dismukes'
10 states that there appears to be a discrepancy between
11 the method of allocation of administrative staff's
12 wages and salaries. How are salaries for Sarasota
13 General Office Administrative Staff allocated to
14 subsidiaries and divisions of FCWC?

15 A. Salaries and wages of Sarasota's General Office
16 administrative staff are first allocated to
17 subsidiaries and affiliates of Avatar Utilities Inc.
18 based on annual estimates. These charges are adjusted
19 as circumstances change. These subsidiaries are
20 Florida Cities Water Company, Poinciana Utilities
21 Inc., Barefoot Bay Propane Gas Company and Avatar
22 Utility Services, Inc.; affiliates are Rio Rico
23 Utilities Inc. as well as time allocated to Avatar
24 Utilities Inc. Of the amount allocated to FCWC a
25 further allocation to each division's water and

1 wastewater functions is based upon the three factor
2 method which computes an allocation based upon the
3 system size to the size of all FCWC systems using
4 three criterion, utility plant, customers and payroll.

5 Q. Do you have any comments regarding affiliated company
6 charges and cost allocations?

7 A. Yes. On page 11, lines 11-12, of Ms. Dismukes' Direct
8 Testimony, Ms. Dismukes states "...the Company has
9 presented no evidence concerning the reasonableness or
10 necessity of the charges from its parent and
11 affiliated companies."

12 On page 11, line 14, Ms. Dismukes states "..the
13 Company may be charged for duplicative services."

14 On page 11, beginning on line 19, Ms. Dismukes states
15 "...I am not convinced that the allocation method
16 used to distribute costs between Florida Cities Water
17 Company and its division(s) and the unregulated
18 operations of Avatar Utilities, Inc. --specifically
19 the propane gas operations and the Avatar Utility
20 Services, Inc. is equitable."

21 FCWC would like to present the following exhibit
22 regarding affiliated transactions and allocations.
23 Attached as Exhibit 22 (LC-3) is the PSC's Audit
24 Report and cover letter from Denise N. Vandiver, dated
25 February 16, 1996. After the PSC's audit of the North

1 Ft. Myers rate case application, the PSC additionally
2 performed an undocketed audit of FCWC's affiliated
3 company transactions. This audit began on October 12,
4 1995 and was concluded on February 7, 1996. The Audit
5 Scope of this audit is on pages 4 and 5 of this
6 exhibit. The Audit Opinion of this Affiliated
7 Transactions Audit Report is stated on page 4 of this
8 exhibit and is as follows, **"The services provided by
9 the affiliate companies to the Water Utility are
10 ordinary and necessary, effective and beneficial, not
11 redundant and reasonably costed and appropriately
12 allocated."**

13 Regarding affiliated charges, in FCWC's last South Ft.
14 Myers wastewater rate case (Docket No. 920808-SU), the
15 PSC, in Order No. PSC-93-1288-FOF-SU, dated 9/7/93,
16 page 27, ruled **"We find that it is inappropriate to
17 make a reduction when the record does not support an
18 argument that any specific charge is unreasonable.
19 Therefore, we find that no adjustment shall be made to
20 the allocation of transactions with affiliated
21 companies."**

22 Ms. Dismukes does not offer any testimony that any
23 particular charge exceeds the going market rate or is
24 otherwise inherently unfair. Ms. Dismukes'
25 recommendations regarding affiliated company charges

1 and cost allocations are totally unsupported and her
2 adjustments should be rejected.

3 Q. Do you have any comments regarding affiliated company
4 charges and cost allocations workpapers?

5 A. On pages 13-17, Ms. Dismukes believes FCWC was
6 deficient in the utility's rate application and should
7 have provided additional workpapers in support of the
8 numerous allocations that occur.

9 FCWC filed the MFRs on May 2, 1995. The PSC
10 identified three deficiencies with the filing, one of
11 which was FCWC's application for an increase in plant
12 capacity fees. None of these deficiencies related to
13 allocations or a lack of supporting workpapers.
14 Included on page 51 of the MFRs, FCWC provided the
15 basis for its divisional allocations. This schedule
16 has been included in all recent FCWC rate cases and
17 has been subject to review at FCWC's General Office in
18 Sarasota. This allocation method has been accepted by
19 the PSC in its recent FCWC rate orders without
20 adjustment.

21 FCWC met the deficiencies and the PSC confirmed that
22 the MFRs were accepted as of May 19, 1995. Per the
23 Charles H. Hill letter dated May 23, 1995 (see
24 attached Exhibit 22 (LC-4)), "...the minimum
25 filing requirements have now been met and that the

1 official date of filing for the above case is hereby
2 established as May 19, 1995."

3 On page 17, lines 5-6, of Ms. Dismukes' Direct
4 Testimony, Ms. Dismukes recommends a wastewater
5 expense adjustment of (\$36,795) towards general and
6 administrative and customer accounting expenses, based
7 on her position that FCWC did not provide information
8 and workpapers required by PSC rule.

9 Ms. Dismukes' position regarding insufficient
10 information and workpapers is unsupported and her
11 position and adjustments should be rejected.

12 Q. Do you have any comments regarding the working capital
13 component of rate base?

14 A. Yes. On page 18, lines 7-9, of Ms. Dismukes' Direct
15 Testimony, Ms. Dismukes states "For the purposes of
16 developing my recommended rate base, I have used the
17 13-month average working capital requirement."

18 Since FCWC proposes and supports year-end rate base
19 for this rate proceeding, and to avoid a miss-match,
20 FCWC proposes year-end working capital.

21 Q. Do you have any other comments regarding the working
22 capital component of rate base?

23 A. Yes. On page 18, lines 10-12, of Ms. Dismukes' Direct
24 Testimony, Ms. Dismukes states "After considering the
25 adjustment for a portion of these cost free deferred

1 credits included in the Commission's PAA Order, my
 2 recommendation reduces test year working capital by
 3 \$67,139." Ms. Dismukes is partially correct in this
 4 instance. Other Deferred Credits includes the
 5 following sub-accounts:

| 6 | <u>Account</u> | <u>Description</u> |
|----|----------------|---------------------------------------|
| 7 | 257.03 | Deferred Metered Sales |
| 8 | 257.05 | Deferred Pension Cost |
| 9 | 257.06 | Deferred Gross Receipts Tax (4.5%) on |
| 10 | | Carrying Charges on Capacity Fees |

11 After further review, FCWC believes that two of these
 12 sub-accounts, Deferred Metered Sales and Deferred
 13 Pension Cost, should have been included in the
 14 calculation of working capital.

15 However, Deferred Gross Receipts Tax is directly
 16 related to the Carrying Charges identified in the MFRs
 17 on page 20, note (a). Since the Carrying Charges were
 18 removed from the working capital calculation per note
 19 (a.) it is appropriate that the related gross receipts
 20 tax also be removed. Therefore, the appropriate
 21 amount of Other Deferred Credits should be calculated
 22 as follows:

| 23 | <u>Account</u> | <u>Description</u> | <u>Amount</u> |
|----|----------------|---------------------------------|---------------|
| 24 | 257.00 | Total Other Deferred Credits | \$538,664 |
| 25 | | (Per MFRs page 25, Sched. A-19, | |

1 pg. 2 of 2, column (4), row 27)
2 LESS:
3 257.06 Deferred Gross Receipts Tax 383,861
4 (4.5%) on Carrying Charges on
5 Capacity Fees (4.5% x \$8,530,251)
6 ---> Other Deferred Credits for \$154,803
7 Working Capital Calculation

8 The resulting amount of Other Deferred Credits for the
9 working capital calculation should be \$154,803 and the
10 test year working capital amount should be \$1,735,715
11 (\$1,890,518 per MFRs page 20 less \$154,803). The
12 allocated adjustment to the North Ft. Myers wastewater
13 division is \$10,217 ($\$154,803 \times 6.60\%$) resulting in a
14 net working capital for North Ft. Myers wastewater of
15 \$114,557 ($\$124,774$ per MFRs page 20 less \$10,217).

16 Q. Do you have any comments regarding rate case expenses
17 for this rate proceeding?

18 A. Yes. On page 17, Ms. Dismukes has assumed that FCWC's
19 rate case expense charges are duplicated and already
20 included in FCWC's test year expenses and adjusted the
21 revenue requirement for wastewater by \$3,487. Ms.
22 Dismukes has made an erroneous assumption here.
23 Specifically these are FCWC's Rate Department charges
24 for preparing and filing the MFRs, preparing
25 testimony, responding to data requests and

1 interrogatories, preparing customer notices, and
2 general administration of the rate case proceeding.
3 More specifically, these charges relate to Mr. Larry
4 Coel's time spent on specific rate case filings. In
5 this proceeding, these charges are deferred and
6 recorded in account 11-186.10, deferred rate case
7 expenses, North Ft. Myers wastewater. These charges
8 are not recorded in FCWC's labor expense and
9 therefore, there is no double counting of this expense
10 as Ms. Dismukes states on page 17, lines 14-15. Only
11 the time spent by Mr. Coel on "non-rate case" related
12 work is recorded as labor expense.

13 REBUTTAL TO MS. WALLA

14 Q. Do you have any comments regarding the bill insert as
15 discussed in the Direct Testimony of Ms. Cheryl Walla
16 and identified as Exhibit 22 (CW-7)?

17 A. Yes. On page 8, lines 4-6, Ms. Walla states, "This
18 insert is false. It represents that the water and
19 wastewater service costs only \$1.85 per day." The
20 bill insert was sent to all FCWC and Poinciana
21 Utilities Inc. customers as a general customer
22 information piece and clearly shows that this is an
23 average amount for FCWC and PUI customers and not a
24 North Ft. Myers amount. The purpose of this insert
25 was to establish the value of water and wastewater

1 services on a company-wide basis and not to compare
2 divisional data. The value of the North Ft. Myers
3 water and wastewater residential services for year
4 ending December 1995 is \$2.09 per day and is
5 calculated as follows: water - \$0.69 per day
6 ((\$713,683 residential revenue / 2,843 residential
7 customers) / 365 days) and wastewater - \$1.40 per day
8 ((\$1,193,247 residential revenue / 2,342 residential
9 customers) / 365 days). The total cost for North Ft.
10 Myers after the PAA rate increase from this proceeding
11 is estimated at \$2.34 ($\$0.69 + (\$1.40 \times 1.1789\%$
12 $\text{increase per PAA})$) per day.

13 Q. Do you have any comments regarding the legal costs
14 associated with the U.S. Department of Justice lawsuit
15 as discussed in the Direct Testimony of Ms. Cheryl
16 Walla?

17 A. Yes. On page 9, lines 12, Ms. Walla states, "FCWC
18 outwardly misrepresented this fact." In the MFRs on
19 page 30, Schedule B-2. The Operating and Maintenance
20 Expense shown on line 8 DO NOT contain any legal costs
21 associated with this issue. This was the information
22 communicated to the customers and to the PSC. During
23 the PSC's audit of this rate proceeding, the PSC
24 discovered that \$210,734 of legal costs related to
25 this lawsuit had been capitalized (not expensed) and

1 recorded to Utility Plant In Service (UPIS). This
2 amount was included in the MFR rate base Schedule A-2.
3 The PSC audit work was completed on July 20, 1995 and
4 the Audit Report (issued August 4, 1995) identified
5 this item in Audit Disclosure #2.

6 FCWC agreed with the PSC's Audit Report, Audit
7 Disclosure #2, Statement of Opinion, that capitalized
8 legal fees totaling \$210,734 should be removed from
9 plant and classified below the line as a non-
10 recoverable expense. FCWC adjusted the \$210,734 from
11 UPIS to non-recoverable expense in December 1995.

12 GENERAL COMMENTS

13 Q. Do you have any comments regarding the 11.34% return
14 on equity as stated in the MFRs, page 84?

15 A. Yes. 11.34% was based on the PSC's most current
16 Leverage Graph Formula [(PSC Order No. PSC-94-1051-
17 FOF-WS (8/29/94), MFR's page 196] at the time of
18 filing the MFRs. Since this application was filed, a
19 more current Leverage Graph Formula has been issued
20 [(PSC Order No. PSC-95-0982-FOF-WS (8/10/95), Barefoot
21 Bay Division MFR's page 240, PSC Docket No. 951258-
22 WS]. Base on this more recent Leverage Graph Formula
23 and PSC practice, 11.88% should be utilized for the
24 return on equity.

25 Q. Do you have any additional comments regarding rate

- 1 case expenses for this rate proceeding?
- 2 A. Yes. I have an updated rate case expense tabulation,
3 Exhibit 22 (LC-5). This schedule shows actual and
4 estimated amounts to complete this rate proceeding.
5 As of March 26, 1996, the total actual/estimated
6 amount of rate case expenses is \$90,863. This exhibit
7 is an update of Exhibit 22 (LC-2), pages 2-3, which
8 was previously filed with the Direct Testimony of
9 Larry N. Coel. Included in Exhibit 22 (LC-5) is
10 related supporting documentation from December 1995
11 through February 1996. Related supporting
12 documentation prior to December 1995 was included in
13 Exhibit 22 (LC-2). As usually requested by the
14 PSC at the hearing, FCWC will probably be filing
15 another updated rate case expense exhibit after the
16 hearing as a Late Filed Exhibit in order to provide
17 more current amounts.
- 18 Q. Does that conclude your rebuttal testimony?
- 19 A. Yes, it does.

1 Allen's time spent on this rate case. Mr Allen spent
2 time discussing the issues raised at the PSC Customer
3 Meeting which was held in North Ft. Myers on
4 Wednesday, July 26, 1995 and reviewing the notes taken
5 by other FCWC staff members. He also assisted in
6 developing responses to customers' concerns that were
7 raised at that meeting and assisted in reviewing and
8 developing responses to PSC's Data Requests. The \$840
9 charge in August 1995 contained a duplicate charge of
10 \$420. Referring to Exhibit 30 (LC-5), page 1, this
11 amount was credited in January 1996. Therefore, the
12 total AUI charges for this rate case are \$840 (\$420 +
13 \$420).

14 2) L. Coel logged 23 hours for responses to
15 interrogatories, documents requested and
16 administration of all responses.

17 Comment (Reference L. Coel (LC) Rebuttal Testimony,
18 Exhibit LC-5, pages 10-11):

19 These pages show a total of 13 hours (3+10). FCWC's
20 Rate Department consists of one person, Mr. L. Coel.
21 While other utilities hire outside consultants or have
22 larger rate department staffs, FCWC believes its one
23 man rate department efficiently and prudently manages
24 rate case proceedings at a reasonable cost. This cost
25 has been accepted as reasonable by the PSC in recent

1 rate case proceedings. Managing the interrogatory and
2 document request process can be time consuming, but is
3 a legitimate rate case expense, which has been
4 permitted by the PSC.

5 3) L. Coel logged 37 hours all under same
6 description of work-rate case review PAA Order,
7 tariffs, customer notice, discussions.

8 Comment (Reference LC Rebuttal Testimony, Exhibit LC-
9 5, pages 15-17):

10 These pages show a total of 37 hours (14+19+4). Most
11 of the 37 hours was spent on preparing testimony.
12 This charge would not have been incurred if the PAA
13 Rate Order had not been protested by Ms. Cheryl Walla.
14 The PAA process does not require prefiled testimony.
15 However, if the PAA process is converted to a formal
16 hearing procedure due to a protest, prefiled testimony
17 is required to present the position of the utility to
18 the PSC.

19 4) Overnight Express 11/7/95 \$8.50 and 12/8/95 ?
20 (12/18/95) \$8.50.

21 Comment (Reference LC Rebuttal Testimony, Exhibit LC-
22 5, pages 52 & 60):

23 The first charge was for shipping the PAA Rate Order
24 and Memo from Mr. Ken Gatlin's office to FCWC for
25 immediate review. The second charge was for shipping

1 (11/28/95) the PAA Protest and the necessary documents
2 to implement interim PAA rates. The second charge is
3 directly related to the PAA Protest.

4 5) 12/22/95 photocopy documents 553 @ .20¢ for a
5 total of \$110.60 and postage 12/22/95 \$7.93.

6 Comment (Reference LC Rebuttal Testimony, Exhibit LC-
7 5, page 60):

8 These charges were for copying and distributing the
9 following documents from Mr. Ken Gatlin's office: the
10 PAA Protest, FCWC's Corporate undertaking, Notice to
11 the PSC of Implementing the PAA rates on an interim
12 basis, tariffs, affidavits, PSC's Staff
13 Recommendation, draft pre-filed testimony, and
14 research. Most of these items would not have been
15 required if the PAA Rate Order had not been protested.

16 6) Cost advanced court reporter 1/22/96 \$7.50 and
17 Postage Flat charge 1/25/96 \$49.10.

18 Comment (Reference LC Rebuttal Testimony, Exhibit LC-
19 5, page 70):

20 The court reporter costs were due to the PSC Agenda
21 Conference held on 12/19/95 regarding the PAA Protest.
22 The postage charges were incurred for shipping FCWC's
23 pre-filed Direct Testimony to all parties and
24 intervenors. None of these costs would have been
25 incurred if the PAA Protest had not been filed.

1 **7) Three videos of news 8/17/95 \$260.**

2 Comment (Reference LC Rebuttal Testimony, Exhibit LC-
3 2, page 14-16):

4 FCWC purchased three video news segments from
5 Advertising Information Services, Inc. (AISI).
6 8/17/95 was the invoice date from AISI. All three
7 were news broadcasts directly related to the North Ft.
8 Myers wastewater rate case customer meetings. The
9 first segment was from the WBBH 11pm news and referred
10 to FCWC's customer meeting held on July, 19, 1995.
11 The second segment was from the WBBH 11pm news and
12 referred to the PSC's customer meeting held on July,
13 26, 1995. The third segment was from the WFTX 10pm
14 news and referred to the PSC's customer meeting held
15 on July, 26, 1995.

16 **8) Travel Reimbursement for Schiefelbein \$286.**

17 Comment (Reference LC Direct Testimony, Exhibit LC-2,
18 page 154):

19 Attorney Mr. Schiefelbein (from Mr. Gatlin's office)
20 attended the PSC Customer Meeting held in North Ft.
21 Myers on July 26, 1995. FCWC believed it was
22 necessary for its attorney to experience this meeting
23 first hand, since the prior customer meetings held by
24 FCWC were attended by several hundred customers
25 voicing their opinions on this rate proceeding. FCWC

1 also believed at this time that the probability of
2 this PAA proceeding going into a full hearing was
3 greatly increasing. Therefore, Mr. Schiefelbein
4 needed to become aware of the developing issues in
5 this rate case in preliminary preparation for a
6 hearing.

7 **9) Costs advanced PSC for customer meeting 7/26/95**
8 **transcripts \$31.10.**

9 Comment (Reference LC Direct Testimony, Exhibit LC-2,
10 page 155):

11 The PSC charged Mr. Gatlin's office for the
12 transcripts of the PSC Customer Meeting held on July
13 26, 1995. Mr. Gatlin billed FCWC for these documents
14 and sent a copy to FCWC. This is a reasonable rate
15 case expense.

16 **10) Stenotype reporter 8/16/95 \$10.83.**

17 Comment (Reference LC Direct Testimony, Exhibit LC-2,
18 page 155):

19 This charge was for the transcript of the PSC Agenda
20 Conference held on July 18, 1995.

21 **11) Dinner prior to PSC customer hearing (meeting)**
22 **7/26/95 \$58.47.**

23 Comment (Reference LC Direct Testimony, Exhibit LC-2,
24 pages 23-27):

25 This cost was for a working dinner in North Ft. Myers

1 with FCWC's Chief Financial Officer, Michael Murphy;
2 Joe Schifano, Comptroller; Becky Turner, Accountant;
3 Wayne Schiefelbein, attorney from Gatlin's office; and
4 myself, Manager of Rates and Revenues. This meeting
5 was to discuss the North Ft. Myers rate case and the
6 PSC customer meeting scheduled for that evening in
7 North Ft. Myers. The expense covered dinner for five
8 people and was prudent.

9 **12) Lutheran Church customer meeting 6/22/95 \$125.00.**
10 Comment (Reference LC Direct Testimony, Exhibit LC-2,
11 pages 65-66):

12 This was the rental fee for the meeting room at the
13 church paid by FCWC for its first customer meeting.
14 FCWC has recently been conducting such public
15 relations meetings during its rate case proceedings in
16 order to openly communicate with its customers and
17 provide related information. Such prudent costs have
18 been accepted by the PSC in FCWC's other recent rate
19 cases.

20 **13) Film: 3/20/95 \$ 5.75, 3/21/95 \$28.75, 3/19/95**
21 **\$26.50, 3/16/95 \$55.46, 3/21/95 \$16.69, 3/24/95**
22 **\$6.59, 5/31/95 \$37.97 Microfilm services.**

23 Comment (Reference LC Direct Testimony, Exhibit LC-2,
24 pages 70-75 & 94-96):

25 These film costs are for the purchase and development

1 of photos related to the wastewater treatment plant
2 expansion and reuse system. FCWC typically takes
3 photos of its facilities under construction as a
4 record of the construction process. Such costs have
5 been allowed by the PSC in FCWC's recent rate cases,
6 since they are prudent.

7 The charges for microfilm services were for retrieving
8 and copying FCWC's source documents. These checks and
9 supporting documentation were requested by the PSC
10 during their on-site audit. At that time these older
11 documents were in the process of being microfilmed.
12 Therefore, FCWC requested that Microfilm Services,
13 Inc., located in Clearwater, Florida, extract these
14 documents and send copies to FCWC's general office in
15 Sarasota for PSC review.

16 **14) L. Coel dinner before customer meeting \$52.22.**

17 Comment (Reference LC Direct Testimony, Exhibit LC-2,
18 pages 99-100):

19 This cost was for a working dinner in North Ft. Myers
20 with FCWC's Joe Schifano, Comptroller; Alex Mladek,
21 Accounting Manager; Becky Turner, Accountant; Bonnie
22 Raad, Community Relations Manager; and myself, Manager
23 of Rates and Revenues. This working dinner in North
24 Ft. Myers was in preparation for FCWC's customer
25 meeting held on June 22, 1995. This expense covered

1 dinners for five people.

2 15) P. Bradtmiller dinner 7/9/95 \$61.77.

3 Comment (Reference LC Direct Testimony, Exhibit LC-2,
4 pages 103-105):

5 This cost was for a working dinner in Sarasota between
6 FCWC's attorney Ken Gatlin and FCWC's Executive Vice
7 President, Paul Bradtmiller. This meeting was to
8 discuss the North Ft. Myers and Barefoot Bay rate
9 cases. Referring to Exhibit ____ (LC-2), page 103,
10 only \$30.89 (50%) of the \$61.77 was charged (coded) to
11 North Ft. Myers (account 11-186.10). The \$128.21
12 shown on page 103 next to account 11-186.10 includes
13 the \$30.89 and \$97.32 for another dinner meeting
14 identified by Ms. Walla's item number 17. The other
15 portion of the \$61.77, or \$30.88, was coded to
16 Barefoot Bay (account 31-186.10). The \$61.77 covered
17 the cost of dinners for two people.

18 16) Lunch 6/26/95 \$26.93.

19 Comment (Reference LC Direct Testimony, Exhibit LC-2,
20 pages 106-107, & 103):

21 This cost was for a working lunch in Ft. Myers with
22 FCWC's Executive Vice President, Paul Bradtmiller;
23 Regional Manager, Roger Ytterberg; and Division
24 Manager, Bob Dick. This meeting was to discuss the
25 North Ft. Myers rate case. This expense covered

1 lunches for three people. While this was a prudent
2 expense, the actual cost was inadvertently not coded
3 to the appropriate rate case expense account for North
4 Ft. Myers wastewater (11-186.10) and therefore, does
5 not appear on the accounting code schedule shown on
6 page 103.

7 **17) Dinner 6/29/95 \$97.32.**

8 Comment (Reference LC Direct Testimony, Exhibit LC-2,
9 pages 103 & 107):

10 This cost was for a working dinner in Sarasota with
11 FCWC's Executive Vice President, Paul Bradtmiller;
12 Regional Manager, Roger Ytterberg; Division Manager,
13 Bob Dick; Chief Financial Officer, Michael Murphy; and
14 myself, Manager of Rates and Revenues. This meeting
15 was to discuss the North Ft. Myers rate case. The
16 expense covered dinner for five people and was
17 prudent.

18 **18) Overtime payment 7/17/95 janitor \$70.00.**

19 Comment (Reference LC Direct Testimony, Exhibit LC-2,
20 pages 110-111):

21 This cost was for a janitor at the North Ft. Myers
22 High School to assist with the setup, cleanup, and
23 lockup of the school auditorium for FCWC's second
24 customer meeting, which was conducted on July 19,
25 1995. The services provided by this janitor was a

1 requirement of the high school. FCWC believed this
2 second customer meeting was necessary to more
3 effectively provide information to the customers,
4 since the location of the first customer meeting
5 (Lutheran Church) did not have facilities large enough
6 to accommodate the unanticipated number of customers
7 that attended. The PSC also changed the location of
8 their customer meeting to the high school to insure
9 adequate space.

10 **19) Lunch 7/19/95 \$20.12.**

11 Comment (Reference LC Direct Testimony, Exhibit LC-2,
12 pages 131-133):

13 This cost was for a working lunch in Sarasota with
14 FCWC's Executive Vice President, Paul Bradtmiller;
15 President, Gerald Allen; and AUI's President, Robert
16 Gordon. This meeting was to discuss the North Ft.
17 Myers rate case and FCWC's second customer meeting,
18 which was to occur that evening. The expense covered
19 lunches for three people and was prudent.

20 **20) Lunch 7/20/95 \$51.09.**

21 Comment (Reference LC Direct Testimony, Exhibit LC-2,
22 pages 131-133):

23 This cost was for a working lunch in Ft. Myers with
24 FCWC's Executive Vice President, Paul Bradtmiller;
25 Vice President, Mike Acosta; Manager of Engineering

1 and Construction, Douglas Young; Regional Manager,
2 Roger Ytterberg; Division Manager, Bob Dick and AUI's
3 President, Robert Gordon. This meeting was to discuss
4 Lee County issues and not specifically the North Ft.
5 Myers rate case. Accordingly, this amount was NOT
6 charged or coded to the North Ft. Myers rate case
7 expense account 11-186.10. See page 131.

8 21) Dinner 7/19/95 \$35.80.

9 Comment (Reference LC Direct Testimony, Exhibit LC-2,
10 pages 135-137):

11 This cost was for a working dinner in Ft. Myers with
12 FCWC's Vice President, Mike Acosta; and Community
13 Relations Manager, Bonnie Raad. This meeting was to
14 discuss and prepare for FCWC's second North Ft. Myers
15 rate case customer meeting scheduled for that evening.
16 This expense covered dinners for two people and was
17 prudent.

18 Q. Do you have any additional comments regarding the rate
19 case expenses mentioned above?

20 A. Yes. All of the above items, excluding number 20,
21 which was never included in the rate case expenses for
22 North Ft. Myers, are prudent and should be
23 recoverable.

24 Q. What was the rate case expense related to the research
25 and development of this Rebuttal Testimony?

- 1 A. Since Ms. Walla did not identify the specific source
2 pages of these items which were contained in two
3 separate rate case expense exhibits (LC's Direct
4 Testimony and Rebuttal Testimony), extensive research
5 was involved in finding these items and their related
6 documents. The cost was \$328.50 (\$32.85 x 10 hours).
7 This cost would not have been incurred if Ms. Walla
8 had not submitted Supplemental Direct Testimony.
- 9 Q. Does that conclude your rebuttal testimony?
- 10 A. Yes, it does.

1 MR. GATLIN: The witness is available for
2 questions.

3 CROSS EXAMINATION

4 BY MR. McLEAN:

5 Q Mr. Coel, Ms. Dismukes makes some adjustment
6 in the case because she says she can't verify the
7 veracity of the allocations from the parent and
8 grandparent, for that matter, down to Florida Cities
9 Water; is that correct?

10 A She is questioning those amounts.

11 Q Yes, sir. And in your rebuttal testimony
12 the way you answer her questioning is to furnish the
13 Staff audit. Is that correct?

14 A About the affiliated transactions?

15 Q Yes, sir. Yes, that portion of it?

16 A Yes, I'm referring to that audit report.

17 Q And that audit report is from a different
18 docket -- document, is it?

19 A My understanding, it was as undocketed audit
20 report and was not specific to a particular rate case
21 docket.

22 Q Okay. This observation and adjustment of
23 Ms. Dismukes is the same, essentially, isn't it, at
24 least in principle, as it was in Barefoot Bay?

25 A Yes, it is.

1 MR. MCLEAN: Okay. Madam Chairman, may I
2 have the exhibit just handed to you marked for
3 identification?

4 COMMISSIONER JOHNSON: Certainly. We will
5 identify the audit papers, "Employee Allocation
6 Percentages," as Exhibit 31.

7 MR. MCLEAN: Okay.

8 (Exhibit No. 31 marked for identification.)

9 BY MR. MCLEAN:

10 Q (By Mr. McLean) Now, Mr. Coel, do you
11 recognize the document before you?

12 A This appears to be an audit document request
13 provided to me. It looks like Joe Arbeck (ph) during
14 the audit. Also from Glen Clepper, the audit manager.

15 Q All right, sir. And Mr. Clepper testified
16 live over at Barefoot Bay, didn't he?

17 A Yes, he did, sir.

18 Q Were you in the room when he did so?

19 A Yes.

20 Q Okay. Well, let me ask you, the document --
21 turn to Page 4 of the document which I handed you,
22 please. It's hand-numbered down at the lower left
23 corner, I believe. It is the last page of the
24 exhibit.

25 A Yes, I'm there.

1 Q Okay. The document there that shows -- does
2 that document show the various allocations of officers
3 salaries' and whatnot to the various affiliates of
4 Florida Cities Water Company?

5 A Yes, and they appear to be all our general
6 office employees.

7 Q I see. This document was not contained in
8 your MFRs, was it?

9 A No, it was not.

10 Q Okay. Do you recall -- I think you said
11 that you recalled Mr. Clepper testifying about this
12 document; is that right?

13 A I don't recall him testfying specifically
14 about this document that I'm looking at. I remember
15 he testified at that hearing.

16 Q He testified, did he not, about the
17 allocation process, didn't he?

18 A My understanding is he testified or
19 supported his audit report, which involved a study of
20 our allocations.

21 Q With respect to the allocations shown here,
22 the allocation formerly the extent to which each
23 person allocates his time or her time to each
24 division, do you remember whether Mr. Clepper had any
25 confidence that those numbers were correct? Let me

1 ask the question differently. Could he verify those
2 numbers? Do you recall his testimony at Barefoot Bay
3 about that?

4 A No, I don't.

5 Q Okay. Do you recall my asking Mr. -- let me
6 ask you, sir, what is the basis for those allocations
7 made?

8 Let me ask you the question differently, Mr.
9 Coel, to sort of speed things up. You personally keep
10 time records; is that correct?

11 A Yes, I do. Of course, I itemize it by rate
12 case. That's correct.

13 Q Okay. Can you speak to whether Mr. Acosta
14 keeps time records?

15 A No, I can't.

16 Q Can you speak to whether any of these people
17 keep time records and accurate time records except
18 yourself?

19 A No, I can't.

20 Q Okay. So you couldn't support any of these
21 numbers as being derived from time records; is that
22 right?

23 A That's correct.

24 Q Okay. If we want to test your allocation
25 procedures, to what documents would we look? Strike

1 that.

2 If we want to test the veracity of the
3 allocations which you make, to what documents may we
4 look?

5 A I'm confused to the point where -- are you
6 saying that I assigned these allocations?

7 Q No, sir. Let me strike all of that and
8 start over again.

9 Ms. Dismukes suggests disallowing some of
10 your expenses because she doesn't have confidence in
11 your allocations; is that correct?

12 A Yes, she does.

13 Q Now, to what do you point to the Commission
14 to suggest the veracity of the allocations that you
15 make in your own testimony?

16 A We filed a couple of schedules in the MFRs.
17 There were similar schedules filed in other rate
18 proceedings. There were no deficiencies in this case
19 related to those schedules. And the minimum filing
20 requirements were met per rules and regulations in May
21 of 1995.

22 Q Mr. Coel, you refer the Commission to the
23 Staff audit for the veracity of the allocations; is
24 that correct?

25 A I refer to it because they came to the

1 general office and did an independent audit aside from
2 a direct rate case with the scope entailing
3 allocations and intercompany transactions. And that
4 audit was completed.

5 Q Okay. And the auditor -- could the auditor
6 when he visited your premises rely on accurate time
7 records from persons that he was trying to ascertain
8 the allocations for their salaries?

9 A Since I did not do that audit, Mr. Clepper
10 would probably know that.

11 Q Okay. Well, I asked Mr. Clepper a good bit
12 about that in Barefoot Bay, didn't I?

13 A Yes.

14 Q Do you recall that?

15 A Yes.

16 Q Do you recall the answer -- I asked
17 Mr. Clepper whether he could assure the Commission
18 that there were not impermissible expenses allocated
19 down from Avatar to Florida Cities Water. And by
20 "impermissible", what I meant was the sort of expense
21 which the Commission routinely disallows. Do you
22 recall that?

23 A Maybe not the exact word, but I believe you.
24 It sounds familiar.

25 Q And as I recall, join me if you can,

1 Mr. Clepper testified that he could not assure the
2 Commission that impermissible expenses were not
3 allocated to Florida Cities Water. Do you recall
4 that?

5 A I may or may not have.

6 Q Okay. Well, let me ask you, Mr. Coel. If
7 Avatar incurred -- accept, if you will, a hypothetical
8 that Avatar incurred an expense for lobbying. Can you
9 tell the Commission that the allocation which you
10 suggest to the Commission now would not incur such an
11 expense?

12 A As a general rule lobbying expenses would
13 not be included.

14 Q Of course. Now, if Avatar allocated a
15 lobbying expense to Florida Cities Water Company, how
16 would we know whether it had been properly disallowed
17 from Florida Cities Water Company?

18 A I'm not sure -- I really don't know how
19 they -- their billing system or how they do their
20 bills. Okay. I would only presume that such costs
21 would not be allocated to a utility, to any subsidiary
22 utility.

23 Q So we'd have to invite the Commission to
24 presume the same thing, wouldn't we?

25 A I can't answer that for the Commission.

1 Q Sir?

2 A I can't answer that for the Commission.

3 Q Well, you can either show them evidence that
4 it wasn't done or you can invite them to presume that
5 it wasn't done, or you can do like Ms. Dismukes did
6 and say since you can't tell one way or another you're
7 going to disallow some expense. Is there any other
8 option I neglected?

9 A I think in terms of allocations and the
10 amount of dollars that may be involved, I think what
11 it often boils down to is a reasonableness test. And
12 to my recent experience with Florida Cities we've
13 passed that reasonable test in all recent rate case
14 proceedings.

15 And we have had, prior to this separate
16 undocketed audit of our affiliate transactions, we
17 have responded to data requests, provided information.
18 We've provided some schedules in the MFRs on a regular
19 basis; and to date, the Commission has not -- I
20 don't recollect them finding anything that's
21 unreasonable.

22 Q Okay. I don't mean to be repetitive, but
23 you can't assure the Commission that there are not
24 impermissible expenses allocated to Florida Cities
25 Water Company, can you?

1 A Let's put it this way: I do not have every
2 invoice in front of me from all of the related parent
3 companies to make that determination at this point.

4 Q And no inquiry of materiality or
5 reasonableness will bring us to that result, will it?
6 Will bring us to an answer to that question, will it?

7 A I guess that probably could be one
8 determination or one methodology, would be to do a
9 more extensive, i.e., invoice by invoice of Florida
10 Cities or Avatar Holdings, Avatar Utilities to, let's
11 say, 100% guarantee there was no coding error, no
12 inadvertent expense of lobbying handed down to the
13 Utility. But as a typical practice, that is not done
14 in terms of assigning lobbying expenses to a utility.

15 Q Does Avatar make chartible contributions?

16 A I don't really know that.

17 Q Do you know whether, if they do, those
18 chartibility contributions are allocated in part to
19 Florida Cities Water Company?

20 A I would say they should not be.

21 Q They should not be, indeed. But how can we
22 show the Commission that they have not been?

23 A The only 100% guarantee would be, here
24 again, invoice by invoice.

25 MR. McLEAN: Thank you, sir. No further

1 questions.

2 COMMISSIONER JOHNSON: Ms. Walla.

3 **CROSS EXAMINATION**

4 BY MS. WALLA:

5 Q Mr. Coel, could you tell me how much reuse
6 water cost to treat per thousand gallons?

7 A Are you referring to any particular exhibit
8 that was discussed previously?

9 Q Florida Cities Water Company --

10 COMMISSIONER JOHNSON: Would you like to
11 have this identified, Ms. Walla?

12 MS. WALLA: Yes, I would.

13 COMMISSIONER JOHNSON: We will identify
14 the -- entitled, "Letter to Marshall Willis from Julie
15 Karleskint," as Exhibit 32.

16 (Exhibit No. 32 marked for identification.)

17 Q (By Ms. Walla) Mr. Coel, could you turn to
18 the last page of that exhibit, please, Florida Cities
19 Water Company's reuse facilities schedules.

20 A Yes, I'm there.

21 Q Could you tell me according to this how much
22 it cost Florida Cities Water to treat reclaimed water
23 per thousand gallons?

24 A What this schedule shows is -- I'm not sure
25 if it's actually a cost per thousand -- but what it

1 shows -- by the way, this is in response to Question 8
2 of Marshall Willis's letter, which I believe talks
3 about the revenue requirement. He tries to tie a
4 revenue requirement to the reuse facilities in this
5 proceeding.

6 What I've attempted to do here is establish
7 briefly, i.e., a stand-alone rate base and entity
8 related to reuse. In the top part of the schedule I
9 pulled out those accounts and those numbers from the
10 original work order for this plant expansion which
11 relate specifically to reuse. Those items were
12 identified with the help of our engineering staff.

13 It continues onward to tabulate the annual
14 depreciation of these items, and the third part of
15 this exhibit shows a rate base for reuse facilities
16 netting out to \$226,271.

17 The next part of this exhibit takes that
18 rate base times the original requested rate of return
19 to give you the required operating income for these
20 reuse facilities. To determine the revenue
21 requirement of these facilities, I then used the gross
22 conversion factor of 1.6789, to establish the revenue
23 requirement at 34,494. Divided by the estimated
24 gallons of reuse per year, I come up with 32 cents as
25 a revenue requirement. That is not a cost, that would

1 be the purely calculated cost per thousand for reuse
2 to reuse customers.

3 I've also shown in this exhibit in the next
4 column over, next to the 32 cents, the 13 cents per
5 the originally filed MFRs. And at the time of this
6 exhibit here it looks like we were aware of 21 cents,
7 which is the current Lee County rate at the time of
8 the filing of this exhibit. This exhibit is dated
9 July 18th, 1995.

10 I also want to point out that this does not
11 show any additional O&M expenses related to these
12 reuse facilities. In talking with Ms. Karleskint, I
13 believe at the time, I asked her would there be any
14 significant O&M expenses related to these facilities?
15 And at that point she said they would be nominal. I
16 don't know if that's changed to date. But that was
17 basically the purpose of this exhibit.

18 Q So are you stating if anything that the cost
19 is higher than the 32 cents to treat it?

20 A No. I'm stating that the 32 cents is the
21 purely calculated on a stand-alone basis the price per
22 thousand to be -- that would be the selling price.

23 Q Florida Cities Water did never -- didn't do
24 any kind of calculations as far as any kind of price
25 per thousand to treat it, then?

1 A I know I didn't, but I can't answer for the
2 rest of the staff members.

3 MS. WALLA: No further questions.

4 COMMISSIONER JOHNSON: Staff.

5 **CROSS EXAMINATION**

6 BY MR. JAEGER:

7 Q Mr. Coel, I have just a few questions.
8 Mr. Walker is passing out Schedules D-2 and D-5 from
9 the MFRs. He's got a couple for you, if you want, or
10 do you have them available?

11 A D-2 and D-5.

12 Q Yes. It's Pages 86 and 92 of the MFRs.

13 A I'll take them. (Hands documents to
14 witness.)

15 Q Mr. Coel, also, do you have your rebuttal
16 testimony handy there, too?

17 A Yes, I do.

18 Q Okay. Turn to Page 7 of that rebuttal
19 testimony, if you would. On Line 6 you discuss a \$2
20 million infusion of equity capital.

21 A That's correct.

22 Q Is that equity component in the capital
23 structure on Schedule D-2, that's Page 86, of the
24 MFRs?

25 A It's not specifically identified. Let me

1 add, the items that I mentioned in here in my rebuttal
2 testimony. Were items which came out of or as a
3 result of the preparation of the MFRs and their
4 related D Schedules for the Barefoot Bay rate case.
5 And what I was merely doing here in my rebuttal
6 testimony is to present the significant known and
7 measurable change of the \$18 million bond issue and
8 the \$2 million parent company equity investment out of
9 the Barefoot Bay rate case, since that occurred I
10 believe -- these entities occurred, I believe, in
11 December 1995, significant enough to be brought into
12 the picture.

13 At the preparation of these D Schedules, D-2
14 and D-5 -- of course, these were filed, I believe,
15 back in May of 1995. The only thing that I see here
16 is on D-5, Line 8, I refer to a series L at \$5 million
17 with a cost rate of 9.5%. I believe that was a
18 projected amount which, in essence, by the time the
19 Barefoot Bay rate case got filed, that became a
20 \$18 million bond issue at a lower rate.

21 Q Okay. Now, the parent company, is that
22 Avatar Utilities?

23 A The direct parent of Florida Cities is, I
24 think, Holdings. Then it goes up the line to Avatar.

25 Q Now, did the parent issue additional equity

1 capital on behalf of this utility system?

2 A If I recollect from the Barefoot Bay rate
3 case -- and here again I'm not sure if it was CWC or
4 FCWC Holdings or Avatar. From what I recollect the
5 purpose of this was -- there was a need to increase
6 the equity/debt ratio of the Company. I myself was
7 not specifically involved with that transaction. And
8 all I was trying to do here in my rebuttal was to
9 incorporate these two known significant transactions
10 into establishing, in essence, a lower rate of return
11 as originally requested in the MFRs for this case.

12 Q Was this equity investment obtained through
13 conversion of intercompany debt into added equity
14 capital?

15 A I'm not 100% sure.

16 Q Let's go to Page 92. You had already jumped
17 ahead to that once.

18 A You're in the MFRs, sir?

19 Q Right.

20 COMMISSIONER GARCIA: It's the second sheet
21 that Staff gave you.

22 MR. JAEGER: Yes, it's the second sheet.

23 COMMISSIONER GARCIA: Okay.

24 A Yes, D-5, sure.

25 Q (By Mr. Jaeger) Okay. Referring to

1 Line 10, and it says "intercompany payable." I think
2 it says regarding a \$2 million company loan. Is this
3 the capital account that was converted to equity
4 investment?

5 MR. GATLIN: Madam Chairman, if the Staff
6 would like this information, Mr. Schifano would be the
7 one to ask. He's the one that is familiar with this.

8 WITNESS COEL: That is true.

9 MR. GATLIN: And I'll be glad to call him up
10 if you want this information.

11 MR. JAEGER: If Mr. Schifano is the better
12 witness --

13 MR. GATLIN: Yes, he's the one that has the
14 firsthand knowledge.

15 MR. JAEGER: Okay.

16 MR. GATLIN: When you finish, I'll call him
17 back up if that's what you'd like.

18 MR. JAEGER: Yes, we just want to get some
19 clarification.

20 MR. GATLIN: Okay.

21 WITNESS COEL: Sure.

22 MR. JAEGER: Then we have no other
23 questions.

24 COMMISSIONER JOHNSON: Any redirect?

25 MR. GATLIN: No redirect.

1 COMMISSIONER JOHNSON: Exhibits.
2 MR. GATLIN: Move Exhibit 30.
3 COMMISSIONER JOHNSON: Show it admitted
4 without objection.
5 COMMISSIONER JOHNSON: Public Counsel.
6 MR. McLEAN: 31, please.
7 COMMISSIONER JOHNSON: Show it admitted
8 without objection.
9 COMMISSIONER JOHNSON: Ms. Walla.
10 MS. WALLA: 32.
11 COMMISSIONER JOHNSON: Show it admitted
12 without objection.
13 (Exhibit Nos. 30, 31 and 32 received in
14 evidence.)
15 COMMISSIONER JOHNSON: You may be excused.
16 Witness Coel excused.)
17 - - - - -
18 COMMISSIONER JOHNSON: Mr. Schifano, did he
19 stay?
20 MR. GATLIN: I hope so after all I talked
21 about. Yes, he did. He gets to testify anyway.
22 COMMISSIONER JOHNSON: Mr. Schifano, you
23 have been sworn.
24 WITNESS SCHIFANO: Yes, I have.
25 COMMISSIONER JOHNSON: Although your

1 testimony has already been inserted into the record,
2 we are going to, I guess -- are you going to offer him
3 or can we go straight to cross?

4 **JOSEPH SCHIFANO**

5 was called as a rebuttal witness on behalf of Florida
6 Cities Water Company and, having been duly sworn,
7 testified as follows:

8 **DIRECT EXAMINATION**

9 **MR. GATLIN:** He's just available for the
10 Staff's questions on this subject, if there are any.

11 **COMMISSIONER JOHNSON:** Go directly to
12 Staff's cross.

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1 FLORIDA CITIES WATER COMPANY
2 NORTH FT. MYERS DIVISION
3 WASTEWATER OPERATIONS
4 REBUTTAL TESTIMONY OF JOSEPH SCHIFANO
5 TO
6 DIRECT TESTIMONY
7 OF
8 KIMBERLY H. DISMUKES
9 Docket No. 950387-SU

10 Q. State your name and business address.

11 A. Joseph Schifano, 4837 Swift Road Suite 100, Sarasota, FL,
12 34231.

13 Q. Are you the same Joseph Schifano who previously filed
14 testimony in this rate proceeding, Docket No. 950387-SU?

15 A. Yes.

16 Q. What is the purpose of this rebuttal testimony?

17 A. The purpose of this rebuttal testimony is to refute a
18 position of OPC witness Kimberly H. Dismukes (KHD).

19 Q. What issue addressed by KHD will you be refuting?

20 A. The issue of Allowance for Funds Purdently Invested
21 (AFPI).

22 Q. Witness KHD on Pages 26 and 27 of her testimony takes the
23 position that FCWC's North Fort Myers wastewater division
24 would not be harmed if she made a used and useful
25 adjustment because she assumes that FCWC would be allowed

1 to accrue an AFPI. Do you agree with her opinion?

2 A. No. FCWC believes that the position taken by Witness KHD
3 relating to AFPI is moot because the Wastewater Treatment
4 Plant is 100% used and useful (See direct testimony of
5 Douglas R. Young, Page 6 regarding used and useful
6 calculations). Regardless, the position that the accrual
7 of AFPI places the utility in the same financial position
8 as including utility plant in rate base is incorrect as
9 follows:

10 First, cash flow is delayed until the new customer
11 connects to the system. It is not possible to pay
12 current payables with accrued AFPI.

13 Second, accrued AFPI is generally only provided over a
14 five year period. After five years the utility
15 shareholder is charged with the cost of carrying any non
16 used and useful plant.

17 Finally, the accrual creates a deferred income tax credit
18 which is included in the cost of capital at zero cost.
19 The impact of the inclusion of the deferred tax,
20 regardless of the portion of the accrual that impacts
21 equity, is an overall reduction in the cost of capital.
22 With the negatives associated with AFPI it is difficult
23 to conceive that the utility is not "harmed" when rate
24 base is reduced by a non used and useful adjustment.

25 Q. Does that conclude your rebuttal testimony?

1 A. Yes.

1 infusion of 2 million?

2 A Well, it's not unlike what the Company has
3 done in the past, parent infusion of capital.

4 Our equity ratio was approaching 30%, which
5 is a minimum allowed in some of our debt instruments.
6 This \$2 million infusion improved that ratio.

7 Q And the infusion, that was made in 1995; is
8 that correct?

9 A Yes, it was.

10 Q And does that tend to increase the cost of
11 capital for this utility?

12 A Yes, it would.

13 Q Did the parent company issue additional
14 common stock in order to supply this capital
15 investment?

16 A No.

17 Q If the parent company did not incur
18 additional equity cost, why should the subsidiary
19 incur an increased cost of capital?

20 A Well, the Company was in a position where we
21 had to, like I said, improve our equity ratio, and it
22 also helped with our debt/equity ratio. In order for
23 the Company to stay viable for being able to
24 finance -- obtain financing through borrowing or other
25 means, this infusion of capital was necessary.

1 Q Referring to the debt component labeled
2 "Series L" on Line 8, and you show a, what, a
3 \$5 million loan amount is reported?

4 A Yes.

5 Q Should this balance be replaced by the
6 \$18 million loan discussed on page -- as Mr. Coel's
7 testimony discussed on Page 7, Line 5, of Mr. Coel's
8 rebuttal?

9 A Yes, it should.

10 MR. JAEGER: That's all the questions we
11 have.

12 MR. GATLIN: No redirect.

13 COMMISSIONER JOHNSON: Thank you. You may
14 be excused, Mr. Schifano.

15 MR. GATLIN: I believe, Madam Chairman, that
16 completes the list of our witnesses. We would suggest
17 that several of the Florida Cities Staff is present,
18 of course, here in the hearing room today. And they
19 are available to your Staff if they would like to
20 consult with them concerning any of the customers'
21 concerns that were expressed yesterday, we will make
22 them available this afternoon.

23 COMMISSIONER JOHNSON: Thank you. We
24 appreciate that. Are there any other closing matters?

25 MR. McLEAN: Only the issue of late-filed

1 exhibits and a time line for when they'll be produced.

2 MR. GATLIN: I only know of one.

3 COMMISSIONER JOHNSON: I think we have two.

4 We have the Capacity Update Report.

5 MR. GATLIN: Okay.

6 COMMISSIONER JOHNSON: And the peak

7 biological design reports.

8 MR. GATLIN: And I think on the Capacity
9 Analysis Report we were going to check to see if there
10 is one. We don't know if there is one or not.

11 COMMISSIONER JOHNSON: So we need a time
12 frame on when we'll --

13 MR. GATLIN: Ten days would be fine with me.

14 MR. McLEAN: That's fine with us, to the
15 extent we asked for them. I'm sorry.

16 MR. GATLIN: I suggested ten days, and I
17 think Mr. McLean --

18 COMMISSIONER JOHNSON: Ten days is
19 sufficient.

20 MR. McLEAN: Yes, ma'am, Although one of
21 those is produced at the instance of Commissioner
22 Garcia, so he should have some voice in this.

23 COMMISSIONER JOHNSON: Ten days.

24 MR. GATLIN: I'll sure listen.

25 MR. McLEAN: We'll go with whatever he says.

1 STATE OF FLORIDA)
2 COUNTY OF LEON)

CERTIFICATE OF REPORTER

3 I, JOY KELLY, CSR, RPR, Chief, Bureau of
4 Reporting, Official Commission Reporter,

5 DO HEREBY CERTIFY that the hearing in Docket
6 No. 950387-WS was heard by the Florida Public Service
7 Commission at the time and place herein stated; it is
8 further

9 CERTIFIED that I stenographically reported
10 the said proceedings; that the same has been
11 transcribed under my direct supervision; and that this
12 transcript, consisting of 804 pages, Volumes 1 through
13 6, constitutes a true transcription of my notes of
14 said proceedings.

15 DATED this 28th day of April, 1996.

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Chief, Bureau of Reporting
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