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MEMORANDUM

December 30, 1996

TO: Maggie O'SSullivan, Division of Legal Services

FROM: Tim Devlin, Division of Auditing and Financial Analysis TD

SUBJECT: Docket No. [redacted]; Gulf Utility Company

Attached is the testimony of Kathy L. Welch to be filed in the above-referenced docket.

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DOCKET NO.: 960329-WS - Gulf Utility Company

WITNESS: **Direct Testimony Of Kathy L. Welch**, Appearing On Behalf Of The Staff Of The Florida Public Service Commission

DATE FILED: JANUARY 6, 1997

DIRECT TESTIMONY OF KATHY L. WELCH

Q. Please state your name and business address.

A. My name is Kathy L. Welch. My business address is 3625 NW 82nd Ave, Suite 400, Miami, Florida.

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

A. I am employed by the Florida Public Service Commission as a Regulatory Analyst Supervisor in the Division of Auditing and Financial Analysis

Q. How long have you been employed by the Commission?

A. I have been employed by the Florida Public Service Commission for seventeen years and six months.

Q. Briefly review your educational and professional background.

A. I have a Bachelor of Business Administration degree with a major in accounting from Florida Atlantic University. I have a Ceritfied Public Manager certificate from Florida State University. I am also a Certified Public Accountant licensed in the State of Florida. I was hired as a Public Utilities Analyst I by the Florida Public Service Commission in June of 1979. I was promoted to Regulatory Analyst Supervisor on January 2, 1990.

Q. Please describe your current responsibilities.

A. Currently, I am a Regulatory Analyst Supervisor with the responsibilities of administering the Miami District Office, reviewing workload and allocating resources to complete field work and issue audit reports. I also supervise, plan, and conduct utility audits of manual and automated accounting systems for historical and forecasted financial statements and exhibits.

Q. Have you testified before this Commission or any other regulatory agency?

A. Yes. I have filed testimony in the following cases: Tamiami Village Utility, Inc. rate case, Docket No. 910560-WS; Tamiami Village Utility, Inc. transfer to North Fort Myers, Docket No. 940963-SU; and General Development Utilities, Inc. rate case, Docket No. 911030-WS.

Q. What is the purpose of your testimony today?

A. The purpose of my testimony is to sponsor the staff audit report of Gulf Utility in this proceeding. The audit report is filed with my testimony and is identified as KLW-1.

Q. Were you responsible for this audit report?

A. Yes, I was the supervisor in charge of this audit.

Q. Please review the audit exceptions in the audit report.

A. Audit Exceptions disclose substantial non-compliance with the Uniform System of Accounts, a Commission rule or order, Staff Advisory Bulletins, and formal company policy. Audit Exceptions also disclose company exhibits that do not represent company books and records and company failure to provide underlying records or documentation to support the general ledger or exhibits.

Audit Exception No. 1 addresses an adjustment made in the last rate case order. Order No. 24735, issued July 1, 1991, on page 7, reduced plant by $20,721 and accumulated depreciation by $9,648 to remove 72% of the cost of a Lexus automobile. However, the Lexus should be fully depreciated by October 1, 1996, so no adjustment is needed for the forecasted test year ended December 31, 1996.

Audit Exception No. 2 addresses the composite amortization rates for Contributions in Aid of Construction (CIAC). Commission rule 25-30.140.

Florida Administrative Code, states:

"the CIAC plant shall then be amortized either by account, function or bottom line depending on availability of supporting information. The amortization rate shall be that of the appropriate account or function of the related CIAC plant. Otherwise, the composite plant amortization rate shall be used."

The utility has amortized contributed property consistent with the related asset, but the cash received is being amortized at a rate of 4.35% for water and 3.13% for wastewater. The utility does a true-up to determine a composite rate. The utility calculates 1) total depreciation for water divided by total plant for water and the same for wastewater, and 2) total CIAC amortization divided by total CIAC for water and for wastewater. Then the utility multiplies the difference in these two rates by the ending balance of CIAC and makes an adjustment.

The composite depreciation rates, excluding intangible and common plant for 1996, using the plant at August 1996, are 3.2% for water and 3.5% for wastewater. The utility should be computing yearly composite rates to amortize the cash CIAC. By correcting everything to the composite rate the utility is eliminating its computations of amortizing the contributed plant at the same rate as the plant. The true up should only apply to the cash CIAC. The audit computed amortization expense for the projected test year 1996, using the August 1996 balance of CIAC. The computations of the composite rate and the adjusted balances are included in the audit report. I recommend that the utility's projected 1996 amortization expense be increased by $12,966.85 for water and decreased by $7,328.67 for wastewater.

The audit also calculated the 13-month average accumulated amortization. This calculation used the utility's general ledger for the period ending September 1996. This average, when compared to MFR Schedule A-14 results in a reduction to the water MFRs of $115,371.53 and the wastewater MFRs should be reduced by $98,456.33.

The staff computation does not include forecasted CIAC not yet recorded. This CIAC is for the University ($261,350) and for the force main on Corkscrew ($127,525.92). Even if these were amortized for an entire year, using the average CIAC amortization, the increase would only be $11,588 for both water and wastewater, not the $213,827.86 difference above.

Audit Exception No. 3 addresses charitable contributions. Commission Rule 25-30.115(1), Florida Administrative Code, requires that "Water and wastewater utilities shall, effective January 1, 1986, maintain its accounts and records in conformity with the 1984 NARUC Uniform Systems of Accounts adopted by the National Association of Regulatory Utility Commissioners." The NARUC Uniform System of Accounts (USOA) prescribes that "donations for charitable, social, or community welfare purposes" should be charged to Account 426 - Miscellaneous Nonutility Expense, a below-the-line account. The utility has included $1,910 ($1,269.60 water and $640.40 wastewater) of charitable contributions in accounts 675.8 and 775.8, miscellaneous expenses for the period September 1995 to August 1996. I recommend that these expenses be reclassified to a below-the-line expense account.

Audit Exception No. 4 addresses revisions to the utility filing. While reviewing the utility filing, the auditors found several discrepancies between the MFR schedules. The utility verified the errors which are contained in the audit report. The corrected numbers were used as a basis for all audit work performed.

Audit Exception No. 5 addresses the forecasted working capital allowance. The utility filing did not provide any forecast methodology for the projection of working capital. The audit staff requested the calculations supporting the methodology. The utility could not provide the information. Therefore, the auditors generated the most current working capital available using August 1995 through August 1996 balances to generate a 13-month average. These amounts were compared to the utility forecast and the utility was requested to provide reasons why the amounts would change from September to December.

In addition to the differences between the to date projections and the utility forecast, the utility projection excluded certain accounts that the Commission usually includes in the allowance and included some accounts which are sometimes excluded. The staff audit report lists the to-date information for the working capital items as well as the utility projections The accounts that were not included by the utility are prepaid income tax (CIAC tax payable was included) and accrued expenses The utility also included unamortized debt discount of $389.922 The balance used by staff is $394.954.19. These numbers are based on accounts 1811. 1812. and 1813. These accounts were also traced to the utility's cost of capital schedule Therefore, they are included in two places in the filing and one set should be removed. The utility has also included miscellaneous current assets. This consists of interest receivable. In previous cases, interest receivable has been disallowed from working capital In Order No PSC 96 1320 FOF WS, issued on October 30, 1996, in Docket No. 950495-WS (Southern States Utilities, Inc.) The Commission stated that:

> Commission policy has been to exclude interest income and interest-bearing accounts for ratemaking purposes. In accordance with this policy, the accrued interest receivable account will be excluded.

Also, by Order No. 10557, issued February 1, 1982, in Docket No. 810136-EU (Gulf Power Company) the Commission held that "These amounts represent earnings on other assets and should not be included in working capital."

Based on past Commission action, I recommend that this account be excluded from working capital. Interest accrued consists almost entirely of the Industrial Revenue Bonds interest accrued. The utility has recalculated its projection of these accounts to be $269,790. The audit calculated an average of $287,918.49.

The utility also requested that accounts receivable be increased for growth of 6% and for the University addition. No dollar projections were provided for the University. If the balances for August 1995 to November 1995 were increased by growth of 6%, accounts receivable would increase by an average of $14,550.36 each month. Multiplying this number by four months and dividing it by thirteen would increase average accounts receivable by $4,477. In response to audit requests, the utility has also provided a revised projection for materials and supplies of $37,476.50 which is $2,237.56 higher than the staff average on the previous page.

Audit Exception No. 6 addresses depreciation expense and accumulated depreciation. In preparing projections for depreciation expense, the utility reduced depreciation expense for retirements. Retirements should only be adjusted to accumulated depreciation. The utility's adjustment understated the forecasted depreciation shown on MFR Schedules B-13 and B-14 The utility also used an incorrect rate in the calculation of depreciation for the proforma for the Corkscrew addition. To determine depreciation expense for future periods. the audit used plant at August 1996 and used the utility's rates. Depreciation on fully depreciated plant was removed and the net was compared to the utility forecast The audit includes a detailed computation which results in an increase to depreciation expense of $102.236.10 for water and $46.688.74 for wastewater.

The audit also computed accumulated depreciation. I recommend that the accumulated depreciation balance at December 31. 1996 be reduced by $172.607.60 for water and $158.464.90 for wastewater This adjustment is based on a thirteen-month average. If the projected additions are included in the forecast for a full year. accumulated depreciation should be increased by $32.468.38 for water and $8.838 97 for wastewater.

The forecasted accumulated depreciation on MFR Schedule A-1. p. 1. includes an additional $93.220 for the Corkscrew addition The increase in depreciation expense included the used and useful forecasted depreciation expense on the Corkscrew addition for the months September through December. The increase of $93.220 is offset by a used and useful adjustment of $50.930. Because the addition will not be in service a full year until 1997. these costs will not be incurred for a full year in the projected test year 1996.

Q. Please review the audit disclosures in the audit report.

A. Audit Disclosures disclose material facts that are outside the definition of an Audit Exception.

Audit Disclosure No. 1 addresses property transactions with an affiliated company. Caloosa Trace is a development which is owned by the same owners as the utility. When developers connect to the system, the lines and hydrants are contributed by the developers and recorded on the books as a debit to plant and a credit to CIAC. The net rate base effect is zero. On February 20, 1990, Gulf Utility Company recorded water assets of $59,683.50 and wastewater assets of $92,815 for the Caloosa Trace Development, Phase I and $8,429.76 of water assets for Unit 16, Phase 8. Instead of a credit entry to CIAC, the owners were given stock in the utility in exchange for the assets. This treatment increases rate base and increases the equity portion of the cost of capital equation. The utility states that the transaction was reviewed by Gulf's auditors and is in compliance with all rules and regulations of the FPSC as well as generally accepted accounting principles. Also, the utility comments that this transaction increases the level of equity, which has historically been below desired levels. I recommend that the affiliate transactions should be required to be treated the same as non-affiliates.

Audit Disclosure No. 2 addresses director fees. For information purposes, I have disclosed the director fees charged to miscellaneous expenses for the test year. These fees amount to $11,970 for water and $6,030 for wastewater.

Audit Disclosure No. 3 addresses affiliate transactions. Caloosa Group is a land development company which is an affiliate of Gulf Utility. Five of Gulf's employees also work for Caloosa and are paid by both companies.

Caloosa is charged $50 per month for the use of Gulf's computer system for payroll, general ledger, and minimal accounts payable. The utility estimates usage at two to three hours a month. Caloosa is also charged $50 per month for office rent and supplies. However, Caloosa purchases its own separate supplies. Backhoe diesel fuel purchased by Gulf is billed to Caloosa at cost. The $1,200 a year charge is credited $396 each to water expense materials and supplies-A&G and miscellaneous expense and $204 each to the same expenses in the wastewater system.

The percentage of Caloosa payroll to total Caloosa and Gulf payroll during the last audit was 12.67%. The most recent payroll register shows Caloosa payroll at 2.13% of total payroll. To determine the difference, the auditors reviewed the hours shown on the Caloosa Earnings and Deductions report and the pay shown and then arrived at an hourly rate. As indicated in the audit report, the hourly rates used for Caloosa and Gulf appear to be very different. In addition, expenses have been charged to Caloosa for the employee benefits or for business expenses and car expenses of James Moore, the utility president.

The audit attempted to determine expenses considered to be related to employees who perform tasks for both companies for the year ended August 31 1996. It then allocated these costs at the 2.13% payroll ratio and compared these costs to the $1,200 a year currently being charged. This method may understate the amount because the allocation basis used is total company payroll and many of the expenses relate to James Moore, who probably should be allocated on an individually higher basis than on a total company basis. This method also understates the amount because of the difference in rates used. However, the audit used a payroll basis because no other allocation method could be determined. I do not believe that this is the best method since Caloosa does not have billing or the high amount of payables as Gulf. But, using this method results in an additional billing to Caloosa of $5,001.81. The details of this calculation are in the audit report.

Audit Disclosure No. 4 addresses office rent. Gulf entered a lease with Caloosa Group to lease new office space. The former office is being converted into offices for operations personnel and storage. The costs associated with this new office lease are estimated at $59,830.

The lease with Caloosa Group is for 33.71% of the building. If no proven outside market exists for affiliate rental property, a cost basis analysis may be used to determine the rent. The audit report presents a calculation using original cost, rate of return, and depreciation. This calculation results in a $20,319.74 reduction to the stated lease amount.

Currently, Caloosa has a lease with an outside party, the Hospital Board of Directors of Lee County. This lease started in May 1996. The lease is a five year lease for 6,460 square feet at $12 per square foot. The lessee is required to pay a proportionate share of operating expenses and is given a $15 per square foot improvement allowance. The utility also has a report from a real estate broker which concludes that the appropriate market rental rate for smaller tenants would be $15 per square gross, inclusive of common area maintenance charges including taxes and insurance. Caloosa is charging $14.50. However, an analysis performed on various office space, in the same report, shows gross rent after adjustments ranging from $11.76 to $15.47 with similar build-out offers. The maintenance costs paid with the Gulf lease are estimated and a portion may be refunded based on actual costs. Expenses for Gulf include $9,827.52 related to Gulf's share of common expenses of Caloosa which include insurance, property taxes, electric, lawn care, and garbage. This amount is $3,599.56 higher than the annualized expense incurred for the first seven months of 1996.

Audit Disclosure No. 5 addresses the San Carlos water line project. As of December 1993, the utility had charged $11,826.87 of invoices, mainly from Humphrey & Knott, for the San Carlos waterline project to a deferred account, 862.13-Engineering for water system development. Recently, the utility added $17,773.59 to this account for invoices from Missimer and Humphrey and Knott. The account is being amortized over 5 years. $8,183.76 is the projected amortization during the forecasted test year. The utility originally described this project as construction work in process. During the last audit, when asked why this had not been charged to construction in process as part of the water line costs, the utility responded that it had not yet received approval from the county for the installation of the line or required mandatory hookups. The current audit again questioned this project. The utility responded that it had abandoned this project because the County Commission would not require mandatory hookups. The amortization is still being included in the forecast.

Audit Disclosure No. 6 addresses projected plant. The filings prepared by the utility contained forecasted plant additions in both the 1996 MFR plant schedules (A5) and in the water rate base schedule as a proforma that has not yet been completed. The filing includes projections of $2,561,563 for the water system and $902,890 for the wastewater system

The contracts did not break down amounts between water and wastewater. Therefore, the audit reviewed the contracts in total. The estimates are $189,433 more than what is shown in the MFR exhibits. In addition, miscellaneous plant projections for water (MFR Schedule A-5) are overstated as of August 1996 by $143,513.14 and wastewater projections are understated by $3,959.96. This creates a net understatement of plant in the exhibits of $49,879.82. Based on our analysis, net plant forecasts seem to be understated based on current projections. However, based on construction work in process dollars, it is questionable whether these amounts will be completed in 1996. In addition, the 13-month average effect is incorrect since these additions were not made in the months they were projected.

Audit Disclosure No. 7 addresses CIAC. The audit examined CIAC as of August 1996. At that time, the general ledger balance was $109,292 more than the water MFR schedules and $30,640 less than the wastewater MFR schedules.

Audit Disclosure No. 8 addresses prepaid CIAC. Excluding the CIAC received from the University, the utility has a balance of $550,999.25 in the water prepaid connections account and $207,304.50 for wastewater. In the MFRs, the utility has projected $171,680 of water CIAC to be transferred from the prepaid account (A-12). The utility has not projected any prepaid CIAC transfers for wastewater during this time period. All the connections in prepaid CIAC appear to be related to plant already in service. However, the only utility adjustment made to used and useful plant was to the proforma plant addition for the Corkscrew water plant. Even though the utility is not yet collecting revenue related to these contributions, it is earning a return on the assets to which the contributions relate since the assets were considered 100% used and useful. Therefore, I recommend that the prepaid CIAC of $379,319.25 for water ($550,999.25-$171,680 projected) and $207,304.50 for wastewater be included in rate base.

Audit Disclosure No. 9 addresses revenue projections. The audit used the actual revenues for September 1995 through August 1996 to look at the reasonableness of the utility's projected revenues. These actual revenues are substantially lower than those projected in the utility's filing. Even if the 1995 portion of these revenues are increased by growth of 6%, as estimated by the utility, the revenues are still understated by $59,948 in the water system and $90,371 in the wastewater system. The difference is probably due to the utility including revenue from the new University for the entire year. But, since the University is not yet complete, the audit's numbers do not contain any revenue from the University.

Audit Disclosure No. 10 addresses a customer survey. The utility performed a customer satisfaction survey and included the costs in the forecast. This is the first time the utility has performed the survey and it intends to perform the survey annually. The costs related to the survey total $9,744.04, allocated $6,431.07 to the water system and $3,312.97 to the wastewater system.

Audit Disclosure No. 11 addresses the engineering for the new University. The utility charged two invoices for engineering costs related to the new University to accounts 631 and 731, Contract Services, Engineering during the September 1995 to August 1996 period used by the auditors to determine expenses. These invoices related to the preliminary survey. They were charged $1,029.36 to the water system and $310.00 to the wastewater system.

Audit Disclosure No. 12 addresses accounting costs for the overearnings investigation. In October 1995, the utility paid Keith Cardey $6,183.50 ($4,204.78 water and $1,978.72 wastewater) to review the overearnings case. The utility charged these costs to accounts 635.8 and 735.8 for water and wastewater, respectively. These costs fall into the period used by staff to determine the reasonableness of expenses. These costs should be non-recurring and may more appropriately be added to deferred rate case expenses since it was the overearnings investigation that triggered the rate case.

Audit Disclosure No. 13 addresses the vice-president's salary. The utility's forecasted expenses include a salary for the Vice-President of the Company, Randall Mann, of $49,608. Mr. Mann does not maintain an office at the utility site but has an office in Jacksonville. He was asked to provide a letter which stated how much time he spends on utility business. It states, "The amount of time spent per week on these various duties varies considerably depending on the needs of the company." The list of duties that he provided includes accounting, financial, tax, and other duties mainly including reviewing and making decisions, setting policy, and preparing tax schedules. A more complete listing is included in the audit report.

Audit Disclosure No. 14 addresses the expense forecast. The utility prepared its forecast of expenses using a zero based budgeting approach. Filings for projected test years usually trend a historic period using growth, inflation, and other known changes. Because the utility's forecasted numbers were difficult to evaluate and the utility had available actual data through August 1996, the auditors decided to determine expenses for the period of

September 1995 to August 1996 and determine any known changes that should occur from September to December 1996. There are two major changes that are going to occur. They are the additions of the University and Corkscrew projects. The utility fully projected the University in its filing. The utility projected the Corkscrew addition in rate base, but did not include it in the forecast of expenses. The auditors prepared an analysis of the balances from September 1995 through August 1996, added the utility proforma adjustments for the University and the Corkscrew addition, and then did an analysis of other known changes. The audit report includes a schedule detailing this calculation. This analysis reveals that the expenses in the filing are $110,380.04 less for water than the prepared analysis. The majority of this is due to the $118,303.50 of expenses the utility expects to incur for the Corkscrew plant addition. For wastewater, the analysis reveals that the expenses in the filing are $20,601.93 more than the utility projected in its forecast.

Audit Disclosure No. 15 addresses James Moore's expenses. The expenses used in Disclosure 14 include $1,867.93 of local business meals and $120.38 of entertainment for James Moore. Descriptions of business meals include discussing health insurance plans, trusts and investments, engineering services, waterline projects, etc. The entertainment included drinks for a San Carlos Water Line Project and a golf outing to discuss keeping insurance costs down.

Audit Disclosure No. 16 addresses taxes other than income. Based on audit analysis, the regulatory assessment fees and property taxes are incorrect. In addition, I believe the payroll taxes are allocated incorrectly between water and wastewater. First, the utility's projected revenues do not generate the regulatory assessment fees (RAF) projected in the filing. My calculations indicate the RAF should be decreased by $715 for the water system and $1,051 for the wastewater system.

The audit also reviewed the 1996 projected property tax. Based on this analysis, I believe the expense was underestimated. The audit report includes the calculation I used to determine an increase to property tax of $7,504 for water and $49,200 for wastewater.

Payroll taxes were allocated using a 66%/34% customer ratio, or $43,806 for water and $22,567 for wastewater. If the taxes were allocated based on the payroll accounts, they would be allocated at 62.61% for water and 37.39% for wastewater. This would reduce payroll taxes for water by $2,462.26 and increase taxes for wastewater by $2,462.26.

Q. Does this conclude your testimony?

A. Yes, it does.

FLORIDA PUBLIC SERVICE COMMISSION
AUDIT REPORT
PROJECTED TEST YEAR END
DECEMBER 31, 1996

FIELD WORK COMPLETED
NOVEMBER 12, 1996

GULF UTILITY COMPANY
LEE COUNTY
RATE CASE

DOCKET NUMBER 960329-WS
AFAD NUMBER 96-233-4-1

Yen Ngo, Audit Manager

Ron Mayes
Iliana Piedra

Minority Opinion
Yes__ No__
Yes__ No KV

Kathy L. Welch,
Regulatory Analyst Supervisor
Miami District Office

INDEX

I. EXECUTIVE SUMMARY

Audit Purpose: We have applied the procedures described in Section II of this report to audit the components of Rate Base, Net Operating Income and Cost of Capital for the forecasted period ending December 31, 1996.

Disclaim Public Use: This is an internal accounting report prepared after performing a limited scope audit; accordingly, this document must not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

Opinion: Subject to the exceptions and disclosures which follow, the books and records of Gulf Utility Company are maintained in substantial compliance with Commission Directives; The expressed opinions extend only to the scope of work described in Section II of this report. Actual ledger balances as of August 1997 were not reflective of the company's forecast. Several exceptions and disclosures are presented to correct the company forecast.

Several of the exhibits contained errors. The company provided revised exhibits which are attached to this report. They were used as a basis for the audit.

The forecast was based on zero based budgeting and not related to the historic year Comparison of year to date figures revealed several discrepancies in the forecast.

II. AUDIT SCOPE

The opinions contained in this report are based on the audit work described below. When used in this report COMPILED and EXAMINED means that audit work includes:

COMPILED-Means that the audit staff reconciled exhibit amounts with the general ledger; visually scanned accounts for error or inconsistency; disclosed any unresolved error, irregularity, or inconsistency; and except as otherwise noted performed no other audit work.

EXAMINED-Means that the audit staff reconciled exhibit amounts with the general ledger; traced general ledger account balances to subsidiary ledgers; applied selective analytical review procedures; tested account balances to the extent further described; and disclosed any error, irregularity, or inconsistency observed.

RATE BASE: Examined Plant in Service. Reconciled Contributed Plant to the CIAC detail. For all other additions since the last audit reviewed invoices, AFUDC, and other supporting documentation. Reconciled beginning balances to last audits.

Examined CIAC. Selected CIAC entries to determine if the company maintained supporting documentation from the developer for contributed assets. Determined that fees were computed at tariff amounts. Reconciled beginning balances to last audited amounts. Determined if forecast compared to actual to date.

Recomputed depreciation and amortization of CIAC. Determined that contributed property was amortized at the same rate the property was depreciated at.

Computed 13-month average working capital Reviewed cash accounts for interest earning balances. Traced to bank statements. Reviewed detail for deferred accounts, both invoices and amortization. Reviewed inventory methodology.

COST OF CAPITAL: Computed 13-month average cost of capital. Traced debt issuances to notes.

NET OPERATING INCOME:

Determined that the proper tariff rates were being used in the current billing period.

Examined expenses. For the period September 1995 to August 1996, performed the following. Determined detailed payroll by employee. Examined all FPL bills. Examined all large dollar invoices for various accounts. Examined all contract service invoices. Examined taxes other than income accounts. Determined reasonableness of affiliate transactions. Prepared proforma adjustments for known changes in expenses and revenues. Determined possible changes in September to December 96 period and compared to the company forecast. The scope was limited in that all forecast numbers from the University and the Corkscrew additions were passed to the staff engineer for review.

Income taxes and deferred taxes were not reviewed due to time restrictions. However, the company reported to staff that they will not be paying taxes in 1996.

III. AUDIT EXCEPTIONS

AUDIT EXCEPTION NO. 1

SUBJECT: ADJUSTMENTS FROM PRIOR ORDERS NOT POSTED

STATEMENT OF FACT: The last rate order contained an adjustment to water plant to adjust for the cost of a Lexus. The adjustment in order 24735 reduced plant by $20,721 and reduced accumulated depreciation by $9,648. These adjustments are not booked.

OPINION: Adjustments from the order should be booked. The amount removed is 72% of the cost of the vehicle. Therefore, accumulated depreciation and depreciation expense are also being adjusted at 72% of the total amount. The Lexus will be fully depreciated by October 1, 1996. Therefore, no adjustment is being made in this case.

AUDIT EXCEPTION NO. 2

SUBJECT: COMPOSITE AMORTIZATION RATES FOR CIAC

STATEMENT OF FACT: The utility has amortized contributed property consistent with the related asset, but the cash received is being amortized at a rate of 4.35% for water and 3.13% for wastewater. The company does a true up to come to a composite rate. The company takes total depreciation for water divided by total plant for water and the same for wastewater. They then take total CIAC amortization for each divided by total CIAC and come up with a rate. They then multiply the difference in these two rates times the ending balance of CIAC and make an adjustment.

According to rule 25-30.140, "The CIAC plant shall then be amortized either by account, function or bottom line depending on availability of supporting information. The amortization rate shall be that of the appropriate account or function of the related CIAC plant. Otherwise, the composite plant amortization rate shall be used."

Although this was pointed out as an audit exception in the last audit, no adjustment was made.

OPINION: The composite depreciation rates excluding intangible and common plant for 1996 using the plant at 8/96, is 3.2 for water and 3.5 for wastewater. The company should be computing yearly composite rates to amortize their cash CIAC. By correcting everything to the composite rate the company is eliminating their computations of amortizing the contributed plant at the same rate as the plant. This was the proper treatment. The true up should only be on the cash CIAC.

Staff computed amortization for projected 1996, using 8/96 CIAC. The computation follows on the next page. The two pages following compute the composite rate by staff for cash contributions. The difference between projected amortization by the company and by staff follows.

	Water	Wastewater
Per Staff -attached sheets	$ 351,175.85	$ 282, 877.33
Per Co. MFR B-13	338,209.00	290,206.00
Difference	$ 12,966.85	$ (7,328.67)

Staff determined 13 month average accumulated amortization using the company number and compared these amounts to the company projected accumulated amortization of CIAC.

	Water	Wastewater
Per staff 13 mth. avg. 9/96	$2,826,953.53	$1,877,617.73
Per company A-14	2,942,325.00	1,976,074.00
Difference	$ (115,371.53)	$ (98,456.33)

The staff computation does not include forecasted CIAC not yet recorded. This CIAC is for the University of $261,350 and for the Force main on Corkscrew of $127,525.92. Even if these were amortized for an entire year, using the average CIAC amortization, the increase would only be $11,588 for both water and wastewater, not the $213,827.86 difference above.

RECOMMENDATION: The company should recompute amortization on cash using a yearly composite and not true-up contributed property to those rates. Staff did not compute the effects on accumulated amortization.

Water expenses need to be reduced by $12,966.85 and wastewater expenses increased by $7,328.67.

Rate base should be decreased by $115,371.53 for water and $98,456.33 for wastewater.

COMPANY: GULF UTILITY COMPANY
TITLE: ANALYSIS OF AMORTIZATION CIAC
TEST YEAR: DECEMBER 31, 1996
SOURCE: 8/96 DEPRECIATION EXPENSE PRINTOUT

ACCOUNT	SERIAL	CATEGORY	CIAC	RATE	CIAC AMORTIZATION
271.1	100	1	2,973,206.60	3.20%	95,142.61
271.1	100	2	1,517,478.99	3.20%	48,559.33
271.1	101	2	556,258.96	2.50%	13,906.47
271.1	101	4	1,045.00	2.50%	26.13
271.1	102	2	122,117.00	2.50%	3,052.93
271.1	103	2	1,457,433.22	2.33%	33,958.19
271.1	103	3	83,887.02	2.33%	1,954.57
271.1	103	3	2,091,493.72	2.22%	46,431.16
271.1	103	3	591,241.82	2.50%	14,781.05
271.1	103	3	312,576.16	4.00%	12,503.05
271.1	103	3	158,331.60	2.85%	4,512.45
271.1	103	3	33,506.76	5.00%	1,675.34
271.1	103	4	615,177.88	2.33%	14,333.64
271.1	104	3	303,410.46	2.22%	6,733.71
271.1	105	2	63,855.00	2.50%	1,596.38
271.1	106	2	299,156.21	4.35%	13,013.30
271.1	107	2	484,860.58	5.00%	24,243.03
271.1	107	3	30,930.43	5.00%	1,546.52
271.1	107	4	3,202.79	5.00%	160.14
271.1	108	3	432,026.82	2.50%	10,800.67
271.1	300	2	7,363.44	3.33%	245.20
WATER			12,228,560.35		351,175.85
271.2	200	1	1,361,201.60	3.50%	47,642.06
271.2	200	2	660,824.58	3.50%	23,128.86
271.2	201	3	539,238.00	2.50%	13,480.95
271.2	202	2	7,710.09	3.33%	256.75
271.2	202	3	1,084,867.03	3.33%	36,126.07
271.2	202	4	162,771.04	3.33%	5,420.28
271.2	204	2	2,024.11	4.00%	80.96
271.2	203	3	664,428.26	3.33%	22,125.46
271.2	204	3	1,316,760.35	4.00%	52,670.41
271.2	205	3	344,772.16	2.63%	9,067.51
271.2	209	3	2,347,588.20	2.22%	52,116.46
271.2	210	3	303,731.56	3.33%	10,114.26
271.2	210	4	49,768.20	3.33%	1,657.28
271.2	211	3	24,752.80	20.00%	4,950.56
271.2	212	3	11,990.00	2.63%	315.34
271.2	214	2	110,233.23	3.33%	3,670.77
271.2	300	1	2.57	3.30%	0.08
271.2	300	2	1,614.22	3.30%	53.27
WASTEWATER			8,994,278.01		282,877.33

ACCOUNT NUMBER	ACCOUNT SERIAL	CATEGORY	VALUE	RATE	DEPRECIATION EXPENSE	DEPRECIATION BY ACCOUNT	LESS FULLY DEPRECIATED ASSETS DEPREC	NET DEPRECIATION
101.10	304.00	3.00	64,[illegible]	3.33%	2,141.84			
101.10	304.00	4.00	[illegible]	4.00%	24.00			
101.10	304.00	3.00	21,012.00	3.33%	[illegible]			
101.10	304.00	2.00	2,740.35	3.33%	88.21			
101.10	304.00	3.00	916.79	3.33%	[illegible]			
101.10	304.00	6.00	[illegible]	3.33%	[illegible]			
101.10	304.00	4.00	[illegible]	3.33%	4.00			
101.10	304.00	4.00	[illegible]	3.33%	6.00			
101.10	304.00	4.00	[illegible]	2.50%	4.00			
101.10	304.00	3.00	[illegible]	2.50%	2,[illegible]			
101.10	304.00	4.00	[illegible]	3.33%	2,[illegible] 11			
101.10	304.00	4.00	[illegible]	3.33%	1,[illegible]			
101.10	304.00	3.00	[illegible]	3.33%	6.40			
101.10	304.00	3.00	1,[illegible]	[illegible]	[illegible] 72			
101.10	304.00	6.00	4,[illegible]	5.00%	214.00			
101.10	304.00	6.00	[illegible]	4.00%	[illegible]			
101.10	304.00	2.00	2,[illegible]	3.33%	[illegible]			
101.10	304.00	2.00	[illegible] 79	3.33%	24.20	28,916.84		28,916.84
101.10	307.00	3.00	[illegible]	3.33%	28,124.38	28,124.38		28,124.38
101.10	309.00	3.00	[illegible]	3.33%	18,048.84	18,048.84		18,048.84
101.10	310.00 ALL		63,795.17	3.00%	4,[illegible] 01	4,[illegible] 01		4,[illegible] 01
101.10	311.00 ALL		793,728.00	3.33%	26,132.40			
101.10	311.00	3.00	310.00	4.00%	28.10	26,160.67		26,160.67
101.10	[illegible]	3.00	4,[illegible]	20.00%	[illegible] 10			
101.10	[illegible]	3.00	[illegible]	10.00%	[illegible]			
101.10	[illegible]	3.00	2,[illegible]	4.00%	102,[illegible] 72			
101.10	[illegible]	2.00	3,[illegible]	4.00%	121.04			
101.10	[illegible]	3.00	[illegible]	4.00%	28,774.38			
101.10	[illegible]	3.00	[illegible]	5.00%	18.00	128,[illegible] 34		128,881.34
101.10	[illegible]	4.00	[illegible]	2.50%	18,[illegible]	18,[illegible]		18,884.82
101.10	331.00	3.00	4,148.00	5.00%	[illegible] 18			
101.10	331.00	3.00	1,[illegible] 75	4.00%	74.31			
101.10	331.00	4.00	[illegible],041.43	4.00%	13,[illegible]			
101.10	331.00	4.00	2,[illegible],918.35	2.50%	[illegible]			
101.10	331.00	4.00	177,[illegible] 79	2.50%	[illegible] 79			
101.10	331.00	4.00	3,[illegible],719.00	2.50%	75,[illegible]			
101.10	331.00	4.00	[illegible] 79	5.00%	[illegible]			
101.10	331.00	4.00	[illegible]	2.50%	18,[illegible]			
101.10	331.00	3.00	[illegible] 14	4.00%	21.72			
101.10	331.00	3.00	3,[illegible]	4.00%	[illegible]	183,[illegible]		183,[illegible]
101.10	333.00 ALL		[illegible] 18	3.33%	28,[illegible]	28,[illegible]		28,[illegible]
101.10	334.00		[illegible]	3.33%	28,[illegible]	28,[illegible]		28,[illegible]
101.10	335.00	4.00	[illegible]	2.50%	3,012.[illegible]	3,012.[illegible]		3,012.[illegible]
101.10	[illegible]	3.00	[illegible] 34	3.33%	6,[illegible]			
101.10	339.00	6.00	[illegible]	4.00%	3.[illegible]	6,[illegible] 34		6,[illegible] 34
WATER COMPOSITE RATE			16,442,[illegible]		488,[illegible]	488,[illegible]	0.00	488,[illegible]
								3.29%

ACCOUNT NUMBER	ACCOUNT SERIAL	CATEGORY	VALUE	RATE	DEPRECIATION EXPENSE	DEPRECIATION BY ACCOUNT	LESS FULLY DEPRECIATED ASSETS DEPREC	NET DEPRECIATION
101.20	[illegible]	4.00	[illegible]	[illegible]	[illegible]			
101.20	[illegible]	3.00	[illegible]	[illegible]	[illegible] 37			
101.20	[illegible]	4.00	[illegible]	[illegible]	[illegible] 10			
101.20	[illegible]	4.00	2,[illegible] 37	[illegible]	[illegible]			
101.20	[illegible]	3.00	[illegible] 16	[illegible]	[illegible]			
101.20	[illegible]	3.00	[illegible]	[illegible]	[illegible]			
101.20	[illegible]	4.00	7,[illegible] 57	[illegible]	[illegible]			
101.20	[illegible]	4.00	[illegible]	[illegible]	[illegible]			
101.20	[illegible]	4.00	[illegible]	[illegible]	[illegible] 13			
101.20	[illegible]	4.00	3,017 [illegible]	[illegible]	[illegible] 47	[illegible]		[illegible]
101.20	[illegible]	3.00	1,[illegible]	[illegible]	[illegible]			
101.20	[illegible]	3.00	[illegible]	[illegible]	[illegible] 12			
101.20	[illegible]	3.00	[illegible]	[illegible]	2,[illegible]			
101.20	[illegible]	3.00	1,[illegible].74	[illegible]	[illegible]	[illegible]		[illegible]
101.20	[illegible]	3.00	2,[illegible] 41	[illegible]	[illegible] 40			
101.20	[illegible]	3.00	[illegible]	[illegible]	[illegible] 47			
101.20	[illegible]	3.00	7,[illegible]	[illegible]	[illegible]			
101.20	[illegible]	3.00	[illegible]	[illegible]	[illegible] 16			
101.20	[illegible]	3.00	[illegible]	[illegible]	1,[illegible] 41			
101.20	[illegible]	3.00	[illegible]	[illegible]	1,[illegible]			
101.20	[illegible]	3.00	[illegible] 16	[illegible]	[illegible]	[illegible] 16		[illegible] 16
101.20	[illegible]	3.00	[illegible],707 47	[illegible]	10,[illegible] 01	10,[illegible] 01		10,[illegible] 01
101.20	[illegible] ALL		[illegible]	[illegible]	13,114 67	13,114 67	(2,[illegible] 17)	[illegible]
101.20	[illegible] ALL		[illegible],115 17	[illegible]	1,312 [illegible]	1,312 [illegible]		1,312 [illegible]
101.20	371.00	3.00	[illegible]	[illegible]	1,[illegible]			
101.20	371.00	3.00	[illegible] 16	[illegible]	2,[illegible]			
101.20	371.00	4.00	[illegible],012 [illegible]	[illegible]	[illegible]			
101.20	371.00	2.00	11,[illegible] 57	[illegible]	442 [illegible]	21,[illegible]		21,[illegible]
101.20	[illegible]	3.00	1,[illegible] 04	[illegible]	[illegible] 04			
101.20	[illegible]	3.00	[illegible]	[illegible]	[illegible] 12			
101.20	[illegible]	4.00	[illegible]	[illegible]	7,[illegible]			
101.20	[illegible]	4.00	1,[illegible],315 14	[illegible]	[illegible],313 [illegible]			
101.20	[illegible]	4.00	[illegible] 73	10.[illegible]	[illegible] 57			
101.20	[illegible]	3.00	1,[illegible] 01	10.[illegible]	[illegible]			
101.20	[illegible]	4.00	[illegible]	4.[illegible]	[illegible]			
101.20	[illegible]	4.00	[illegible] 70	[illegible]	[illegible] 15	[illegible]	(77 [illegible])	[illegible]
101.20	381.00	4.00	[illegible],012 42	[illegible]	10,[illegible]	10,[illegible]		10,[illegible]
101.20	382.00	4.00	[illegible] 12	[illegible]	12,[illegible] 17	12,[illegible] 17		12,[illegible] 17
101.20	[illegible]	4.00	[illegible],371 [illegible]	[illegible]	1,[illegible]	1,[illegible]		1,[illegible]
WASTEWATER COMPOSITE RATE			13,[illegible]		[illegible],844 17	[illegible],844 17	(2,[illegible])	[illegible] 34
								[illegible]%

AUDIT EXCEPTION NO. 3

SUBJECT: CHARITABLE CONTRIBUTIONS

STATEMENT OF FACT: According to the NARUC chart of accounts, charitable contributions are to be charged to account 426, a below the line account. The utility has included $1,910 (1,269.60 water and 640.40 wastewater) of charitable contributions in accounts 675.8 and 775.8, miscellaneous expenses for the period September 1995 to August 1996.

OPINION: These expenses should be reclassified to a below the line expense.

AUDIT EXCEPTION NO. 4

SUBJECT: FILING REVISIONS

STATEMENT OF FACT: While reviewing the company filing, several discrepancies were found between the MFR schedules. The company verified the errors listed below. The corrected numbers were used as a basis for all audit work performed.

Schedule	Description	MFR Amount	Correct Amt.
A-2 pg. 1	Utility Plant in Service	14,282,349	14,280,084
A-2 pg. 2	Utility Plant in Service (Adjustment)	11,416,482	12,806,634
	Working Capital Allowance (Adjustment)	247,407	288,739
A-4	1995 Additions (Water)	670,704	670,530
	1996 Projected Additions (Water)	1,270,217	1,432,367
	1996 Projected Retirements (Water)	18,422	180,573
	1996 Projected Additions (Sewer)	1,276,041	1,326,729
	1996 Projected Retirements (Sewer)	24,021	79,790
	12/31/96 Projected (Water)	17,273,875	17,273,700
	12/31/96 Projected (Sewer)	15,066,855	15,061,774
A-11	1996 Projected Additions (Water)	411,695	729,306
	1996 Projected Additions (Sewer)	390,388	745,198
	12/31/96 Projected Balance (Water)	12,220,686	12,470,301
	12/31/96 Projected Balance (Sewer)	9,060,363	9,356,348

AUDIT EXCEPTION NO. 5

SUBJECT: WORKING CAPITAL FORECAST

STATEMENT OF FACT: The company filing did not provide any forecast methodology for their projection of working capital. Tallahassee staff requested this information through an interrogatory. Miami staff requested the calculations supporting the methodology. The company could not provide the information.

Therefore, staff generated the most current working capital available using 8/95 to 8/96 balances to generate a 13-month average. These amounts were compared to the company forecast and the company was requested to provide reasons that the amounts would change from September to December. Their response is attached to this exception.

In addition to the differences between to date projections and the company forecast, the company projection excluded certain accounts that are usually included and included some accounts which are sometimes excluded by the Commission.

The differences follow:

	Company Forecast 96	Staff Average 8/95-8/96
Cash	$ 332,244	$268,585.71
Accounts Receivable-Customer	305,246	269,102.71
Accounts Receivable-Other	114	183.34
Materials and Supplies	24,426	35,238.94
Unamortized Debt Discount and Expense	389,922	394,954.19
Unamortized Rate Case Expense	57,561	57,561.00 Note A
Preliminary Survey & Investigation	(9,895)	(12,766.78)
Clearing Accounts	(2,026)	(1,746.72)
Other Deferred Debits	130,975	142,743.57
Prepayments	76,850	21,318.52
Mis. Current Assets	78,031	61,109.68
Accounts Payable Trade	(170,889)	(209,853.09)
Taxes Other Than Income	(329,812)	(591,654.78)
Accrued Interest	(239,296)	(287,918.49)
Other Current Liabilities	(49,740)	(59,027.98)
Net working Capital	$ 593,611	$ 87,829.82
Accounts not included by the company:		
Prepaid Income Tax(CIAC tax payable has been included In staff calculation above)		314,362.08
Accrued Expenses		(20,581.53)
Staff working capital if these accounts are included		$ 381,610.37

The company included unamortized debt discount of $389,922 in working capital. The actual balances used by staff are $394,954.19. The company accounts used to arrive at these numbers are accounts 1811, 1812, and 1813. These accounts were traced to the company's cost of capital schedule. Therefore, they are included in two places in the filing and should be removed. This would reduce the $381,610.37 to a negative working capital balance of $13,343.82.

Miscellaneous current assets is actually interest receivable. Interest receivable has been disallowed from working capital in some cases. This would further reduce working capital by $61,109.68. Interest accrued consists almost entirely of the Industrial Revenue Bonds interest accrued. The company has recalculated their projection of these accounts to be $269,790 according to the attached letter. This would increase working capital by $18,128.49 since the staff average is $287,918.49.

The company's letter attached requests that accounts receivable be increased for growth of 6% and for the University. No dollar projections were provided for the University. If the balances for 8/95 to 11/95 were increased by growth of 6% they would increase by an average of $14,550.36 each month. Multiplying this number by four months and dividing it by 13 would increase average accounts receivable by $4,477.

They have also provided a revised projection for materials and supplies of $37,476.50 which is $2,237.56 higher than the staff average on the previous page.

Note A: Company number used-costs not yet incurred

Gulf Utility Company
19910 S. Tamiami Trail
P.O. Box 350
Estero, FL 33928-0350
941/498-1000
FAX 941/498-0625

October 31, 1996

Kathy L. Welch, C.P.A.
Florida Public Service Commission
3625 NW 82nd Avenue-Suite 400
Miami, Fl 33166-7602

RE: Working Capital for Test Year Ending December 31, 1996

Dear Kathy:

The following are Gulf's responses to be added to the FPSC Audit Report:

Accounts Receivable-Customer: The accounts receivable balance was increased to allow for customer growth and addition of the Florida Gulf Coast University revenues. Gulf is expecting a 6% increase in growth and Florida Gulf Coast University revenues were included for 12 months of 1996 projected revenues. The August 1995-August 1996 revenues do not reflect an entire year's increased customers, the Florida Gulf Coast University for 12 months or additional commercial development to be accepted in the last quarter 1996, represented in the MFRs. Due to drier weather, and returning winter residents, revenues increase during the 4th, 1st and 2nd quarters of the year.

Materials and Supplies: Gulf has added 2 sequestering agents to its water treatment chemicals, pyro-phosphate and zinc. The average balance for zinc will be $3,000 per month and $10,140.50 for pyro-phosphate. The tank size for pyro is 500 gallons and Gulf would refill the tank at the 100 gallons level, an average gallonage of 300 gallons. The zinc tank size will be 750 gallons and it would be refilled at 100 gallons also, the average gallonage of 425 gallons would be maintained. 510 Zinc is 14.64#s per gallon, 750 gallons=10,980# per shipment, $7,495.58 per shipment. 500 Pyro is equivalent to 18.32# per gallon. 500 gallons=9,160# per shipment, $11,932.35 per shipment.

The Materials and Supplies budget balance would increase to $37,476.50. This more closely meets Gulf's August 1995-August 1996 Materials and Supplies 13 month average balance.

Kathy Welch
'PSC
Page 2 of 2

Accrued Taxes:

CIAC tax payable was not included in Gulf's MFRs. The CIAC tax payable and all associated accounts such as Income tax estimates paid and CIAC Tax Escrow Accounts were excluded from calculation of working capital in the overearning audit report. The same methodology was used in this schedule.

Accrued Interest: Principal reductions made Oct. 1

1996 Accrued Interest-1988-A:	$260,000	@ 9.25%	x	9 months=	$ 18,038
	$180,000	@ 9.25%	x	3 months=	$ 4,163
	$5,545,000	@ 9.62%	x	12 months=	$533,429
1996 Accrued Interest-1988-B:	$3,970,000	@ 9.5%	x	9 months=	$282,863
	$3,945,000	@ 9.5%	x	3 months=	$ 93,694
1996 Accrued Interest RBN	75,360	@ prime	+ 2.5%	9 mo=	$ 5,412
	75,360	est.	x	3 months=	$ 1,804

Total interest Expense 1996	$939,403
Divided by 12 months	$ 78,284

13 month averages-see attached worksheets:

1988-A IDRB Accrued Interest	$160,531
1988-B IDRB Accrued Interest	108,702
RBN Accrued Interest	557
Total 13 month averages	$269,790

I had projected a 13 month average of $239,296 and Aug 95-Aug 96 average is $287,918.49 according to your worksheet. The real 13 month average should be approximately $269,790.

I am enclosing the Request #23 response in this correspondence. The response to #23 was previously sent to you by Federal Express.

Please call should you have any questions. I will fax & mail this today.

Sincerely,

Carolyn B. Andrews

Carolyn B. Andrews
Chief Financial Officer

AUDIT EXCEPTION NO. 6

SUBJECT: DEPRECIATION

STATEMENT OF FACT: In preparing their projections for depreciation expense, the company reduced depreciation expense by retirements. Retirements should only be adjusted to accumulated depreciation. This caused the forecasted depreciation on B-13 and B-14 to be understated. They also used an incorrect rate in their calculation of depreciation for the proforma for the Corkscrew addition.

To determine depreciation expense for future periods, staff used plant at 8/96 and used the company rates. Depreciation on fully depreciated plant was removed and the net was compared to the company forecast. The detail computations can be found on the following pages.

The net amount of understatement was determined as follows:

	Water	Wastewater
Depreciation per attached sheets	$ 551,576.14	$491,999.17
Projected Depreciation Corkscrew per company	42,390.00	
Non used and useful Corkscrew	(7,511.00)	
Depreciation for a full year on projected additions not yet completed	20,881.05	15,152.57
Total	$ 607,236.19	$507,151.74
Adjustment for error in Corkscrew Rate	(1,374.09)	
Net Staff calculation	$ 605,862.10	
Per company forecast B-13	503,626.00	460,463.00
Difference	$ 102,236.10	$ 46,688.74

Accumulated depreciation is also different than the company projection. Staff computed accumulated depreciation as follows:

	Water	Wastewater
13-month average depreciation 9/95-8/96	$3,582,839.69	$2,684,649.42
13-month average depreciation Meters	157,035.52	
13-month average depreciation General	258,871.42	133,358.01
TOTAL	$3,998,746.63	$2,818,007.43
Depreciation expense per month using above depreciation	45,964.68	40,999.93
At 4 months for September to December increase	183,858.72	163,999.72
Increase 4 months 1995	153,726.51	133,257.78
Net increase over 95	30,132.21	30,741.94
Divided by 13 to get average	$ 2,317.86	$ 2,364.76

13-month average plus increase for most recent depreciation	$ 4,001,064.40	$2,820,372.10
13-month average per company Forecast before Corkscrew Projection	$ 4,173,672.00	$2,978,837.00
Difference-co. overstated	$ 172,607.60	$ 158,464.90

If additions that were included in the forecast were included in accumulated depreciation at a full year, they would increase accumulated depreciation by $32,468.38 for water and $8,838.97 for wastewater and would not make up the difference indicated above.

Forecasted Accumulated Depreciation on MFR A-1 p. 1, in addition to the $4,173,672 shown above contained a $93,220 for the Corkscrew addition. The above increase in depreciation expense included the used and useful forecasted depreciation expense on the Corkscrew addition in the for month adjustment for September to December. The increase of $93,220 is offset by a used and useful adjustment of $50,930. Because the addition will not be in service a full year until 1997, these costs will not be incurred for a full year in the projected test year 1996.

ACCOUNT SERIAL	CATEGORY	VALUE	RATE	DEPRECIATION EXPENSE	DEPRECIATION BY ACCOUNT	FULLY DEPRECIATED ASSETS DEPREC	LESS FULLY DEPRECIATED ASSETS DEPREC
302.00	1.00	4,624.74	3.33%	154.00	154.00		154.00
303.00	ALL	280,375.51	LAND RIGHTS	0.00			
304.00	3.00	64,222.59	3.33%	2,141.84			
304.00	4.00	680.80	4.00%	34.80			
304.00	3.00	21,812.00	3.00%	654.87			
304.00	3.00	2,740.25	3.00%	88.31			
304.00	5.00	810.78	3.57%	28.95			
304.00	5.00	20,478.87	3.00%	620.84			
304.00	4.00	127.88	3.54%	4.53			
304.00	4.00	168.67	3.57%	5.98			
304.00	4.00	160.00	2.50%	4.00			
304.00	2.00	60,179.04	3.33%	2,003.96			
304.00	4.00	88,031.20	3.33%	2,931.11			
304.00	4.00	35,146.88	3.00%	1,085.01			
304.00	3.00	185.10	3.33%	0.40			
304.00	3.00	1,420.86	3.57%	50.72			
304.00	3.00	4,280.00	5.00%	214.00			
304.00	3.00	522,188.04	4.00%	20,887.52			
304.00	3.00	2,201.66	2.50%	55.04			
304.00	2.00	960.78	3.57%	34.30	30,615.84		30,615.84
307.00	2.00	664,682.80	3.33%	22,124.28	22,124.28		22,124.28
309.00	2.00	480,282.85	2.86%	13,848.84	13,848.84		13,848.84
310.00	ALL	85,780.17	5.00%	4,289.01	4,289.01		4,289.01
311.00	ALL	782,728.95	5.00%	38,136.40			
311.00	3.00	510.62	4.54%	23.18	38,159.57		38,159.57
320.00	3.00	4,695.50	20.00%	939.10			
320.00	3.00	8,802.25	10.00%	880.23			
320.00	3.00	2,351,665.66	4.54%	106,766.72			
320.00	2.00	3,025.66	4.00%	121.04			
320.00	3.00	519,354.97	4.00%	20,774.20			
320.00	2.00	201.26	5.00%	10.06	129,991.34		129,991.34
320.00	4.00	622,560.80	2.50%	15,564.02	15,564.02		15,564.02
331.00	2.00	4,143.62	5.00%	207.18			
331.00	3.00	1,636.78	4.54%	74.31			
331.00	4.00	339,841.49	4.00%	13,593.66			
331.00	4.00	2,384,618.33	2.22%	52,464.53			
331.00	4.00	177,875.78	2.86%	5,083.78			
331.00	4.00	3,231,710.63	2.33%	75,298.86			
331.00	4.00	19,466.75	5.00%	973.34			
331.00	4.00	641,288.40	2.50%	16,034.08			
331.00	3.00	543.14	4.00%	21.73			
331.00	2.00	3,947.88	4.00%	157.92	163,619.85		163,619.85
333.00	ALL	824,586.10	2.50%	20,624.66	20,624.66		20,624.66
334.00		591,365.86	5.00%	29,068.29	29,068.29		29,068.29
335.00	4.00	428,470.98	2.22%	9,512.06	9,512.06		9,512.06
339.00	3.00	182,564.34	3.33%	6,079.05			
339.00	5.00	82.05	4.00%	3.29	6,082.34		6,082.34
340.00	ALL	2,424.37	6.67%	161.71			
340.00	ALL	36,986.67	16.66%	6,002.35	6,164.06		6,164.06
341.00	5.00	5,542.00	1.50%	82.00	82.00		82.00
342.00	3.00	604.13	5.56%	33.53	33.53		33.53
343.00	5.00	3,612.00	6.25%	225.78	225.78		225.78
344.00	ALL	8,012.82	6.67%	534.46	534.46		534.46
346.00	5.00	295.74	10.00%	29.57			
346.00	2.00	35,170.91	10.00%	3,517.09			
346.00	4.00	20,557.35	10.00%	2,055.74			
346.00	3.00	888.05	10.07%	89.19			
346.00	5.00	177.31	6.67%	11.83	5,823.38		5,823.38
347.00	ALL	10,863.45	6.67%	724.56	724.56		724.56
348.00	5.00	200.00	10.00%	20.00	20.00		20.00
		16,772,513.91		807,431.14	807,431.14	0.00	807,431.14
per company		16,772,182.00					
difference immaterial		331.91					
ALLOCATE COMMON AT 60%							44,145.45
TOTAL WATER							851,576.59

ACCOUNT SERIAL	CATEGORY	VALUE	RATE	DEPRECIATION EXPENSE	DEPRECIATION BY ACCOUNT	FULLY DEPRECIATED ASSETS DEPREC	LESS FULLY DEPRECIATED ASSETS DEPREC
352.00	1.00	2,250.00	3.33%	74.93	74.93		74.93
353.00 ALL		473,826.77	LAND RIGHTS	0.00	0.00		0.00
354.00	4.00	178,013.57	2.85%	5,073.39			
354.00	3.00	820.00	2.85%	23.37			
354.00	4.00	19,827.53	4.00%	793.10			
354.00	4.00	2,011,335.67	3.13%	62,954.80			
354.00	2.00	5,442.15	2.50%	136.05			
354.00	2.00	496.50	3.13%	15.54			
354.00	4.00	7,934.97	3.57%	283.28			
354.00	4.00	10,165.00	3.03%	308.00			
354.00	4.00	825.00	2.80%	23.13			
354.00	4.00	3,017.00	3.33%	100.47	69,870.82		69,870.82
360.00	2.00	1,508,839.00	4.00%	60,353.56			
360.00	2.00	24,298.00	3.33%	809.12			
360.00	2.00	58,000.00	4.00%	2,320.00			
360.00	2.00	1,961,261.74	3.33%	65,310.02	131,792.70		131,792.70
361.00	2.00	2,391,398.41	2.22%	53,089.40			
361.00	2.00	629,833.80	3.33%	20,973.47			
361.00	2.00	7,045.00	3.33%	234.60			
361.00	2.00	629.00	4.00%	25.16			
361.00	2.00	87,721.00	2.22%	1,947.41			
361.00	2.00	40,000.00	3.33%	1,289.64			
361.00	2.00	502,296.16	2.50%	12,557.40	90,150.16		90,150.16
363.00	2.00	389,707.47	2.63%	10,223.01	10,223.01		10,223.01
364.00 ALL		65,573.37	20.00%	13,114.67	13,114.67	(2,495.17)	10,619.50
365.00 ALL		46,115.17	2.63%	1,212.83	1,212.83		1,212.83
371.00	3.00	43,937.00	3.13%	1,375.23			
371.00	2.00	48,270.18	5.88%	2,078.59			
371.00	4.00	303,012.46	5.50%	16,665.69			
371.00	2.00	11,072.57	4.00%	442.90	21,162.81		21,162.81
380.00	3.00	1,838.84	6.67%	122.64			
380.00	3.00	3,605.58	5.56%	200.12			
380.00	4.00	236,842.58	3.13%	7,408.82			
380.00	4.00	1,483,315.14	5.56%	82,313.60			
380.00	4.00	8,428.73	10.00%	842.87			
380.00	3.00	1,657.61	10.00%	165.76			
380.00	4.00	22,440.26	4.35%	976.90			
380.00	4.00	5,907.78	6.67%	394.15	102,322.84	(77.58)	102,245.26
381.00	4.00	575,612.42	2.85%	16,404.95	16,404.95		16,404.95
382.00	4.00	391,266.52	3.33%	12,867.17	12,867.17		12,867.17
389.00	4.00	33,371.02	5.56%	1,852.09	1,852.09		1,852.09
390.00	5.00	32.94	6.67%	2.19	2.19		2.19
392.00	5.00	495.74	5.56%	27.57	27.57		27.57
393.00 ALL		700.17	6.25%	43.76	43.76		43.76
394.00 ALL		12,079.58	6.67%	805.71	805.71		805.71
396.00	5.00	63.56	6.67%	4.24	4.24		4.24
397.00 ALL		2,659.56	6.67%	177.40	177.40		177.40
398.00 ALL		800.00	10.00%	80.00	80.00		80.00
		13,557,510.83		471,829.87	471,829.87	(2,572.75)	469,257.12
ALLOCATE COMMON AT 34%							22,741.60
TOTAL WASTEWATER							491,998.72

ACCOUNT SERIAL	CATEGORY	VALUE	RATE	DEPRECIATION EXPENSE	DEPRECIATION BY ACCOUNT	FULLY DEPRECIATED ASSETS DEPREC	LESS FULLY DEPRECIATED ASSETS DEPREC
304.00	5.00	10,[illegible].97	3.57%	371.14			
304.00	5.00	5,570.00	2.50%	139.25			
304.00	5.00	169.91	3.13%	5.32			
304.00	5.00	3,[illegible].42	3.03%	91.[illegible]			
304.00	5.00	354.28	3.33%	11.80			
304.00	5.00	6,[illegible].23	4.0[illegible]%	348.33			
304.00	5.00	1[illegible],[illegible]1.28	2.[illegible]%	2,[illegible]1.76			
304.00	5.00	42,[illegible].70	2.00%	845.91			
304.00	5.00	169.[illegible]	10.00%	16.[illegible]	4,[illegible].13	0.00	4,[illegible].13
340.00	5.00	777.[illegible]	2.50%	19.45			
340.00	5.00	1,075.00	1.[illegible]%	17.[illegible]			
340.00	5.00	104,700.00	6.67%	6,[illegible].23			
340.00	5.00	274,715.10	16.[illegible]%	45,787.54			
340.10	5.00	2,318.28	20.00%	463.[illegible]	53,257.71	(26,450.07)	26,807.64
341.00	5.00	168,164.[illegible]	16.[illegible]%	28,016.28	28,016.28	(1,161.[illegible])	26,854.62
342.00	5.00	2,[illegible]	5.[illegible]%	114.14	114.14		114.14
343.00 ALL		38,014.44	6.25%	2,375.90	2,375.90		2,375.90
344.00	5.00	6,642.[illegible]	6.67%	443.08	443.08		443.[illegible]
345.00	5.00	1,000.00	6.67%	[illegible].70			
346.00	5.00	9,[illegible].53	8.33%	829.[illegible]	[illegible]		[illegible]
346.00	5.00	27,[illegible].20	10.00%	2,7[illegible].52			
346.20	5.00	8,247.00	20.00%	1,649.40	4,447.[illegible]	(776.34)	3,671.[illegible]
347.00	5.00	14,[illegible]	6.67%	[illegible].67	[illegible].67		[illegible].67
348.00	5.00	375.00	10.00%	37.50	37.50		37.50
TOTAL COMMON		[illegible].91		95,275.12	95,275.12	(28,3[illegible].07)	[illegible].05
TOTAL ALL		30,483,123.[illegible]		1,074,538.21			

IV. AUDIT DISCLOSURES

AUDIT DISCLOSURE NO. 1

SUBJECT: PROPERTY TRANSACTION WITH AFFILIATE

STATEMENT OF FACT: Caloosa Trace is a development which is owned by the same owners as the utility company. When developers connect to the system, their lines and hydrants are contributed by the developers and recorded on the books as a debit to plant and a credit to CIAC. The net rate base effect is zero. On February 20, 1990 Gulf Utility Company recorded water assets of $59,683.50 and wastewater assets of $92,815 for the Caloosa Trace Development, Phase I and $8,429.76 of water assets for Unit 16, Phase 8. Instead of the credit side of the entry being to CIAC, the owners were given stock in the utility in exchange for their assets. This treatment increases rate base and increases the equity portion of the cost of capital equation. Therefore, increasing the cost of capital.

OPINION: Affiliate transactions should be required to be treated the same as non- affiliates

COMPANY COMMENTS: The shareholders of Gulf and Caloosa Group. Inc. are the same and own the same proportionate share of each company. The transaction was reviewed by Gulf's auditors. It is in compliance with all rules and regulations of the FPSC as well as Generally Accepted Accounting Principles.

The benefit to Gulf of this transaction is increased level of equity, which has historically been below desired levels.

AUDIT DISCLOSURE NO. 2

SUBJECT: **DIRECTORS FEES**

STATEMENT OF FACT: **The utility has charged directors fees to miscellaneous opre accounts 675.8 and 775.8. During the test year the following fees were paid:**

	WATER	WASTEWATER	TOTAL
RUSSELL B. NEWTON, JR.	2,992.50	1,507.50	4,500.00
WILLIAM NEWTON	2,992.50	1,507.50	4,500.00
RUSSELL B. NEWTON III	5,985.00	3,015.00	9,000.00
TOTAL	11,970.00	6,030.00	18,000.00

AUDIT DISCLOSURE NO. 3

SUBJECT: AFFILIATED TRANSACTIONS

STATEMENT OF FACT: Caloosa Group is a land development company which is an affiliate of Gulf Utility. Five of Gulf's employees do work for Caloosa and are paid from both companies. According to a memo from the utility, Caloosa is charged $50 per month for the use of Gulf's computer system to do payroll, a general ledger, and minimal accounts payable. They estimate usage at 2-3 hours a month. They are also charged $50 for office rent and supplies. Caloosa also purchases their own separate supplies. Backhoe diesel fuel purchased by Gulf is billed to Caloosa at cost. The $1,200 a year charge is credited $396 to account 6208, $396 to account 6758, $204 to account 7208, and $204 to account 7758.

The percent of Caloosa payroll to total Caloosa and Gulf payroll during the last audit was 12.67%. The most recent payroll register shows Caloosa payroll at 2.13% of total payroll. To determine the difference, staff reviewed the hours shown on the Caloosa Earnings and Deductions report and the pay shown and arrived at an hourly rate. The hourly rates used for Caloosa and Gulf appear to be very different. The computation of rates, which assume a 40 hour work week, follow:

	Caloosa	Gulf	
President	22.69	56.82	39.93%
Chief Financial Officer	16.74	26.44	63.31%
Assistant to the CFO	9.00	14.47	62.20%
Administrative Manager	9.62	15.94	60.35%
Administrative Assistant	8.00	9.30	86.02%

No expenses have been charged to Caloosa for benefits of the employees, business expenses of James Moore, or car expenses of James Moore. In November of 1995, the company moved into a new office building built by Caloosa.

OPINION: Staff determined expenses considered to be related to employees who perform tasks for both companies for the year September 95-August 1996, allocated these costs at the 2.13% payroll ratio, and compared these costs to the $1,200 a year currently being charged.

The amounts may be understated because the allocation basis used is payroll for total company and many of the expenses relate to James Moore who is probably allocated higher on an individual basis than on a total company basis. It is also understated because of the difference in rates used. A payroll basis was used because no other allocation method could be determined. This is probably not the best method because Caloosa does not have billing or the high amount of payables as Gulf.

Rent at 2.13% (includes proforma for yearly amount)	1,274.38
2.13% of Health Insurance and IRA distribution	3,468.29
2.13% of office supplies which appear to be common (6208 and 7208)	441.22
2.13% of business expense, conference registration and administrative expense (6758 and 7758)	1,207.91
2.13% estimated car expenses James Moore (6508 and 7508)	466.13
2.13% of computer depreciation ($174,125.14 at 16.66% dep. rate)	618.27
INTERCOMPANY AMOUNT PER STAFF	6,201.81
AMOUNT CHARGED BY COMPANY	1,200.00
DIFFERENCE	5,001.81
66% WATER	3,301.19
34% WASTEWATER	1,700.62

RECOMMENDATION: The company should charge Caloosa for all costs above.

AUDIT DISCLOSURE NO. 4

SUBJECT: NEW OFFICE RENT

STATEMENT OF FACT: Gulf Utility has entered a lease with Caloosa Group to lease new office space. The former office is being converted into offices for operations personnel and storage.

The new costs associated with this new office are estimated as follows:

LEASE AMOUNT 3,931 SQ. FT. AT $12 A SQ. FT.	47,172.00
SALES TAX ON LEASE	2,830.32
COMMON EXPENSES RELATED TO LEASE	9,827.52
	59,829.84

The lease with Caloosa group is for 33.71% of the building. Traditionally, if no proven outside market exists for affiliate rental property, a cost basis is used to determine the rent. Using this assumption, rent would be:

BUILDING		567,317.00
LAND		126,324.00
TOTAL		693,641.00
RATE OF RETURN ALLOWED		9.25%
RETURN ON INVESTMENT		64,161.79
DEPRECIATION USING 40 YR LIFE (25-30.140)		14,183.00
COSTS OF BUILDING		78,344.79
% UTILITY SPACE		33.71%
RENT USING COST		26,410.03
RENT ABOVE		47,172.00
DIFFERENCE		(20,761.97)
ALLOCATE PORTION OF REDUCTION TO CALOOSA		(442.23)
NET REDUCTION TO ABOVE CALCULATION		(20,319.74)
	WATER	(13,411.03)
	WASTEWATER	(6,908.71)

Caloosa does now have a lease with an outside party, the Hospital Board of Directors of Lee County. The lease started in May of 1996. The lease is a five year lease for 6,460 square feet at $12 per square foot. The lessee is required to pay a proportionate share of operating expenses and is given a $15 per square foot improvement allowance.

The company has also provided a report from a real estate broker which concludes that the appropriate market rental rate for smaller tenants would be $15 per square gross, inclusive of common area maintenance charges including taxes and insurance. Caloosa is charging $14.50.

However, an analysis performed on various office space shows gross rent after adjustments ranging from $11.76 to $15.47 with similar build out offers.

It should also be noted that the maintenance costs paid with the lease are estimated and a portion may be refunded based on actual costs. Expenses for Gulf include $9,827.52 related to their share of common expenses of Caloosa which include insurance, property taxes, electric, lawn care and garbage. The year to date costs of these services are as follows:

General cost for seven months of 1996	$5,119.16
Annualized by dividing by 7 and multiplying by 12	$8,775.70
Real estate tax	9,473.52
Insurance	225.00
Projected expenses for the building	18,474.22
Space occupied	33.71%
Gulf's share of costs	6,227.66
Portion included in expenses	9,827.52
Projected overstatement	3,599.86
Portion water at 66%	2,375.91
Portion wastewater at 34%	1,223.95

OPINION: Expenses should be reduced by $2,375.91 for water and $1,223.95 for wastewater.

AUDIT DISCLOSURE NO. 5

SUBJECT: SAN CARLOS WATER LINE PROJECT

STATEMENT OF FACT: As of 12/93, the company had charged $11,826.87 of invoices mainly from Humphrey & Knott for a San Carlos Waterline Project to a deferred account, 862.13-Engineering for water system development. Recently, the company added $17,773.59 to this account for invoices from Missimer and Humphrey and Knott. The account is being amortized over 5 years. $8,183.76 is the projected amortization during the forecasted test year. The company worksheet originally described this project as construction work in process. During the last audit, when asked why this had not been charged to construction in process as part of the water line costs, the company responded that they had not yet received approval from the county for the installation of the line or required mandatory hookups. This project was questioned again in the current audit. The company responded that they have abandoned this project because the County Commission would not require mandatory hookups. The amortization is still being included in the forecast.

AUDIT DISCLOSURE NO. 6

SUBJECT: **PROJECTED PLANT**

STATEMENT OF FACT: **The filings prepared by the company contained forecasted plant additions in both their 1996 plant schedules (A5), and in their water rate base schedule as a proforma that have not yet been completed. The filing includes projections for the following:**

Water: (Recorded in A-5)	
University	**$544,982(Shown in Jan. 96)**
Effluent reuse line	**66,667**
Relocation of reuse line	**63,842**
Relocation of water line at Treeline	**60,627**
Corkscrew pumping upgrade	**31,000**
	$767,118
Corkscrew **Plant (Proforma)**	**$1,794,445**
Total	**$2,561,563**

Wastewater: (Recorded in A-5)	
University	**$639,999(Shown in Jan. 96)**
Effluent reuse line	**133,333**
Relocation forcemain Alico and 41	**32,660**
Relocation of line at Treeline	**58,798**
Upgrade to SCWWTP Barrigan and Eastgate	**36,500**
Upgrade Eastgate recoating	**1,600**
Total	**$902,890**

Staff reviewed **estimates for these contracts. The contracts did not break down** water and wastewater. **Therefore, they were reviewed in total. The estimates are $189,433 more than what** is shown in **the exhibits. Miscellaneous plant projections** for water, on **A-5** , however, are overstated **as of August, 1996 by $143,513.14. Wastewater is understated by $3,959.96 This creates a net understatement of plant in the exhibits of $49,879.82.**

	Estimate	Total Water & Wwater Above	Difference	Already In CWIP
Relocate Forcemain 41 and Alico	40,000	32,660	7,340	22,557
University	1,160,208	1,184,981	(24,773)	331,532
Relocation Treeline (net retire)	136,222	183,267	(47,045)	68,281
Forcemain Reuse Main	489,464	200,000	289,464	
Corkscrew Plant	1,775,199	1,794,445	(19,246)	269,154
RTU Panel	41,379	31,000	10,379	
Upgrade Eastgate recoating	1,600	1,600		
Upgrade SWWTP	9,814	36,500	(26,686)	
	$3,653,886	$3,464,453	$ 189,433	$ 691,523

Opinion: Net plant forecasts seem to be understated based on current projections. Although the above items are in projected 1996, the university for the entire year, based on construction work in process dollars, it is questionable whether these amounts will be completed in 1996. In addition, the 13 month average effect is incorrect since these additions were not made in the months they were projected.

AUDIT DISCLOSURE NO. 7

SUBJECT: CIAC

STATEMENT OF FACT: As of August 1996, the filing contained $109,292 less CIAC than what is recorded in the general ledger for water and $30,640 more CIAC than what is in the ledger for wastewater. These numbers were computed as follows:

	WATER	WASTEWATER
Per MFR A-12 as of August 1996	$12,306,621	$9,139,868
Less University not recorded but in MFR in Jan.	146,400	114,950
Net per MFR	$12,160,221	$9,024,918
Per 8/96 General Ledger	12,269,513	8,994,278
Difference	$(109,292)	$ 30,640

As done with plant, the CIAC for the University was recorded for a full year by including it in the January forecast.

AUDIT DISCLOSURE NO. 8

SUBJECT: PREPAID CIAC

STATEMENT OF FACT: The company has projected $171,680 of water CIAC to be transferred from the prepaid account on their filing of projected CIAC on A-12. They have not projected any CIAC for wastewater during this time period.

Excluding the CIAC they have received from the University, the company has a balance of $550,999.25 in their water prepaid connections account and $207,304.50 for wastewater.

These connections appear to be related to plant already in service. The only adjustment made to used and useful plant was to the proforma plant addition for the Corkscrew water plant. Even though the company is not yet collecting revenue related to these contributions, they are earning a return on the assets to which the contributions relate since the assets were considered 100% used and useful.

OPINION: Prepaid CIAC of $379,319.25 for water ($550,999.25-$171,680 projected) and $207,304.50 for wastewater should be included in rate base.

AUDIT DISCLOSURE NO. 9

SUBJECT: REVENUE PROJECTIONS

STATEMENT OF FACT: Revenues using a period of September 95 to August 96 were substantially lower than those projected in the company's filing. If the 1995 portion of these revenues are increased by growth of 6 % as estimated by the company, the revenues are still understated.

	WATER	WASTEWATER
Revenues Sept. to December 1995	$668,381	$388,274
Growth estimated at 6%	x 1.06	x 1.06
Inflated 1995 revenues	$708,484	$411,570
Revenues Jan-Aug 1996	$1,526,925	$802,789
Revenue projection 1996 by staff	$2,235,409	$1,214,359
Revenue projected in filing before rate adj.	2,295,357	1,304,730
Difference	$ (59,948)	$ (90,371)

The difference is probably due to the utility including revenue from the new University for the entire year. Since the University is not yet complete, staff's numbers do not contain any revenue from the University.

AUDIT DISCLOSURE NO. 10

SUBJECT: CUSTOMER SURVEY

STATEMENT OF FACT: The company performed a customer satisfaction survey and included the costs in their forecast. This is the first time they have performed the survey and they intend to perform the survey annually. The costs related to the survey are:

Printing Survey	$1,601.43
Postage	3,888.10
Print letters	1,055.76
Public Relations	3,198.75
Total	$9,744.04
Water	6,431.07
Wastewater	3,312.97

AUDIT DISCLOSURE NO. 11

SUBJECT: ENGINEERING FOR UNIVERSITY

STATEMENT OF FACT: Two invoices for engineering costs related to the new University were charged to account 631 and 731, Contract Services, Engineering during the September 95 to August 96 period used by staff to determine expenses. They related to the preliminary survey. They were charged as follows:

		WATER	WASTEWATER
John Ruskia		470.74	88.48
John Ruskia		558.62	221.52
	Total	1,029.36	310.00

OPINION: The staff engineer needs to review these items to determine if they should be capitalized as part of the new addition related to the University.

AUDIT DISCLOSURE NO. 12

SUBJECT: OVEREARNINGS ACCOUNTING COSTS

STATEMENT OF FACT: In October of 1995, the company paid Keith Cardey $6,183.50 ($4,204.78 water and $1,978.72 wastewater) to review the overearnings case. They charged these costs to accounts 635.8 and 735.8 for water and wastewater respectively. These costs fall into the period used by staff to determine the reasonableness of expenses.

OPINION: These costs should be non-recurring and may more appropriately be added to deferred rate case expenses since it was the overearnings investigation that triggered the rate case.

AUDIT DISCLOSURE NO. 13

SUBJECT: VICE-PRESIDENT'S SALARY

STATEMENT OF FACT: Forecasted expenses included a salary for the Vice-President of the company, Randall Mann of $49,608. Mr. Mann does not maintain an office at the utility site but has an office in Jacksonville. He was asked to provide a letter which stated how much time he spends on utility business. It states, "The amount of time spent per week on these various duties varies considerably depending on the needs of the company."

A list of the duties he is responsible for is attached to this disclosure.

Gulf Utility Company
P.O. Box 350
[illegible], FL 33928-0350
[illegible] Blvd. S.E.
Ft. Myers, FL 33912
(813)267-1000

Randall Mann
Vice President
List of Duties

Accounting

- Review and make recommendations to the President regarding the monthly accounting, general ledger, and financial statement preparation.
- Review preparation of PSC annual report.
- Review and make recommendations to the President and Board of Directors regarding the independent audit report. Implement changes in policy or procedures, if any.
- In conjunction with President and Chief Financial Officer, determine accounting procedures and policies.

Financial

- Review and make recommendations to President regarding annual budget and cash flow projections. Prepare long term cash flow projections.
- In conjunction with President, perform long term financial planning.
- In conjunction with Chief Financial Officer and President, set short and long term investment policy.
- In conjunction with Chief Financial Officer, perform investment management activities.
- In conjunction with President, assist in long term debt management.
- Monitor compliance with debt covenants and restrictions.

Randall Mann
Vice President
List of Duties cont.

Tax

- Prepare tax M-1 schedule and other related schedules for preparation of state and federal tax returns.
- Along with President and outside tax advisors, set tax policies and strategies.
- Prepare and file petitions and reports with PSC regarding CIAC and other tax matters.

Other

- Provide back-up management in case of extended absences or other emergency situations.
- Serve on Board of Directors.
- Perform other special projects as directed by the Board of Directors and President.

AUDIT DISCLOSURE NO. 14

SUBJECT: EXPENSE FORECAST

STATEMENT OF FACT: The company prepared their forecast of expenses using a zero based budgeting approach. Filings for projected test year's usually trend a historic period using growth. inflation, and other known changes.

Because of the difficulty in determining if the company forecasted numbers were correct and the availability of actual data through August 1996, staff decided to determine expenses for the period of September 1995 to August 1996 and determine any known changes that should occur from September to December 1996.

There are two major changes that are going to occur. They are the addition of the University and the Corkscrew addition. The utility projected the University in their filing. The utility projected the Corkscrew addition in rate base, but did not include it in their forecast of expenses.

Staff prepared an analysis of the balances from 9/95 to 8/96, added the company proforma adjustments for the University and the Corkscrew addition and then did an analysis of other known changes. These changes are shown under the staff proforma adjustment column and are further described in the attached list of adjustments. The numbers for the University and Corkscrew additions should be reviewed by the staff engineer. The Miami staff was unable to determine the reasonableness of the quantities needed.

The analysis reveals that the expenses in the filing are $110,380.04 less for water than the prepared analysis. The majority of this is due to the $118,303.50 of expenses the company expects to incur for the Corkscrew plant addition.

For wastewater, the analysis reveals that the expenses in the filing are $20,601.93 more than the company projected in their forecast.

OPINION: The attached schedules, pending engineering adjustments, more accurately reflect the expenses of the company than the filing.

ACCOUNT NUMBER	ACCOUNT	TOTAL WITHOUT UNIVERSITY	PROFORMA UNIVERSITY	CORKSCREW ADDITIONS	STAFF PROFORMAS	PROFORMA NUMBER	TOTAL WITH UNIV & CKSCRW	PER MFR	DIFFERENCE
6010 00	SALARIES & WAGES - ADM & GENERAL	277,732 27			8,700 00 1		[illegible] 27	[illegible] 00	(12,[illegible] 73)
[illegible] 00	SALARIES OFFICERS - ADM & GENERAL	[illegible] 00		44,175 04			234,738 13	178,[illegible] 00	[illegible] 13
6040 00	EMPLOYEE PENSIONS & BENEFITS - ADMIN & GEN	[illegible] 87		8,831 28			117,420 15	113,[illegible] 00	3,[illegible] 15
6150 00	PURCHASED POWER - ADMIN & GENERAL	140,043 57	3,000 00		(1,740 00) 3		141,303 04	138,[illegible] 00	2,780 04
6162 01	FUEL FOR POWER PRODUCTION - WATER TREATMEN	[illegible] 00					[illegible] 00	[illegible] 00	([illegible])
6183 01	CHEMICALS - WATER TREATMENT OPER/CKSW	133,187 83	3,120 00	[illegible] 35			[illegible] 00	141,138 00	[illegible] 00
[illegible] 00	MATERIALS & SUPPLIES - ADMIN & GENERAL	[illegible] 00		2,300 03	(2,[illegible]) 5		[illegible]	[illegible] 00	2,471 [illegible]
6315 00	CONTRACTUAL SERVICES	13,[illegible] 15			1,[illegible] 28 6		[illegible] 40	21,[illegible] 00	([illegible] 57)
6320 00	CONTRACTUAL SERVICES	21,[illegible] 00			872 34 10		22,222 14	27,[illegible] 00	([illegible])
[illegible] 00	CONTRACTUAL SERVICES	[illegible] 45			1,183 37 10		[illegible] 82	32,[illegible] 00	(12,[illegible])
[illegible] 00	CONTRACTUAL SERVICES	123,[illegible] 25			1,912 00 [illegible] 11,24		[illegible] 00	[illegible] 00	21,[illegible] 00
6410 00	RENTAL OF BUILDING	31,[illegible] 77			7,[illegible] 13		[illegible] 00	[illegible] 00	([illegible])
6420 00	RENTAL OF EQUIPMENT	3,[illegible] 01			([illegible]) 14		1,[illegible] 01	1,[illegible] 00	[illegible] 01
[illegible] 00	TRANSPORTATION EXPENSE - ADMIN & GENERAL	14,[illegible] 34					14,[illegible] 34	[illegible] 00	([illegible])
[illegible] 00	INSURANCE - VEHICLE ADMIN & GENERAL	8,115 02			[illegible] 15		[illegible] 00	[illegible] 00	0 00
6570 00	INSURANCE - GENERAL ADMIN & GENERAL	21,[illegible] 00			([illegible]) 15,16		21,[illegible] 00	[illegible] 00	([illegible])
[illegible] 00	INSURANCE - WORKMAN'S COMP ADMIN & GENERAL	[illegible] 41			1,271 [illegible] 15		[illegible] 00	[illegible] 00	0 00
[illegible] 00	INSURANCE - OTHER ADMIN & GENERAL	1,[illegible] 01			[illegible] 00 15		1,[illegible] 00	1,[illegible] 00	([illegible])
[illegible] 00	REGULATORY COMMISSION EXPENSE				[illegible] 00	10 00	[illegible] 00	[illegible] 00	0 00
[illegible] 00	AUTO WRITE OFF - CLOSED CUSTOMER ACCT	3,[illegible] 01					3,[illegible] 01	1,[illegible] 00	1,[illegible] 01
[illegible] 00	MISC. EXPENSE	[illegible]			[illegible] 01 10,20		[illegible] 57	[illegible] 00	1,[illegible] 57
		1,247,[illegible] 02	[illegible] 00	110,[illegible]	45,[illegible] 52		1,417,774 04	1,[illegible] 00	[illegible] 04

ACCOUNT NUMBER	ACCOUNT	1995 TO 1996 TOTAL WITHOUT UNIVERSITY	PROFORMA UNIVERSITY	CORKSCREW ADDITIONS	STAFF PROFORMAS	PROFORMA NUMBER	TOTAL WITH UNIV & CKSCRW	PER MFR	DIFFERENCE
701 00	SALARIES & WAGES	208 601 19			(1 703 00)	1	206 898 19	222 301 00	(15 402 81)
703 00	SALARIES & WAGES - OFFICERS	107 431 17					107 431 17	91 948 00	15 483 17
704 00	EMPLOYEES PENSIONS & BENEFITS	54 233 55					54 233 55	58 539 00	(4 305 45)
711 00	SLUDGE REMOVAL	41 810 70	4,130 00		35 580 00	3	81 520 70	89,530 00	(8,009 22)
715 00	PURCHASED POWER	92 815 51	5 190 00		5 913 64	3	103,919 15	99,530 00	4,389 15
716 00	FUEL FOR POWER PROD	83 15			93 58	21	176 73	500 00	(323 27)
718 00	CHEMICALS	33 553 95	2,330 00		2 119 52	4	38,003 47	44,105 00	(6 101 53)
720 00	MATERIALS & SUPPLIES	37 734 95			(4,277 57)	5	33,457 38	29 404 00	3 053 38
731 00	CONTRACT SERVICES ENG -	6 896 65					6,896 65	8,701 00	(1 804 35)
732 00	CONTRACT SERVICES ACCT	10 598 63					10,598 63	13,806 00	(3,207 37)
733 00	CONTRACT SERVICES LEGAL -	7 105 70					7,105 70	13,403 00	(6,297 30)
736 00	CONTRACT SERVICES OTHER -	91 700 03			6,235 22	7,8 9 12 22,24	97,944 25	93,310 00	4,625 25
741 00	RENTAL OF BUILDING	16 080 92			4,201 12	13	20,342 04	20,343 00	(0 96)
742 00	RENTAL EQUIPMENT	1 401 22					1 401 22	1,500 00	(91 78)
750 00	TRANSPORTATION EXP	7 209 05			320 00	23	7,530 34	8,000 00	(469 66)
756 00	INSURANCE VEHICLE -	4 072 11			317 89	15	4,390 00	4,390 00	(0 00)
757 00	INSURANCE GENL LIAB -	13 558 30			(2,712 98)	15,19	10 845 32	12,285 00	(1,439 68)
758 00	INSURANCE WORK COMP -	8 991 89			908 11	15	9,900 00	9,900 00	0 00
759 00	INSURANCE OTHER -	932 01			68 99	15	1,001 00	1 001 00	0 00
766 00	REGUL COM EXP AMORT OF RATE CASE	(1 160 87)			10,750 87	16	9,590 00	9,590 00	0 00
770 00	BAD DEBT - ADMINISTRATIVE & GENERAL	00 00					00 00	0 00	00 00
775 00	MISC EXPENSES -	22 190 45			3,312 97	20	25,502 42	26,010 00	(507 58)
		785 980 02	11,650 00	0 00	61 322 05	0 00	858,970 07	888,572 00	(29,601 93)

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Exhibit KLM - 1 (Page 43 of 56)

GULF UTILITY
PROFORMA ADJUSTMENTS TO STAFF'S - 8/96 TEST YEAR
DECEMBER 31, 1996 TYE

		DEBITS	CREDITS
	1		
Salaries - Water		$6,700.00	
Salaries - Wastewater			($1,703.00)

Proforma increase for raise 1/1/96 annu..lised and new employee changes.

	2		
NOT USED			

	3		
Sludge hauling		$35,589.00	

Increase due to no sludge being hauled in initial phase of plant due to needing to keep solids. Estimate based on projections. Requested verification by staff engineer.

	3a		
Water - Electric			($1,749.93)
Sewer - Electric		$5,913.64	

Annualize To WWTP plant costs.

	4		
Water - Chemicals			
Wastewater - Chemicals		$2,119.52	

Increase wastewater due to additional lime associated with sludge hauling. Requested verification by Staff engineer.

	5		
Water - Material & Supplies			($2,549.97)
Wastewater - Material & Supplies			($4,277.57)

Remove non-recurring costs for lightening damage and relocating meter at Mariners Cove per co.

GULF UTILITY
PROFORMA ADJUSTMENTS TO STAFF'S - 8/96 TEST YEAR
DECEMBER 31, 1996 TYE

	DEBITS	CREDITS
6		
Contract Services - Water	$1,836.28	
Record two months amortization of consumptive use permit cost, which were not in period used.		
7		
Water Contract Services - Acct.	$7,018.91	
Wastewater Contract Services - Acct.	$3,303.03	
Remove reversing entry made in December 1995 and accrual correction which was out of period.		
8		
Water Acct. - CS	$1,452.00	
Wastewater Acct. - CS	$748.00	
To proforma an annual bill not paid in 1995 due to the rate case		
9		
Water Legal - CS	$3,174.51	
Wastewater Legal - CS	$1,493.89	
To remove journal entry in December 1995 that was reversed of prior period		
10		
Water Acct.	$822.34	
Water Legal - CS	$1,183.37	
To increase for new costs increasing amortization		
11		
Contract Services Other - Water		($10,846.53)
Remove non-recurring and out of period item		

GULF UTILITY
PROFORMA ADJUSTMENTS TO STAFF'S - 8/96 TEST YEAR
DECEMBER 31, 1996 TYE

	DEBITS	CREDITS
12		
Contract Services Other - Wastewater		($1,819.01)
Remove non-recurring insurable lighting damage		
13		
Rent - Water	$7,851.03	
Rent - Wastewater	$4,281.12	
Annualize rent costs; Does not reflect staff adj. for non utility		
14		
Water - Rent equipment		($1,100.00)
Remove non-recurring costs		
15		
Insurance Vehicle - Water	$405.38	
Insurance General - Water	$1,890.07	
Insurance W/C - Water	$1,271.59	
Insurance Other - Water	$83.99	
Insurance Vehicle - Wastewater	$317.89	
Insurance General - Wastewater		($1,303.30)
Insurance W/C - Wastewater	$996.11	
Insurance Other - Wastewater	$68.99	
Change insurable to current invoice		
16		
Misc. Water	$2,935.94	
Annualize amortize of CRSW and CKDC corkscrew disposal permit		
17		
NOT USED		

GULF UTILITY
PROFORMA ADJUSTMENTS TO STAFF'S - 8/96 TEST YEAR
DECEMBER 31, 1996 TYE

	DEBITS	CREDITS
18		
Rate Case Exp. - Water	$20,209.00	
Rate Case Exp. - Wastewater	$10,758.87	
Proforma for rate case expense at company estimate		
19		
Water - Insurance general		($2,542.32)
Wastewater - Insurance general		($1,409.68)
Reduce insurance for actual audit billing period paid in 1996.		
20		
Water - Misc.	$6,431.07	
Wastewater - Misc.	$3,312.97	
To record annual customer survey costs incurred for first time in September 1996.		
21		
Fuel for power production	$93.58	
Increase for fill up paid outside of test year.		
22		
Contract Services - Wastewater	$1,935.54	
Increase contract services for costs that will make 1996 higher than staff's test year selected .		
23		
Transportation Exp. - Wastewater	$328.69	
Increase over staff selected test year.		

GULF UTILITY
PROFORMA ADJUSTMENTS TO STAFF'S - 8/96 TEST YEAR
DECEMBER 31, 1996 TYE

	DEBITS	CREDITS
24		
Water - Contract Services	$1,113.79	
Wastewater - Contract Services	$573.76	

Item that would make 1996 higher than 1995

AUDIT DISCLOSURE NO. 15

SUBJECT: JAMES MOORE'S EXPENSES

STATEMENT OF FACT: The expenses used in disclosure 14, include $1,867.93 of local business meals and $120.38 of entertainment for James Moore. Descriptions on business meals include discussing health insurance plans, trusts and investments, engineering services, waterline projects, etc. The entertainment was for drinks for a San Carlos Water Line Project and a golf outing to discuss keeping insurance costs down.

AUDIT DISCLOSURE NO. 16

STATEMENT OF FACT: TAXES OTHER THAN INCOME

SUBJECT: **Revenues projected in the filing times the 4.5% regulatory assessment fee does not total the regulatory assessment fee projected in the filing.**

	Water	Wastewater
Revenues projected	$2,139,422	$1,671,070
Regulatory Assessment Fee Rate	4.5%	4.5%
Regulatory Assessment Fee	$ 96,274	$ 75,198
Per Forecast on B-15	$ 96,989	$ 76,249
Difference	$ (715)	$ (1,051)

Payroll taxes were allocated using a 66/34% customer ratio or $43,806 for water and $22.567 for wastewater. If the taxes were allocated based on the payroll accounts. (see attachment to disclosure 14) they would be allocated at 62.29/37.17%. This would reduce payroll taxes for water by $2,462.26 and increase taxes for wastewater by $2,462.26.

Based on the 1996 projected tax bills, 1996 projected property tax was underestimated. Staff computed the difference as follows:

	Water	Wastewater
Plant	$15.531.190	$11.982.980
1996 Projected Tax Bills allocated based on plant	77.124	59.506
Tax on Forecasted plant based on % of tax to plant	8.145	4.514
Total staff projection	$ 85,269	$ 64,020
Forecast per company B-15	$ 77,765	$ 49,200
Understatement	$ 7,504	$ 14,819

V. COMPANY PREPARED SCHEDULES

Schedule of Water Rate Base

Company: Gulf Utility Company
Docket No. 960329-WS
Test Year Ended: December 31, 1996

Historic [ ] or Projected [x]
13 Months Average [x] or Year End [ ]

Florida Public Service Commission

Schedule A-1
Page 1 of 3
Preparer: Andrews

Explanation. Provide the calculation of rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use.

Line No.	(1) Description	(2) AVERAGE 13 MONTH BALANCE	(3) Utility Adjustments (a)	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	$16,700,337	$1,794,445	$18,494,782	A-5
2	Utility Land & Land Rights	200,372		200,372	A-5
3	Less Non-Used & Useful Plant (Net)	193,954	881,535	1,075,489	A-5 & A-8
4	Less Accumulated Depreciation	4,173,672	93,220	4,266,892	A-9
5	Less CIAC	12,220,685		12,220,685	A-12
6	Accumulated Amortization CIAC	2,942,325		2,942,325	A-14
7	Less Advances for Construction	4,885		4,885	A-16
8	Working Capital Allowance	358,144		358,144	A-17
9	Total Water Rate Base	$3,607,982	$819,690	$4,427,672	

(a) Source Schedule A-1 Page 3, Col 4, line 16, Col 3 line 18 and Col 5, line 33

Schedule of Sewer Rate Base

Florida Public Service Commission

Company: Gulf Utility Company
Docket No. 960329-WU
Schedule Year Ended: December 31, 1996

Schedule A-2
Page 2 of 2
Preparer: Andrews

Historic [x] or Projected []
13 Months Average [x] or Year End [ ]

Explanation: Provide the calculation of rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	11,416,482		11,416,482	A-6
2	Utility Land & Land Rights	476,498		476,498	A-6
3	Less: Non-Used & Useful Plant				A-6
4	Less: Accumulated Depreciation	2,527,894		2,527,894	A-10
5	Less: CIAC	8,327,963		8,327,963	A-12
6	Accumulated Amortization CIAC	1,706,634		1,706,634	A-14
7	Less: Advances for Construction				A-16
8	Working Capital Allowance	247,407		247,407	
9	Total Sewer Rate Base	$2,991,164		$2,991,164	

Schedule of Requested Cost of Capital
13-Month Average Balance

Company: Gulf Utility Company
Docket No.: 960329-WS
Test Year Ended: December 31, 1996
Schedule Year Ended: December 31, 1996
Historic [ ] or Projected [x]

Florida Public Service Commission

Schedule: D-1
Page 1_ of 2_
Preparer: CNJ&W

Subsidiary [ ] or Consolidated [x]

Explanation: Provide a schedule which calculates the requested Cost of Capital on a 13-month average basis. If a year-end basis is used submit an additional schedule reflecting year-end calculations.

Line No.	Class of Capital		(1) Reconciled To Requested Rate Base	(2) Ratio	(3) Cost Rate	(4) Weighted Cost
1	Long-Term Debt	$	6,995,354	74.77%	10.63%	7.95%
2	Short-Term Debt		60,391	0.65%	11.01%	0.07%
3	Preferred Stock					
4	Customer Deposits		205,735	2.20%	6.00%	0.13%
5	Common Equity		869,272	9.29%	11.88%	1.10%
6	Tax Credits - Zero Cost					
7	Tax Credits - Wtd Cost					
8	Accum. Deferred Income Taxes		1,225,216	13.10%		
9	Other (Explain)					
10	Total	$	9,355,968	100.00%		9.25%

Supporting Schedules: D-2
Recap Schedules: A-1, A-2

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: GULF UTILITY COMPANY
Schedule Year Ended: 12/31/96
Interim [ ] Final [X]
Historic [ ] or Projected [X]

Schedule: B-1
Page 1 of 2
Docket No.: [illegible]-WS
Preparer: Rivero

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Test Year Balance	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	$ 2,285,257	$ 0	$ 2,285,257	$ (155,835)	$ 2,129,422	B-4
2	Operation & Maintenance	1,307,286	0	1,307,286		1,307,286	B-5
3	Depreciation, net of CIAC Amort.	165,417		165,417		165,417	B-13
4	Amortization	6,977		6,977		6,977	B-10
5	Taxes Other Than Income	227,672	0	227,672	(7,017)	220,655	B-15
6	Provision for Income Taxes		86,449	86,449	(56,066) (1)	29,383	C-1
7	OPERATING EXPENSES	1,707,481	86,449	1,793,910	(63,083)	1,729,827	
8	NET OPERATING INCOME	$ 577,886	$ (86,449)	$ 502,447	$ (92,852)	$ 409,595	
9	RATE BASE	$ 4,427,672		$ 4,427,672		$ 4,427,672	A-1
10	RATE OF RETURN	13.28%		11.28%		9.25%	

Note (1) Average rate base	$ 4,427,672
Weighted cost of equity	1.10%
Net income after tax	48,704
Pre-tax expansion factor	1.6033%
Pre-tax income	78,087
Net income per above	48,704
Income tax provision	29,383
Adjusted test year(expense)benefit	(86,449)
Adjustment required	$ 56,066

Schedule of Sewer Net Operating Income

Florida Public Service Commission

Company: GULF UTILITY COMPANY
Schedule Year Ended: 12/31/96
Interim [ ] Final [X]
Historic [ ] or Projected [X]

Schedule: B-2
Page 1 of 2
Docket No.: 960329-WS
Preparer: Rivers

Explanation. Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge

Line No.	(1) Description	(2) Test Year Balance	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	$ 1,204,720	$ 0	$ 1,204,720	$ 366,340	$ 1,571,070	B-4
2	Operation & Maintenance	869,570	0	869,570		869,570	B-6
3	Depreciation, net of CIAC Amort.	170,257	0	170,257		170,257	B-14
4	Amortization	3,594		3,594		3,594	B-10
5	Taxes Other Than Income	122,810	0	122,810	16,485	140,095	B-15
6	Provision for Income Taxes(benefit)			0	32,706 (1)	32,706	C-1
7	OPERATING EXPENSES	1,166,031	0	1,166,031	49,191	1,215,222	
8	NET OPERATING INCOME	$ 138,689	$ 0	$ 138,689	$ 317,149	$ 455,840	
9	RATE BASE	$ 4,928,296		$ 4,928,296		$ 4,928,296	
10	RATE OF RETURN	2.81%		2.81%		9.25%	

Note (1)	Average rate base	$ 4,928,296
	Weighted cost of equity	1.10%
	Net income after tax	54,211
	Pre-tax expansion factor	1.6033%
	Pre-tax income	86,917
	Net income per above	(54,211)
	Income tax provision	$ 32,706