BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Application for certificate to provide wastewater service in Charlotte County, Florida by ISLAND ENVIRONMENTAL UTILITY, INC.

.

Docket No. 020745-SU

_____/

DIRECT TESTIMONY OF

JAMES A. ELDER, P.E.

FILED ON BEHALF

\mathbf{OF}

ISLAND ENVIRONMENTAL UTILITY, INC.

07536 AUG 15 3

FPSC-COMMISSION CLERK

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Q: What is the purpose of your testimony?

- A: The purpose of my testimony is to describe the financial condition of the
 Utility and discuss the financial ability of the Utility and its shareholders to
 deliver the wastewater services it is applying for.
- 5 Q: DOES THE UTILITY HAVE THE FINANCIAL ABILITY TO SERVE THE 6 PROPOSED AREA?
- 7 A: Yes. Because the Utility is not yet in operation, nor will it be, unless and 8 until certificated by the Commission, it does not have financial statements 9 based on actual operations. In its day-to-day operations initially, the Utility 10 will rely on the financial resources of its shareholders, Dean Beckstead and 11 Jack Boyer. There are no written financing agreements with the Utility, 12 however, and all permanent funding for the Utility will either come from the 13 Utility's shareholders or through bank financing which will be guaranteed by 14 the Utility's shareholders.
- The Utility has prepared a cost study showing the basis for the Utility's projected investment, CIAC, capital structure, return on investment, expenses, revenues, and customer growth and demand at 80% and 100% of design capacity, the Orcert.wk3 program provided by Commission Staff. The report is attached as Exhibit ____ (JAE -1).

20 Q: WHAT IS THE APPROPRIATE RETURN ON EQUITY FOR THE UTILITY?

A: I used the formula established by the Commission in its Order No. PSC-030707-PAA-WS in Docket No. 030006-WS, attached as Exhibit (JAE-

| 1 | | 2). As shown on Exhibit (JAE-1), the result is 10.1%, which is well |
|----|----|---|
| 2 | | within the range of 9.68% to 11.96% established by the Order. |
| 3 | Q: | WHAT ARE THE APPROPRIATE WASTEWATER RATES AND CHARGES FOR |
| 4 | | THE UTILITY? |
| 5 | A: | Exhibit (JAE-1) contains a cost study showing the basis for the Utility's |
| 6 | | projected investment, CIAC, capital structure, return on investment, |
| 7 | | expenses, and customer growth and demand at 80% of design capacity, a |
| 8 | | revenue proof, and tariff reflecting the proposed rates and charges for |
| 9 | | wastewater service. It reflects a base facility charge of \$18.82 per ERC, and |
| 10 | | a gallonage charge of \$10.20 per 1,000 gallons with a maximum of 10,000 |
| 11 | | gallons. Based on the seasonality of the residence, I believe that a base |
| 12 | | facility charge of \$45.14 and a gallonage charge of \$2.80 is more appropriate. |
| 13 | Q: | WHAT ARE THE APPROPRIATE SERVICE AVAILABILITY CHARGES FOR THE |
| 14 | | UTILITY? |
| 15 | A: | Exhibit (JAE-1) also contains a cost study showing the Utility's proposed |
| 16 | | service availability charges and related charges. It shows that a connection |
| 17 | | fee of \$4,806 per ERC is appropriate. Of this, \$830 is the plant portion of the |
| 18 | | Englewood Water District's capacity fee. |
| 19 | Q: | HAVE YOU PREPARED A MAP OF THE PROPOSED COLLECTION SYSTEM? |
| 20 | A: | Yes. Attached to my testimony as Exhibit (JAE-3) is a map showing the |
| 21 | | proposed location of the collection system. |
| 22 | Q: | DOES THAT CONCLUDE YOUR TESTIMONY IN THIS DOCKET? |

A: Yes, it does.

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BEFORE THE PUBLIC SERVICE COMMISSION

REGARDING THE APPLICATION FOR CERTIFICATE TO PROVIDE

WASTEWATER SERVICE IN

CHARLOTTE COUNTY, FLORIDA BY

ISLAND ENVIRONMENTAL UTILITY, INC.

Docket No. 020745-SU

EXHIBITS TO

DIRECT TESTIMONY OF

JAMES A. ELDER, P.E.

Exhibit No. ___(JAE-1)

Pro forma Financial Information

Commission Order PSC-03-

Exhibit No. ____ (JAE-2)

0707-PAA-WS

Exhibit No. ___ (JAE-3)

Map of Service Area

Exhibit ____ (JAE-1)

t ,

Scheduls, of Wastewater Operations At 80% of Design Capacity

| Description | Bolance Per Ublity | Staff Adjust | Bai ance Per Statt |
|---------------------------|--------------------------|-----------------|--------------------------|
| Operating Revenues | 432,000 | 338,854 | 770,854 |
| Operating and Maintenance | 312.651 | ۵ | 312,651 |
| Depreciation Expense | 31,235 | ዘ ዊ | 56,243 |
| Takes Other Than Income | 19.440 | 34,690 | 54,030 |
| Income Takes | 20.000 | [] [90] | 16 ,310 |
| Tutal Operating Expenses | 383.385 | 55.948 | <u>439,334</u> |
| Net Operading Iscome | 48.6.14 | 282.906 | 331250 |
| Rate Base | 481337 | | 1405,430 |
| Rate of Aeturn | 10.10% | | 23.59% |

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ISLAMO ENVIRONMENTAL UTILITY, INC. Schedule of Capital Structure Rt 80% of Design Copacity

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DOCHET NO 20745-SU

Schedme No. 3

| Čescription | balance Per | Staff | Salance Per | Recon | tecon. | | | |
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| ang and Short Term Debt | Ø | a | | | | | kate | Cost |
| ustemer Deposits | 3.113,000 | 0 | 3113 DCD 8 | 552372 | 562372 | 40 CC% | 10,214 | 1105 |
| fuances tram Associated Companies her | 2,918,951 | 0 | 12.141.694 | (2 588 551) (1 830 085) | 224,443 | 15 97 % | 100 00% | 15 97 % |
| | | 0 | e | 8 | 61 8 ,809 6 | 49.03% | £.00% | 1925 |
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| | | | | [1]355,969] | 1.405,438 | 100.00% | | 23 59% |

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| Guerall Rate of Return | | |
| | 23.624 | 23 13% |

socona ciyanumirconte, atalaty, INC, Schedule of Wastewater Rote Bose At 80% of Design Expactly

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| Description | Batance Per Filing | Staff Adjust | Balance Per Staft |
|--|--------------------------|-----------------|-------------------------|
| Utility Plant in Service | 1514.046 | 891.543 | 2505589 |
| Laná | 480,000 | 120,000 | 500.00D |
| Accumulated Depreciation | (3 41,2 30) | [108.964] | ["ይርዝ] |
| Contributions in - aid-of-Construction | (1.556,500) | 162,100 | (1.394,400) |
| Accumulated Amortization of C.I.A.C. | 249,040 | (140,587) | 108,453 |
| Working Capital Allowance | 39.001 | 0 | 39,081 |
| TOTAL | 481.337 | 924,093 | 1,405,430 |

ISLAND ENVIRON/ LEWTRE UTILITY, INC.

Scheine of her Plant is her CLAC. At 100% of Design Capacity

DDCH{1 ML 20745-SU

| Schedule | Na, 4 | |
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| zn | CIRC | a | 1593,600 | L593,600 |
| m | Accum Rownerden of Clar, | 1 | (171 <u>0</u> 67) | [177,967] |
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| | tiet ELRE. / tiet Plant | 800% | 57 00% | 57.03% |
| | Grass in Grass theorem Controlution Level | 6.08% | ዛይፀነካ | <u>40.815</u> |
| | Sult Recommended Charge | | 0 | <u> </u> |

ISLAND ENVIRONMENTAL UTILITY, INC.

Calculation of Minimum Westerbeter CLAC

At 1029s of Design Capacity

DOCKET ML 20745-50

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| 350 | Collection Severs - Force | 0 | ٥ | 0 |
| 361 | Collecture Severs - Gravity | 1 265 384 | 159.342 | 1106 022 |
| 362 | Special Callecting Structures | 8 | - 0 | 0 |
| 363 | Services & Custoners | 1 | ۵ | 0 |
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| | Total | 1.265,384 | 159 342 | 1 105 022 |

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| ISCARD ERVIROMMENTAL UTILITY, INC. Revenue Regulares Calculatus Rt 80% al Design Capacay | TEST VERA Revenue Librie | ITERATION #1 NATER | испянэн < = валяш | TERATION ₩] URIER | 1104 1104 # 4 04168 | 176981104 # 5 08168_ |
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| STRIE TRIVABLE INCOME | | | | [652.295] | 78 836 | 58_325 | 58,855 | 68,975 | 62.875 |
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| STRIE INCOME IRK | | | | [36,426] | 4.335 | 1,751 | 1788 | 3,788 | 3,784 |
| FEDERAL TAKABLE INCOME | | | | (538 256) | 79,500 | . 69 625 | 71,077 | 70.698 | 70.09 |
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| Salaries and Wages - Employees | | | | | | |
| Salaries end Bloges - Officers | 25.000 | 50% | 50% | 12.500 | 1.7855 | 12.500 |
| Employee Pensions and Benefics | 45,800 | 100% | - | 46.300 | 6 6102 | C |
| furchased Sewage Treatment | 8.250 | 50% | 50% | 4,125 | 0 5828 | 4,125 |
| ludge Removal | 201202 | _ | 103% | 0 | 0.0020 | 201.312 |
| Purchased Power & Fuel for Power Production | 0 | - | 100% | ٥ | 0.0000 | 6 |
| Aemicals . | 15,129 | - | 100% | ٥ | 0 0020 | 18,429 |
| taterials and Supplies | 0 | - | 106% | 0 | 0.0000 | 0 |
| antractual Services | 1,000 | 50 % | 50% | 500 | 0.0705 | 500 |
| entat af Building / Beat Property | 8.600 | 50% | 50% | 4.000 | 0.5650 | 4.000 |
| ental of Equipment | 0 | 100% | _ | 0 | 0 2000 | 1.000 |
| ransportation Expense | 0 | 100% | _ | ۵ | 0 0000 | c |
| lasursace | 4,160 | 50'h | 50% | 2,080 | 0 2938 | 2,080 |
| luartising Expense | 1,700 | 50% | 50% | 850 | 01201 | 850 |
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| d Deit Expense | ٥ | 50% | 50% | 0 | 0.0009 | ٥ |
| scellaneous Expense | ۵ | 50 % | 50 % | 1 | 8.0000 | a |
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ISLAND EMURDAMENTAL UTILLIV, IML Scheddie af Werzewaer Operation and Makinenaace Per Slatt Ducket MD 20745-SU

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ISLAND ENVIRONMENTAL UTILITY, INC.

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| | | | - |
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| | | | |
| 311 306 | 1.891,476 | <u>†</u> 500 | 1892.976 |
| | | | |

AND EAVIBORMENTEL UTILITY, INC.

reduce of Wastewater Datity Plant In Service

Stall HET NO 20745-50

| | Avera | year l | Yeor 1 | Year 2 | 460° 2 | Year 3 | Year 3 | Year 4 | 469. A |
|---------|---|-----------------|---------|---------------|-----------|---------|-----------|-----------|-----------|
| Account | Recount | Bácitions | Belance | Rdélions | Balance | Addices | Balance | Richtions | Balance |
| fimber | Description | U AMUANS | QPERT E | | | | | | |
| 351 | Organization | 20,000 | 20.000 | 0 | 20 000 | đ | 20.000 | ۵ | 20,060 |
| 352 | Franchises | 1.500 | 1,500 | 1,500 | 3.000 | 1,500 | 4,500 | 1,500 | 5,000 |
| 353 | Land and Land Pichts | 400,000 | 400.000 | g | 400.000 | \$0.000 | 450,000 | 50.000 | 500,000 |
| 354 | Structures and Improvements | 0 | 9 | 184,000 | 184.000 | ٥ | 194,000 | ٥ | 184,000 |
| 350 | Callecoan Sewers - Force | 0 | 0 | 5 | D | 0 | 8 | 9 | 0 |
| 351 | Collection Sewers - Gravity | 5 | 0 | 210,894 | 158612 | 219,894 | 421,783 | 210,854 | \$32,532 |
| 362 | Special Collecting Structures | 0 | 5 | 3 | 0 | 8 | 0 | ٥ | Û |
| 363 | Services to Cestomers | ĝ | C | C | 8 | 3 | 0 | 0 | G |
| 364 | Flow Measuring Geoises | 0 | 9 | 5.000 | 5.000 | 0 | 5.000 | 0 | S,000 |
| 355 | Flow Measuring Installations | C | σ | ٥ | 0 | ٥ | g | g | 5 |
| 370 | Accessing Wells | 8 | đ | 93 913 | 93 913 | 93,913 | 187 825 | 93 913 | 281 738 |
| 371 | Pumping Equipment | ٥ | ٥ | 0 | ٥ | đ | ٥ | 0 | 0 |
| 380 | Treatment and Oisposal Equipment | G | C | ٥ | ٥ | ٥ | 0 | ٥ | 0 |
| 381 | Plan Sewers | 0 | a | 0 | 0 | 0 | a | 0 | ۵ |
| 385 | Out til Stater Lines | 120,750 | 120,750 | 0 | 120.750 | 0 | 120 750 | 0 | 120,750 |
| 389 | Other Plant and Miscellanzous Equipment | 0 | Q | ٥ | 0 | 0 | 0 | 0 | ٥ |
| 390 | Cilice furniture and Equipment | 0 | Û | 0 | ٥ | ٥ | C | 0 | 0 |
| 39} | Transportation Equipment | 30,008 | 30.008 | 0 | 30,600 | 8 | 30,000 | 8 | 30.000 |
| 392 | Stores Equipment | ۵ | 0 | ٥ | 0 | 0 | a | 0 | ٥ |
| 393 | Teols, Shop and Gerage Louipment | 30,000 | 30,000 | 0 | 30 050 | ۵ | 30,000 | Q | 30,000 |
| 354 | Laboratory Equipment | 0 | 0 | 3 | 9 | 0 | ٥ | 0 | Q |
| 395 | Power Operated Couloment | D | 0 | 264,500 | 254,500 | C | 284,500 | 0 | 264.500 |
| 395 | Communication Equipment | 5.600 | 5,660 | 0 | 5 600 | 8 | S 000 | 500 | 5,580 |
| 397 | Hiscelleneous (gwymen) | 6 | G | 9 | 6 | 0 | 0 | 6 | Û |
| 398 | Elber Tangible Plan | 0 | 00 | 0 | 0 | ů | 0 | 0 | 00 |
| | | | | | | | | | |
| | IOTAL PLANT | 607,250 | 507,250 | 759,806 | 1,367,055 | 356,307 | 1,723,363 | 355,805 | 2.080,170 |
| | | | | | | | | | · |
| | LAN0 = | 400.000 | 400.000 | 00 | 400.009 | \$0,000 | 450 000 | 58.000 | 500.000 |
| | TOTAL DEPRECIABLE PLANT | 207,250 | 207,250 | 759,805 | 967 055 | 306,307 | 1 273,363 | 305 805 | 1 500 170 |
| | - | | | 144,004 | 619.105 | 101.000 | 10/3.303 | 303 609 | 1,580 170 |

ISEAND ENVIRONMENTRE UTILITY. INC Schedule of Wastewater Unity Plant In Service Pår Statt VOCKET ND. 2029/5-50

| Account | Account | | | | | | | | | |
|-----------------|--|-----------|-------------|-----------|-----------|-----------|--------------|----------------|-----------|-----------|
| fumber | | Year 7 | ¥ear 7 | Yest 8 | | | | | | |
| | Description | Reditions | Balance | - | Year 8 | Year g | Year g | Year IC | | |
| 351 | Dr ga mzatlon | | | Béditions | Balance | Récilions | Bolsace | Adenticas | Year 10 | Usefut |
| 352 | Franchises | G | 20.000 | | | | | alling a | Balaace | ili. |
| 353 | Land and Land Aughts | 1.500 | 10,500 | 0 | 20,000 | Ð | 20 000 | | | |
| 354 | Structures and Improvements | 50,000 | 500.000 | 1.500 | 12.000 | 1,500 | 13.500 | 0 | 20,000 | 40 |
| 369 | Eollection Sewers - Force | Û | 184 063 | Ű | 500 000 | Û | 500,000 | 1.500 | 15,000 | 40 |
| 351 | Collection Sewers - Growng | Û | 8 | Û | 124,000 | ۵ | 184,000 | 0 | 600,000 | RR. |
| 362 | Special Cattering Structures | 210,89% | 1,054,470 | 0 | ٥ | Q | 101,010 B | 8 | 184,000 | 32 |
| 383 | Services to Castomers | ů. | 0 | 210,894 | 1,265 364 | 0 | 1,255,364 | ٥ | ũ | 30 |
| 35 4 | flow Measuring Dewises | 0 | 1 | Û | 0 | a | 1223.304 | 0 | L265 354 | 45 |
| 365 | flow Measuring Installations | Û | la 652 | ũ | 0 | C | - | C | Ø | 40 |
| | Receiving Wells | 0 | 10 509 G | Ø | 10,000 | 0 | 0 10 mm | 0 | D | 38 |
| 371 | Pumping Equipment | 93,913 | 469,563 | 0- | C | 0 | 10 000 | 5.000 | 15,000 | s |
| 380 | Treatment and Disposal Equipment | D | | 93,913 | 563,475 | n. | 0 | 0 | Ū | s |
| 381 | Plant Sewers | ٥ | C C | ٥ | ۵ | n | 563,475 | 0 | 553,475 | 30 |
| | duttell Sewer Lines | 0 | a | ũ | ٥ | C C | 0 | 0 | 0 | 18 |
| 389 O | Ther Flant and Hiscellanzoes Equipment | D | 120,750 | D | g | n | 0 | 0 | Ø | 13 |
| 390 Di | flice formure and Equipment | Ø | 0 | Û | 120.750 | n | 0 | ٥ | D | 3 |
| | ensportation Equipment | 0 | G | D | 8 | Ċ | 120.250 | Ø | 120,750 | 30 |
| | ires Equipment | ٥ | 30,000 | 0 | ٥ | a | 0 | ٥ | G | 25 |
| 393 Toc | NS. Sdop and Gorage Equipment | Ø | 0 | ٥ | 30.000 | 0 | 0 | 0 | 0 | 15 |
| | oretary Louipment | 0 | 30,000 | ٥ | ٥ | n n | 30 600 | 0 | 30,000 | 5 |
| | er Operated Equipment | 0 | 5 | 0 | 30 000 | a a | D | ٥ | ٥ | 19 |
| | nunication Equipment | Û | 254,500 | G | 0 | а л | 30,000 | 0 | 30,000 | 13 18 |
| 397 Misc | ellenzous faulament | ٥ | 5.507 | ٥ | 264,500 | 1 | 0 | a | G | 15 |
| 398 Dther | Tangible Plant | G | ງມນບ | đ | 5,500 | 0 | 264.500 | G | 284,500 | |
| | _ | | IJ Ċ | Ø | ٥ | a | 5 500 | 0 | 5,500 | 12 |
| | TOTAL PLANT | | | 0 | đ | 0 | Q | Ø | о | fij re |
| | | 356,306 | 2,799 282 | | | U | 0 | ٥ | r. | 15 |
| | lang | | | 305,305 | 3 105,589 | 1 5 20 | | | | 10 |
| | | 56.000 | 550 005 | | | 1500 | 3.107,089 | . 6,500 | 2113 can | |
| | TOTAL DEPACCIABLE PLANT | | 500.000 | 0 | 600.000 | ¢ | | | 3113.589 | |
| | be itemote VIRIT | 305,305 | 1100 100 | | | 0 | 500.000 | 0 | \$10.00e | |
| | | | 2020292 | 306.305 | 2.505.589 | 1644 | | | 600 009 | |
| | | | | | | 1 500 | 2.507 089 | 8 500 | 2 513.589 | |
| | | | | | | | | | C 313 343 | |

Account

SLAND EAVIANN (NTR. UTILITY, INC ichedale al wasiewaler utiling Plant in Service

er Staff

DCKET NO 20745-SU

| Accaunt Number | Accoent Description | Commission Depreciation Bate | Weight | Composite Depreciation | |
|-------------------|--|------------------------------------|------------------|---------------------------|---------|
| 351 | Brganization | | | Bate | |
| 352 | Franchises | 2.50% | 0 80% | | |
| 353 | Load and Lond Rights | 2.50% | 0.50% | 0.02% | |
| 354 | Strozfures and Improvements | | 0.007 | () (31 6 1 | |
| 350 | Collection Sewers - Force | 3.13% | 7.32* | 0.00% | |
| 351 | Collection Sewers - Gravity | 1374 | 7.3C% 0.00% | 0 23% | |
| 352 | Special Collecting Structures | 2.223 | 50.34% | 0 00% | 0.00% |
| 363 | Services to Eustomers | 2.50% | 0.00% | 1125 | 100.00% |
| 364 | flow Heesenag Bevises | 263% | 0.00°, | 0.00 | 0.00% |
| 355 | flaw Heasuring Instationans | 20.00% | 0.00-s 0.50-s | 6 60% | |
| 370 | Receiving Wells | 20 00% | 9 00% | 0125 | |
| 37] | Pumping Eaulpment | 3 33% | 22423 | 0.00% | |
| 360 | Treatment and Disposal Equipment | 5.56% | 0.00% | 0 75 % | |
| | Plant Sewers | 5.55% | 0 00% 0 00% | 0 00% | |
| | Duffall Sewer Lines | 2855 | 0 80%) 0 80%) | 0 60% | |
| | ther Plant and Hiscotlaneous Equipment | 1.33% | | 000% | |
| 390 G | fice Forolitore and Equipment | 4 60% | 4 80% 0.00% | 0 15h | |
| 391 Ir | ansportation Equipment | 6 67% | 0.00% | 0 CC*5 | |
| | ores Equipment | 15.57 | | 0 BC% | |
| | %s. Shop and Garage Equipment | 5 56% | 119% | 0.50% | |
| 394 Lai | loratory Equipment | 8.25% | 0 00% 1 00% | 0.00% | |
| | ier Opersted Equipment | 6 57 % | 1195 0605 | 0 07% | |
| | municadoa Equipment | 8 33% | | 0 00% | |
| | elloneous Equipment | 10 004 | 10.52% 0.22% | 0 38% | |
| | Tangidte flant | 5.67% | 0 CC3 0 00% | 0.02% | |
| | | 10 00% | 8 00% | 0 CG 5 | |
| | TOTAL PLANT | | 0.03.3 | 0 00% | |
| | | | 105 00% | 3584 | |
| | Lano | | | | |

000% 2.22% 000%

2225

TOTAL DEPRECIABLE PLANT

SLAMO ENVIRONMENTAL UTILITY, INC.

cliegate of Wastewater Accomutated Represiona

er Statt ICKET NO 20245-SU

Vear 3 Year 1 4285 4 Vear 4 9ear 2 Year I 922F 1 Year 2 Account Account Beditlans Bolages 866iusas Belance Salance Sidness Beleace **Bootings** flumber. Description 1,750 500 351 Ør ganization 250 250 500 750 500 1,250 300 56 75 94 169 131 352 Franchises 19 13 Q 353 Lond and Lond Rights û g Û ٥ 0 ۵ 0 354 Strectures and Improvements g 2,875 2.875 5,750 8,625 5,750 N.375 0 350 Collection Sewers - Force 8 ۵ 8 0 ũ. 6 0 Ø 361 Collection Sewers - Gravdu ũ 2,343 2,343 7,030 9.373 11,716 21,089 n 352 Special Collecting Structures Ũ 8 ā 0 8 Ŭ. R Ø 363 Services to Customers đ 3 ប 8 Ũ 8 8 0 364 Flow Measuring Deutses ũ 8 500 500 1.000 1.500 1,000 2.500 365 flaw Measuring Installations ۵ ۵ ۵ 3 8 J 9 û 370 Receiving Bells 8 1.555 Ð 1,565 FH.067 4,636 6.28) 7.926 371 Pemping Equipment Û 8 0 G Q ۵ 0 ٥ 336 Treatment and Disposel Equipment Û Ø ٥ 3 0 1 đ 8 381 Plant Sewers 8 3 n 0 Û ٥ Û ß 382 Butfall Sewer Lines 2,013 2,613 4,025 **6 0**38 4 025 10.063 4,025 14,088 389 Other Plant and Miscellaneous Equipment 9 đ 0 ۵ a ß ٥ Ð 330 Office Furniture and Equipment ថិ ۵ 8 0 9 8 đ ß 391 Fransportation Equipment 2,500 2.500 5,000 7,500 5,000 12,500 17,500 5,000 392 Stores Equipment 8 1 5 ۵ n 9 0 0 Tools Shop and Garage Equipment 393 938 938 1875 2,813 1875 4,588 1,875 6,563 334 Laboratory Equipment Q 8 ð Û 2 A C Q 395 Power Operated Equipment 0 8 11.821 11 021 22 OH 2 33,863 519.55 55.10H 395 Communication Equipment 250 250 590 750 500 1,250 525 1,775 397 Hiscellaneous Equipment 0 Û 0 ۵ û g 0 ٥ 338 Other Tangible Plant 0 Ĝ 8 0 û ٥ 0 8 TOTAL PLANT 5,969 5 959 30,261 35,229 52.51) 88,**7**40 80 390 143,130

| Vear 5 | Year S | Year 6 | Year 6 |
|----------|---------|---------|---------|
| Addroeps | Balance | Rédmons | Belaoce |
| 508 | 2,250 | 500 | 2,750 |
| 169 | 469 | 205 | 575 |
| Û | đ | 0 | 0 |
| 5.750 | 20125 | 5,750 | 25.875 |
| 9 | Q | 0 | |
| 16,463 | 37,492 | 18,745 | 56,238 |
| 0 | 0 | 0 | 01130 |
| Ø | ٥ | ٥ | a |
| 1.500 | 4 000 | 2 000 | 5,800 |
| 0 | ٥ | ٥ | 0 |
| 10,955 | 25 (43 | 12 522 | 37.555 |
| ũ | ٥ | 0 | 0 |
| a | Q | Ð | ů. |
| D | 0 | Q | 0 |
| 4.025 | 18 113 | 4.025 | 22,138 |
| 0 | ٥ | ٥ | 1 |
| Q | 0 | 0 | 0 |
| 5.000 | 22,500 | 5,008 | 27,500 |
| ŋ | ٥ | 0 | 0 |
| 1,875 | 8.438 | 1875 | 10,313 |
| 0 | ٥ | 0 | 0 |
| 25 GHS | 77,14B | 22.042 | 95,189 |
| 550 | 2325 | 550 | 2 875 |
| đ | ٥ | 0 | 1.0/3 |
| 0 | 0 | 0 | 0 |
| 68 770 | 217,500 | 73 216 | 29),116 |

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SLADD EAVIADATTENTAL UTILITY, INC. chedule of Wostewater Accumulated Depreciation er Staff XCHET AD 20745-SU

| Account | Recount |
|---------|---|
| Number | Bescription |
| | |
| | 351 Ofgenization |
| | 52 Franchises |
| | 53 Load and Load flights |
| 3 | 54 Structores and Improvements |
| 36 | 0 Collection Sewers - Force |
| 35 | 1 Edlection Sewers - Gravky |
| 36 | |
| 353 | |
| 354 | |
| 355 | flow Measuring Installations |
| 370 | Receiving Wells |
| 371 | Pumping Equipment |
| 380 | Treatment and Disposal Equipment |
| 381 | Plant Sewers |
| 385 | Outfall Sewer Lines |
| 389 | Other Plant and Miscellaneous Equipment |
| 390 | Office furniture and Equipment |
| 391 | Transportetion Equipment |
| 392 | Stores Loupment |
| 393 | Tools. Shap and Garage Equipment |
| 334 | Lebarotary Lawpment |
| 395 | Power Darries Found |

- 395 Power Operated Equipment
- 396 Eanmenication Equipment
- 397 Miscellaneous Equipment

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398 - Other Tacquile Plant

SLAND ENVIRONMENTAL UTILITY INC.

chedule of Wastewater Rocumulated Depreciation

er Stall Icket no 20745-su

Year 10 Year 10 P 1884 Yeat 7 Year 8 Vear 8 922¢ 9 Year 7 Recount Recount Balance 8000iens **Bécilians** Balance Edditions Balance Réditions Belance Description តីមភាជឧក 500 4,750 500 3,750 500 4,250 500 3,250 351 Grganization 319 1,519 358 1,875 135 1 200 352 Franchises 219 919 1 Û 0 8 Û 0 353 Lend and Lend Alghes Q Û 48,875 31,525 5,750 37,375 5,750 43,125 5,750 394 Structures and Improvements 5,750 5 350 6 Collection Sewers - Force 0 Û 0 Ű ð N 159,342 381 Collection Sewers - Gravity 2) 099 77,328 25,778 HOI EDI 28,119 131,223 28,82 382 Special Collecting Structures ۵ 0 9 Ø ٥ ۵ 0 Ũ 363 Services to Costomers 8 8 G 9 Ũ 8 S ۵ 364 Flow Measuring Devises 2.000 8,000 2 898 10 000 2.008 12 000 2.500 14 SCO 365 flow Measuring Installations ۵ Q Ũ 3 ſ 6 8 0 370 Receiving Wells 79 087 51,852 17,217 58 659 18 793 87,652 18 783 106,434 37) Pemping Equipment Ç 0 G 6 ٥ 3 0 8 399 Treatment and Disposal Covipment 8 Û 1 3 9 ũ đ 0 Plant Sewers 38I ۵ ۵ 9 0 8 8 ۵ Û 382 Outical Secure Lines 4,025 25,163 9,025 30,188 4,025 34.213 4 D2S 38,239 389 Miter Plam and Miscellaneous Egoloment 8 8 3 9 8 Ø 8 8 390 Office Ferature and Equipment g Û ß ß 0 Û 0 0 39ł Transportation Compment 5 008 32,500 5,000 37,500 5,000 42,500 5,000 47,500 392 Stores Equipment Q 8 0 8 8 ٥ 8 ٥ 393 Tools, Shop and Garage Equipment 1.875 12,188 1,875 14,063 1,875 15,938 1,875 17,813 39H Laboratory Equipment 8 Q 8 8 8 8 8 0 395 Power Operated Equipment 22,092 121,229 55 GHZ 143,271 22 **0**42 165 313 22.042 187,354 395 Communication Equipment 555 3,425 550 3 975 550 4,525 550 5,07\$ 397 Miscellaneous Equipment ß 0 D 3 0 0 0 8 <u>109</u> Other Tangible Plant 8 8 ٥ û a ß Û ٥ TOTAL PLANT 77,162 358 278 85,015 453,294 88 962 542,255 89,500 531,755

| 4eer 5 Addiwaas | Year S Balance | 4ear 5 Actorops | Year 6 Belenc e |
|--------------------|-------------------|--------------------|---------------------------|
| 60 | 350 | 50 | 430 |
| 005 661 | 796,800 | 199,200 | 995.009 |
| Û | 0 | a | 0 |
| Ĵ | | 00 | |
| 005 661 | 796,800 | 005 661 | 936,000 |

.

| Year S Rúdioons | Year S Balance | Year 6 Bóditians | Year B Balance |
|--------------------|-------------------|---------------------|-------------------|
| IS 493 | 35,413 | 19,520 | \$5.313 |
| ٥ | 0 | 0 | |
| 0 | 00 | 0 | |
| 15,483 | 35 413 | 056 61 | 55,333 |

ISLAMO ENVIRONMENTAL UTILITY, INC. schedule of Westewater Contributions-In-Ald-of-Coastraction 'er Staf!

OCKET NO. 20745-SU

| Accoani Number 271 | EMTER EACS CLAC - Unes | Accean Description | Year I Bildileos 30 | Vesr Sələner 30 | Yzar 2 Rdáltons | Ven 2 Balance | Year 3 Additeas | Year 3 Bola <u>nce</u> | Year 4 Adaliicas | Veor 4 Belonce |
|--------------------------|-----------------------------|-----------------------|-------------------------------|-------------------------|--------------------------|-------------------|------------------------|---------------------------|-------------------------|---------------------|
| | LIAC - Cosk CIAC - Other | TOTRL | 0 0 0 0 | 0 8 0 | 80 199,200 0 51 | 0 03.291 01 | 80 199200 0 0 | 190 398,400 6 0 | 80 199,200 0 0 | 270 597,500 0 |
| | | | | <u>U</u> | 199,200 | 199,200 | 199 200 | 398.400 | 199,200 | 597 500 |

) ENVIRONMENTAL UTILITY, INC.

ute of Accumulated Amortization of Wasizwater C.I.R.C.

tii

NO 20745-SU

| Rccord Description Rccom Amortization of CIRC, - Lines Rccom Amortization of CIRC, - Cash Rccom, Rmortization of CIRC, - Cash Rccom, Rmortization of CIRC, - Other | Year } Additions O | 4ser I Bèlagos | Year 2 Bidddags D 2.213 | Year 2 Balaece 2,233 | Year 3 Réditions | Year 3 Balance | Year 9 Rádacteas | ¥zar 4 Bolosce |
|---|--------------------------|-------------------|-------------------------------|----------------------------|---|------------------------------|----------------------------|----------------------------|
| TOTAL | 0 | 0 | 0 0 0 2013 | 2(5) 9 2(5) | 6 640 D D <u>D</u> <u>5,840</u> | 8.853 0 0 8.853 | 11.657 0 0 11.067 | 059 20 0 0 19,920 |

ISLAND ENVIRONMENTAL UTILITY, INC. Schedule of Wastewater Contributions in all of Construction

Per Staff

DOCHET NO 20745-SU

| Recount Tumber | | Account Description | |
|-------------------|--------------|------------------------|--|
| | ENTER ERC'S | | |
| 271 | CIAL - Lines | | |
| | LIRC Cash | | |
| | LIRC - Other | | |
| | | | |
| | | TOTR | |

| IO ENVIRONMENTAL UTILITY, INC | |
|--|--|
| inte al Accumulated Amorozation al Wastewater C.I.A.C. | |
| alf | |
| T NO 20745 SU | |
| | |

| touat nder | RECOUNT | |
|---------------|---|--|
| | Description | |
| 272 | Rccum Rmartization at CIRC Lines Rccum, Rmartization at CIRC Cash Accum, Rmartization at CIRC Caher | |

TOTAL

ISLAND ENVIRONMENTAL UTILITY, INC.

Scheeme of Wastemater Contributions-In-818-01-Construction

Per Stall

DOCKET NO 20745-SU

| Rccount Komber | Account Bescription | Year 7 Additions | 4eer 7 Balo <u>nce</u> | Yzər 8 Ródizens | Veor B Balance | Yesc 9 Rdd:160s | Year 9 Belance | Year 10 <u>R</u> éditions | Vear 10 Relance |
|-------------------|------------------------|---------------------|---------------------------|--------------------|-------------------|--------------------|-------------------|------------------------------|--------------------|
| | LATER EACS | 80 | 510 | 80 | 590 | 80 | 670 | 80 | 750 |
| 271 | CIRC - Lines | 195,200 | 1,195,200 | 199,200 | 1,394,400 | 199,200 | 1,593,600 | ٥ | 1,593,600 |
| | CIRC - Casa | 0 | 0 | C | δ | ۵ | ٥ | 9 | 8 |
| | CIRC - Other | 0 | 0 | 1 | Ĵ | 0 | 0 | 00 | 0 |
| | TOTRE | 199 200 | 1.195.200 | 199 200 | 1,394,400 | 199 200 | 1.593,600 | <u>0</u> | 1,593,600 |

10 EAVIAGOMMENTRE UTILITY, INC.

tule of Accumulated Amortization of Wastewater C.I.R.C

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taff

T NO. 20745-SU

| Count mber | Accourt Description | Veor 7 Additous | Year 7 Belsace | Year 8 Adduons | ¥zar 8 Balagce | Year 9 Activitors | Year 9 Balance | Year 10 Additions | Year 10 Belance | Amortization Ente |
|---------------|--|--------------------|-------------------|-------------------|-------------------|----------------------|-------------------|----------------------|--------------------|-------------------------|
| 272 | Recum, Amortizellon of CLAC - Eines Accum, Amortizellon of CLAC, - Eesh Accum Amortizellon of CLAC - Ether | 24.347 0 0 | 79.580 D D | 29,773 0 0 | 108.453 D D | 13,209 0 0 | 141.653 0 0 | 35,413 0 0 | 177,067 Q | 2 22% 3 53% 0 00% |
| | JOTAL | <u>14,15</u> | 79 580 | 28 773 | 105,453 | 005 66 | 191 653 | 35,413 | 177,057 | |

Exhibit ____ (JAE-2)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

DOCKET NO. 030006-WS ORDER NO. PSC-03-0707-PAA-WS ISSUED: June 13, 2003

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman J. TERRY DEASON BRAULIO L. BAEZ RUDOLPH "RUDY" BRADLEY CHARLES M. DAVIDSON

NOTICE OF PROPOSED AGENCY ACTION ORDER ESTABLISHING AUTHORIZED RANGE OF RETURNS ON COMMON EQUITY FOR WATER AND WASTEWATER UTILITIES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

Section 367.081(4)(f), Florida Statutes, authorizes the Commission to establish, not less than once each year, a leverage formula to calculate a reasonable range of returns on equity for water and wastewater utilities. In Docket No. 020006-WS, the Commission established the current leverage formula by Order No. PSC-02-0898-PAA-WS, issued on July 5, 2002. Order No. PSC-02-1252-CO-WS, issued September 11, 2002, made final the leverage formula methodology. This Order utilizes the current leverage formula methodology, with updated financial data, as set forth in Order No. PSC-01-2514-FOF-WS, which uses returns on equity from financial

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models based upon an index of natural gas utilities. We hereby approve the following leverage formula:

Return on Common Equity = 8.16% + 1.518/Equity Ratio

Where the Equity Ratio = Common Equity / (Common Equity + Preferred Equity + Long-Term and Short-Term Debt)

Range: 9.68% @ 100% equity to 11.96% @ 40% equity

We note that the leverage formula depends on four basic assumptions listed below:

Business risk is similar for all WAW utilities.
 The cost of equity is an exponential function of the equity ratio.
 The marginal weighted average cost of investor capital is constant over the equity ratio range of 40% to 100%.
 The cost rate at an assumed Moody's Baa3 bond rating, plus a 50 basis point private placement premium and a 50 basis point small utility risk premium, represents the average marginal cost of debt to a Florida WAW utility over an equity ratio range of 40% to 100%.

For these reasons, the leverage formula is assumed to be appropriate for the average Florida WAW utility.

The leverage formula relies on two return on equity (ROE) models and several adjustments for differences in risk and debt cost in order to conform the results of the models to the average Florida WAW utility. Both models include a four percent adjustment for flotation costs. The models are as follows:

- A Discounted Cash Flow (DCF) model applied to an index of natural gas utilities (NG) that have publicly traded stock and are followed by the <u>Value Line Investment Survey</u> (<u>Value Line</u>). The DCF model is an annual model and uses prospective growth rates.
- A Capital Asset Pricing Model (CAPM) using a market return for companies followed by <u>Value Line</u>, the average yield on the Treasury's long-term bonds projected by the Blue Chip

Financial Forecasts, and the average beta of the index of NG utilities. The market return is adjusted to assume a quarterly model by adding 20 basis points to the result.

The indicated returns of the above models are averaged and the resulting estimate is adjusted in the following manner:

- A bond yield differential of 44 basis points to reflect the difference in yields between an A/A2 rated bond, which is the average bond rating for the NG utility index, and a BBB-/Baa3 rated bond. Florida WAW utilities are assumed to be comparable to WAW companies with the lowest investment grade bond rating, which is Baa3. This adjustment compensates for the difference between the credit quality of "A" rated debt and the credit quality of the minimum investment grade rating.
- A private placement premium of 50 basis points is added to reflect the difference in yields on publicly traded debt and privately placed debt, which is illiquid. Investors require a premium for the lack of liquidity of privately placed debt.
- A small utility risk premium of 50 basis points is added to reflect that the average Florida WAW utility is too small to qualify for privately placed debt.

After the above adjustments are made, the resulting cost of equity estimate is included in the average capital structure for the NG utilities. The cost of equity is determined at a 40% equity ratio and the leverage formula is derived. The leverage formula derived using the current methodology with updated financial data is presented in Attachment 1.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the leverage formula methodology, summarized herein and in Attachment 1, used to calculate a range of returns on equity for water and wastewater utilities, is hereby approved. It is further

ORDERED that Attachment 1 is herein incorporated by reference. It is further

ORDERED that returns on common equity are hereby capped at 11.96 percent for all water and wastewater utilities with equity ratios of less than 40 percent in order to discourage imprudent financial risk. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall remain open to allow our staff to monitor the movement in capital costs and to readdress the reasonableness of the leverage formula as conditions warrant.

By ORDER of the Florida Public Service Commission this <u>13th</u> Day of <u>June</u>, <u>2003</u>.

BLANCA S. BAYÓ, Director Division of the Commission Clerk and Administrative Services

By: Kay flyn Kay Flynh, Chief

Bureau of Records and Hearing Services

(SEAL)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on July 4, 2003.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

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Attachment 1 Page 1 of 6

SUMMARY OF RESULTS

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Leverage Formula Update

| | <u>Updated</u> Results | <u>Currently</u> in Effect |
|--|---------------------------|-------------------------------|
| (A) CAPM ROE for Natural Gas Index | 9.53% | 8.93% |
| (B) DCF ROE for Natural Gas Index | 10.74% | 10.13% |
| AVERAGE | 10.13% | 9.53% |
| Bond Yield Differential | .44% | .40% |
| Private Placement Premium | .50% | .50% |
| Small-Utility Risk Premium | .50% | .50% |
| Adjustment to Reflect Required Equity | | |
| Return at a 40% Equity Ratio | .38% | .17% |
| Cost of Equity for Average Florida WAW | | |
| Utility at a 40% Equity Ratio | <u>11.96%</u> | <u>11.10%</u> |

2002 Leverage Formula (Currently in Effect)

| Return on Common | Equity | = | 9.65% + .582/ER |
|------------------|-----------|---|-----------------|
| Range of Returns | on Equity | = | 10.23% - 11.10% |

2003 Leverage Formula (Approved)

| Return on Common | Equity | = | 8.16% + | 1.518/ER |
|------------------|-----------|---|---------|----------|
| Range of Returns | on Equity | = | 9.68% - | 11.96% |

> Attachment 1 Page 2 of 6

Marginal Cost of Investor Capital Average Water and Wastewater Utility

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| Capital Component | Ratio | Marginal <u>Cost Rate</u> | Weighted Marginal <u>Cost Rate</u> |
|-----------------------------|------------------------------------|------------------------------|--|
| Common Equity Total Debt | 44.48% <u>55.52%</u> 100.00% | 11.57% 8.16% * | 5.15% <u>4.53%</u> 9.68% |

A 40% equity ratio is the floor for calculating the required return on common equity. The return on equity at a 40% equity ratio is 8.16% + 1.518/.40 = 11.96%

Marginal Cost of Investor Capital Average Water & Wastewater Utility at 40% Equity Ratio

| Capital Component | Ratio | Marginal <u>Cost Rate</u> | Weighted Marginal <u>Cost Rate</u> |
|-----------------------------|------------------------------------|------------------------------|--|
| Common Equity Total Debt | 40.00% <u>60.00%</u> 100.00% | 11.96% 8.16% * | 4.78% <u>4.90%</u> 9.68% |

Where: ER = Equity Ratio = Common Equity/(Common Equity + Preferred Equity + Long-Term Debt + Short-Term Debt)

* Assumed Baa3 rate for March 2003 plus a 50 basis point private placement premium and a 50 basis point small utility risk premium.

Source: Moody's Credit Perspectives

Attachment 1

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ANNUAL DISCOUNTED CASH FLOW MODEL

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| INDEX | NATURAL GAS INDEX | | | | | | | | MAF | RCH | |
|--------------------------|--------------------------------|-----------------------------|--------------|------------------|----------------|-------------------|--------|--------|-------|-------|---------|
| COMPANY | DIV1 | DIV2 | | DIV4 | EPS4 | B - MARCH ROE4 | | GR4+ | HI-PR | LO-PR | AVER-PR |
| AGL RESOURCES | 1.08 | 1.08 | 1.08 | 1.08 | 2.10 | 12.00 | 1.0000 | 1.0583 | 23.70 | 22.03 | 22,865 |
| ATMOS ENERGY | 1.22 | | 1.29 | 1.32 | 2.20 | 15.00 | 1.0266 | 1.0600 | 21.90 | 20.85 | 21.375 |
| CASCADE NATURAL GAS | 0.96 | 0.97 | 0,97 | 0.98 | 1.75 | 15.00 | 1.0069 | 1.0660 | 19.63 | 18.20 | 18.915 |
| LACLEDE GAS | 1.34 | 1.35 | 1,36 | 1.37 | 1.85 | 10.50 | 1.0074 | 1.0272 | 23.96 | 21.90 | 22.930 |
| NICOR, INC. | 1.94 | | 2.14 | 2.24 | 3.60 | 18.00 | 1.0491 | 1.0680 | 31.85 | 23,70 | 27.775 |
| NORTHWEST NATURAL GAS | | | 1.31 | 1.33 | 2.40 | 11.00 | 1.0129 | 1.0490 | 25.72 | 24.13 | 24.925 |
| PIEDMONT NATURAL GAS | . 1.72 | | 1.84 | 1.90 | 3.15 | 14.50 | 1.0337 | 1.0575 | 35,88 | 33.53 | 34.705 |
| SOUTHWEST GAS | 0.82 | | 0.82 | 0.82 | 2.15 | 10.00 | 1.0000 | 1.0619 | 20.89 | 19.30 | 20.095 |
| WGL HOLDINGS | 1.29 | 1.30 | 1.32 | 1.33 | 2.40 | 12.00 | 1.0102 | 1.0535 | 26.96 | 25.00 | 25.980 |
| AVERAGE | 1,2944 | 1.3202 | 1.3469 | 1.3744 1.4510 | 2.40 | 13.1111 | 1.0163 | 1.0557 | | | 24.396 |
| k Price w/lour Percent F | lotation Costs 23.4203 | Annual 1.1929 23.4203 | | | 0.938 3 | 19.1 780 | | | | | |
| | March 2003 av cost. | erage | e sto | ck pi | cice | with | a 4% | flota | tion | | |
| 10.74% = | Cost of equit price with th | y req e exp | uire ecte | d to d cas | matc sh fl | h the ows. | curr | ent s | tock | | |
| Sources: | | | | | | | | | | | |

Stock Prices - S&P Stock Guide, April 2003 Edition.
 DPS, EPS, ROE - Value Line Edition 3, March 21, 2003.

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Capital Asset Pricing Model Cost of Equity for Water and Wastewater Industry

CAPM analysis formula

| К | = | RF + Beta(MR - RF) |
|------|------|---|
| к | = | Investor's required rate of return |
| RF | z | Risk-free rate (Blue Chip forecast for Long-term Treasury bond) |
| Beta | El I | Measure of industry-specific risk (Average for water utilities followed by Value Line) |
| MR | | Market return (Value Line Investment Survey For Windows, April 2003) |
| 9.53 | k == | 5.34% + .68(11.17% - 5.34%)+ .20% |

Note: We calculated the market return using an annual DCF model for a large number of dividend paying stocks followed by Value Line. For March 2003 stock prices, the result was 10.97%. We have added 20 basis points to allow for the quarterly compounding of dividends. The resulting market return is 11.17%. We have also added 20 basis points to the CAPM result to allow for a four-percent flotation cost.

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BOND YIELD DIFFERENTIALS Public Utility Long Term Bond Yield Averages

Long-Term Corporate Bond Yield Averages for Avg. Public Utility

| 120 Month Average - | | 0.1103 | | 0.1103 | | 0.1103 | | 0.1103 | |
|------------------------|------|--------|------|--------|------|--------|------|--------|------|
| MONTH/YEAR | A2 | SPREAD | A3 | SPREAD | Baa1 | SPREAD | Baa2 | SPREAD | Baa3 |
| Mar-2003 | 6.79 | 0.09 | 6.88 | 0.09 | 6.96 | 0.09 | 7.05 | 0.09 | 7.14 |
| Feb-2003 | 6.93 | 80.0 | 7.01 | 0.08 | 7.09 | 0.08 | 7.17 | 0.08 | 7.25 |
| Jan-2003 | 7.06 | 0,14 | 7.20 | 0.14 | 7.33 | 0.14 | 7.47 | 0.14 | 7.61 |
| Dec-2002 | 7.07 | 0.18 | 7.25 | 0.18 | 7.43 | 0.18 | 7.61 | 0.18 | 7.79 |
| Nov-2002 | 7.14 | 0.21 | 7.35 | 0.21 | 7.55 | 0.21 | 7.76 | 0.21 | 7.97 |
| Oct-2002 | 7.23 | 0.26 | 7.49 | 0.26 | 7.74 | 0.26 | 8.00 | 0.26 | 8,26 |
| Sep-2002 | 7.08 | 0.18 | 7.26 | 0.18 | 7.44 | 0.18 | 7.62 | 0.18 | 7.80 |
| Aug-2002 | 7.17 | 0.19 | 7.36 | 0.19 | 7.55 | 0.19 | 7.74 | 0.19 | 7.93 |
| Jul-2002 | 7.31 | 0.26 | 7.57 | 0.26 | 7.82 | 0.26 | 8.08 | 0.26 | 8.34 |
| Jun-2002 | 7.41 | 0.28 | 7.69 | 0.28 | 7.97 | 0.28 | 8.25 | 0.28 | 8.53 |
| May-2002 | 7.52 | 0.27 | 7.79 | 0.27 | 8.06 | 0.27 | 8.33 | 0.27 | 8.60 |
| Apr-2002 | 7.57 | 0.23 | 7.80 | 0.23 | 8.02 | 0.23 | 8.25 | 0.23 | 8.48 |
| Mar-2002 | 7.76 | 0.19 | 7.95 | 0.19 | 8.13 | 0.19 | 8.32 | 0.19 | 8.51 |
| Feb-2002 | 7.54 | 0.21 | 7.75 | 0.21 | 7.97 | 0.21 | 8,18 | 0.21 | 8.39 |
| Jan-2002 | 7.66 | 0.16 | 7.82 | 0.16 | 7.97 | 0.16 | 8.13 | 0.16 | 8.29 |
| Dec-2001 | 7.83 | 0.15 | 7.98 | 0.15 | 8.12 | 0.15 | 8.27 | 0.15 | 8.42 |
| Nov-2001 | 7.57 | 0.13 | 7.70 | 0,13 | 7.83 | 0,13 | 7.96 | 0.13 | 8.09 |
| Oct-2001 | 7,63 | 0.13 | 7.76 | 0.13 | 7.89 | 0.13 | 8,02 | 0.13 | 8.15 |
| Sep-2001 | 7.75 | 0,12 | 7.87 | 0,12 | 8.00 | 0,12 | 8,12 | 0.12 | 8.24 |
| Aug-2001 | 7.59 | 0.12 | 7.71 | 0.12 | 7.83 | 0.12 | 7.95 | 0.12 | 8.07 |
| Jul-2001 | 7.78 | 0.09 | 7.87 | 0.09 | 7.96 | 0.09 | 8.05 | 0.09 | 8.14 |
| Jun-2001 | 7.85 | \0.06 | 7.91 | 0.06 | 7.96 | 0.06 | 8.02 | 0.06 | 8.08 |
| May-2001 | 7.99 | 0.04 | 8.03 | 0.04 | 8.07 | 0.04 | 8.11 | 0.04 | 8.15 |
| Apr-2001 | 7.94 | 0.04 | 7.98 | 0.04 | 8.02 | 0.04 | 8.06 | 0.04 | 8.10 |
| Mar-2001 | 7.68 | 0.06 | 7.74 | 0.06 | 7.79 | 0.06 | 7.85 | 0.06 | 7.91 |
| Feb-2001 | 7.74 | 0.07 | 7.81 | 0.07 | 7.87 | 0.07 | 7.94 | 0.07 | 8.01 |
| Jan-2001 | 7.80 | 0.06 | 7.86 | 0.06 | 7.93 | 0.06 | 7.99 | 0.06 | 8.05 |
| Dec-2000 | 7.84 | 0.06 | 7.90 | 0.06 | 7.95 | 0.06 | 8.01 | 0.06 | 8.07 |
| Nov-2000 | 8.11 | 0.05 | 8.16 | 0.05 | 8.20 | 0.05 | 8.25 | 0.05 | 8.30 |
| Oct-2000 | 8.14 | 0.05 | 8.19 | 0.05 | 8.24 | 0.05 | 8.29 | 0.05 | 8.34 |
| Sep-2000 | 8.23 | 0.03 | 8.26 | 0.03 | 8.29 | 0.03 | 8.32 | 0.03 | 8.35 |
| Aug-2000 | 8.13 | 0.04 | 8.17 | 0.04 | 8.21 | 0.04 | 8.25 | 0.04 | 8.29 |
| Jul-2000 | 8.25 | 0.03 | 8,28 | 0.03 | 8,30 | 0.03 | 8.33 | 0.03 | 8.36 |
| Jun-2000 | 8,36 | 0.04 | 8.40 | 0.04 | 8.43 | 0.04 | 8.47 | 0.04 | 8.51 |
| May-2000 | 8.70 | 0.05 | 8.75 | 0.05 | 8.81 | 0.05 | 8.86 | 0.05 | 8.91 |
| Apr-2000 | 8.35 | 0.02 | 8.37 | 0.02 | 8,38 | 0.02 | 8.40 | 0.02 | 8.42 |
| Mar-2000 | 8.28 | 0.04 | 8.32 | 0.04 | 8,36 | 0.04 | 8.40 | | 8.44 |
| Feb-2000 | 8.25 | 0.03 | 8.28 | 0.03 | 8.30 | 0.03 | 8.33 | | 8,36 |
| Jan-2000 | 8.35 | 0.02 | 8.37 | 0.02 | 8.38 | 0.02 | 8.40 | | 8.42 |

Source: Moody's Credit Perspectives

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| Value Line Listed Gas Utilities | S&P Bond Rating | ۶ of Gas Rev. | V/L Market Capital (billions) | | Value Line Beta |
|------------------------------------|-----------------------|------------------|-------------------------------------|--------|-----------------------|
| AGL RESOURCES | A- | 568 | 1.30 | 438 | 0.75 |
| ATMOS ENERGY | A- | 998 | 0.95 | 39% | 0.60 |
| CASCADE NATURAL GAS | BBB+ | 100% | 0.20 | 42% | 0.65 |
| LACLEDE GROUP | A+ | 74 % | 0.43 | 418 | 0.60 |
| NICOR, INC. | AA | 81% | 1.10 | 52% | 0.90 |
| NORTHWEST NAT. GAS | A | 978 | 0,68 | 488 | 0.60 |
| PIEDMONT NAT. GAS | A | 638 | 1.10 | 54% | 0.70 |
| SOUTHWEST GAS CORP. | BBB- | 84% | 0.65 | 33% | 0.70 |
| WGL HOLDINGS | AA | 60% | 1.20 | 48% | 0,65 |
| | | | | | |
| Average: | A | | | 44.48% | 0.68 |

INDEX STATISTICS AND FACTS

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Source: Value Line Edition 3, March 21, 2003. S.E.C. Form 10Q And 10K For Companies C.A. Turner Utilities Report May 2003 Standard and Poor's Ratings Direct Website Exhibit ____ (JAE-3)

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