

## BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a rate )  
 increase in Lee County by )  
 Gulf Utility Company )  
 \_\_\_\_\_ )

DOCKET NO. 900718-WU  
 ORDER NO. 24735  
 ISSUED: 7-1-91

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman  
 J. TERRY DEASON  
 BETTY EASLEY  
 GERALD L. GUNTER  
 MICHAEL MCK. WILSON

NOTICE OF PROPOSED AGENCY ACTION  
ORDER GRANTING INCREASED RATES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the actions discussed herein are 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.

BACKGROUND

On November 29, 1990, Gulf Utility Company (Gulf or utility), a Class A utility serving approximately 4,836 water customers, filed an application to increase its water rates in Lee County. That date was established as the official date of filing. Gulf did not request an interim increase in water rates or any increase in its wastewater rates. In accordance with Section 367.081(18), Florida Statutes, Gulf has requested that this case be processed as a proposed agency action (PAA).

Gulf is requesting increased annual water revenues of \$361,772 for total annual water revenues of \$1,832,114, using a projected test year ending December 31, 1991. This represents a 24.6 percent increase and would result in a 10.24 percent rate of return according to the utility's application. On January 24, 1991, the Commission issued Order No. 24021, suspending the utility's proposed water rates.

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FPSC-RECORDS/REPORTING

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#### QUALITY OF SERVICE

Our analysis of the overall quality of service provided by Gulf is based upon our evaluation of the utility's compliance with the rules of the Department of Environmental Regulation (DER) and other regulatory agencies, the quality of the utility's water product, the operational condition of the utility's plant, and customer satisfaction. A customer meeting was held on March 19, 1991 at the Estero High School auditorium in Estero, Florida. Approximately 24 people attended and 10 customers provided testimony about quality of service and other matters. Their concerns are addressed below.

The latest chemical analyses of the primary drinking water standards for inorganics, organics, turbidity and secondary contaminants from the utility's finished water were provided in the minimum filing requirements (MFRs). None of them exceed DER standards. The coliform bacteria analyses for the primary microbiological standard were conducted by the Department of Health and Rehabilitative Services (HRS). We did not find any violations on file at HRS's Lee County office or any on-going consent orders.

A field investigation was conducted on February 7, 1991, which included two water plants, the lift stations, and the service area. The two water plants are the San Carlos lime softening water treatment plant, which has a capacity of 2.415 million gallons per day (MGD), and the Corkscrew membrane softening (ultrafiltration) water treatment plant which has a capacity of 0.5 MGD. The Corkscrew water plant recovers 80 percent of groundwater by using the membrane softening technique. Although this is a water rate case, the wastewater plants were also visited. Also checked were the residual pressure and the residual chlorine concentration at one hydrant in the distribution system. Both test results were within required standards.

According to the monthly operation reports and the inspection, the operation of the lime softening treatment plant was satisfactory and the plant was well maintained, with no abnormal conditions being observed. When evaluating the plant, we saw an old 15,000 gallon hydropneumatic tank and a very old 15 horse power high service pump that could be retired. The hydropneumatic tank was not pressurized and is only used as a spare storage tank.

The Corkscrew membrane softening water treatment plant was still under final testing and the formal completion report should be done in the near future. Since it is not officially in service, no monthly operation reports were available. However, the whole

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treatment facility and apparatus were neat, orderly, and well maintained. According to the utility's policy, an operator is located at the plant 24 hours a day, 7 days a week.

Upon our review, it appears that the utility is making an earnest effort to achieve a good quality of water as evidenced by the treatment processes at its plants.

Currently, HRS does not have any customer complaints on file regarding the utility. However, six complaints were filed with the Commission between 1989 and 1990. Half of the complaints were related to billing. The other three were slow repair of water main breaks, black water, or sewage backup. The utility has already resolved these problems by providing a detailed explanation, chemical analysis results, and compensation to the customers when damage occurred due to back-ups.

As previously stated, a customer meeting was held on February 19, 1991, and ten customers spoke about specific problems dealing with the utility. White sediments and smell caused by the high hardness content (247 mg/l as  $\text{CaCO}_3$ ) were complained of by five of the customers. Those soluble sediments made some customers stop using tap water as their drinking water source. Unfortunately, there is no criterion for maximum hardness in public water supplies set forth by the state or federal government. Normally, hardness of more than 300-500 mg/l as  $\text{CaCO}_3$  would be considered excessive for a public water supply. However, the lime softening treatment facility is operating within its design parameters and provides water meeting DER standards.

One customer specifically stated that the utility exceeds the federal standards of sodium and corrosivity and the finished water contains trihalomethane. We checked the latest chemical analyses of the utility conducted by a certified laboratory, and reviewed DER rules and the federal standards. The finished water does contain some trihalomethane. The results of total trihalomethane were found in the range between 0.063 and 0.094 mg/l, which is within the limit of 0.1 mg/l. Sodium is not promulgated in the primary and secondary standards of the United States Environmental Protection Agency (EPA), however, the state does have a standard of 160 mg/l. The sodium analysis of finished water was 17.3 mg/l, which is within the limit of the state standard. The Langelier Index analysis of finished water is +0.04 (scale forming), which is also in compliance with the corrosivity standard of both federal and state requirements. We believes the utility is meeting the standards set forth by the DER for drinking water.

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When the utility needed more capacity, instead of enlarging its lime softening treatment facility, it chose to construct a membrane softening plant. A membrane softening plant provides finished water with lower hardness. Conventional treatment systems, like lime softening, may not remove enough organic materials to meet existing or proposed regulations. The EPA is currently planning to implement maximum allowable contaminant levels for disinfectants and contaminants under the Disinfection-Disinfection By-product Strawman rule. Membrane treatment decreases the formation of disinfection by-products since it removes a high level of organics from the water. For example, membrane plants virtually eliminate the potential for trihalomethane formation.

Due to the depletion of pure water in the southwest coastal underground of Florida, the utility has to use a poor quality source water to meet its service demands. Therefore, the ability to treat the total dissolved solids becomes an important factor in the design of the water plant. Dissolved minerals, gases, and organic constituents may produce an aesthetically displeasing color, taste, or odor. Some chemicals may be toxic, and some dissolved organic constituents are carcinogenic. An advantage of membrane treatment is its high removal of total dissolved solids from the raw water.

Membrane softening adopted at the Corkscrew water plant is a typical alternative to conventional lime softening plants. Membrane softening will reduce hardness, organics, bacteria, and viruses. Many of the customer complaints about white color sediments are caused by the high content of hardness in the finished water from the lime softening treatment plant. This can be improved by using the membrane softening process.

The second major concern at the meeting was the high cost of water comparing to the northern states. Several customers also stated that the service and response of the utility was satisfactory. On the other hand, the laxity in public information by the utility was also mentioned by several customers. These customers also expressed some concern about the fair share between old and new customers, the company's loan rate, rate filing procedures, the fair return requested by the utility, and the lack of a return envelope being sent with the monthly bill.

As to the concerns expressed that no return envelope is included with the monthly bill, we will not place this requirement on the utility. Doing so would require additional expense in the



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form of equipment to do the mailing or personnel to stuff envelopes.

Upon consideration of the information presented above, we find that the quality of service provided by Gulf in treating and distributing water is satisfactory.

#### TEST YEAR

Gulf's request to use a historical base year of December 31, 1989, with a projected test year of December 31, 1991, was approved by the Chairman in the test year approval letter. Due to the timing of the utility's fiscal year-end and the closing of the books occurring prior to the field audit, the actual 1990 financial information was available for review. We have compared the actual information in the utility's audited financial statements for the year ended December 31, 1990, and the trial balances ended December 31, 1989 and 1990, to the MFRs. Based upon the analysis of this information, we believe that the December 31, 1989, historical base year information is stale and therefore inappropriate. The December 31, 1990, actual information would provide a more accurate picture of what is to be projected in the December 31, 1991, test year. Therefore, we will utilize a historical base year of December 31, 1990. As will be discussed subsequently, we have made adjustments to reflect this change.

#### RATE BASE

Our calculation of the appropriate water rate base is attached to this Order as Schedule No. 1-A. Our adjustments are attached as Schedule No. 1-B. Those adjustments which are self-explanatory or essentially mechanical in nature are set forth in those schedules without any further discussion in the body of this Order. The major adjustments are discussed below.

#### Plant-in-Service

Upon review of the MFRs, we find that there are several adjustments needed in order to reflect a projected average plant-in-service balance. The first adjustment is necessary because the utility included land costs in the plant account as shown on the rate base statement. This is a misclassified charge that requires a reduction to plant and an equal increase to the land account for \$105,317.

The second adjustment is required because the utility projected its plant balances from a base year of December 31, 1989,

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to a projected test year of December 31, 1991. Because of the change in the test year, we must use actual plant balances for December 31, 1990, and projected the test year December 31, 1991. By using the actual as opposed to a projected December 31, 1990, plant balance, a reduction of \$213,704 to the plant account is needed to reflect the actual plant balance at December 31, 1990.

The third adjustment is required because the utility allocates its administrative and general expenses, as well as depreciation expense of general plant, between water and wastewater based on relative customers. However, the general plant and related accumulated depreciation accounts are allocated equally between water and wastewater. The utility's ratio of water to wastewater customers is 77 to 23. This treatment is inconsistent with the allocation used for general expenses, and with the treatment afforded in the utility's last rate case, Docket No. 880308-SU, where the allocations were based on the number of customers. An allocation based on customers also appears more reasonable than a 50/50 method. Therefore, general plant must be increased by \$318,020 to reflect this allocation methodology.

The fourth adjustment is required because the utility used a 13-month average to calculate rate base. To reflect the MFR rule, we have adjusted rate base to reflect a beginning and end of year average. We used actual December 31, 1990, balances and added the additions that the utility projected for 1991 to determine the December 31, 1991, balances. A beginning and end of year average was calculated and the difference between the average balance and the 13-month average the utility provided requires an increase of \$30,514 to the plant account.

The net effect of these four adjustments results in an increase to plant of \$29,513. Corresponding adjustments to increase accumulated depreciation in the amount of \$15,695 and depreciation expense in the amount of \$3,617 must also be made.

#### Transportation

The utility reports that the president of the utility has been provided with a vehicle for several years and that the vehicle is used primarily for utility business. On October 1, 1990, the utility purchased a new vehicle for the president at a purchase price of \$38,700. In the subsequent month, the president repaid \$10,000 for the personal use of the vehicle, leaving a value on the utility books of \$28,700.

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The previous vehicle provided for the president's use was a 1987 Ford station wagon. The station wagon was on the books at a cost of \$15,976. This vehicle was in Jacksonville, not Ft. Myers at the time of the auditor's plant tour. According to the utility, the vehicle was in the possession of a shareholder for the purpose of a proposed sale. The vehicle was subsequently sold around March 1991 to this shareholder.

Since, the station wagon is no longer a utility asset, its cost should be removed from the books as a retirement. Failure to properly retire the vehicle causes plant-in-service, accumulated depreciation, and depreciation expense to be overstated. Further, the utility failed to comply with the Uniform System of Accounts, Accounting Instruction 27, which requires the book cost of any property retired to be removed from the utility books with a corresponding adjustment to the accumulated depreciation account.

The new replacement vehicle will serve the same purposes as the old vehicle, but at a cost of \$28,700. We believe that a luxury car is not a reasonable or prudent purchase. A more comparable car could have been purchased at a cost of \$17,766. This cost was calculated by taking the original purchase price of the station wagon in 1987 and escalating the value to 1990 by the GNP Price Deflator. Based on the above, we find it appropriate to reduce transportation equipment by \$20,721, allocated to the water system at 77 percent. Corresponding adjustments must also be made to accumulated depreciation and depreciation expense of \$9,648 and \$3,452 respectively.

Margin Reserve and Imputation of Contributions-In-Aid-of-Construction (CIAC)

Margin reserve represents capacity that the utility must have available beyond that which is demanded by the test year's customers. The purpose of the margin reserve is to enable the utility to connect new customers, without plant expansion, during the next eighteen months, which is the normal construction time for building new plant. Commission policy is to include margin reserve in the used and useful calculation for both treatment plants and distribution and collection systems. We generally use an averaging method, based on the average growth in equivalent residential connections (ERCs) over the past five years. However, we believe a more accurate projection of the number of future customers will occur if we utilize a different method, that of the linear regression analysis. The linear regression method attempts to quantify the relationship between growth and time. Linear regression would more reliably reflect positive or negative trends

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in growth than would simple averaging. By tracking this relationship for the five observations, a straight line can be established to reasonably predict growth by projecting out along the same path. The straight line established by linear regression analysis minimizes the amount of dispersion of actual observations. Thus, the equation that describes the straight line allows us to enter a new year and predict the resulting growth.

According to the supplemental information provided in the MFRs and in the engineering section of the annual reports, Gulf experienced an average nine percent growth, or about 434 ERCs per year, for water customers over the past five years. Thus, a margin reserve is appropriate for inclusion in our used and useful analysis. The growth is provided in the revised Schedule F-9 of the MFRs. Using linear regression analysis to predict the 1991 customers results in 6,615 ERCs, which is about 8.2 percent or an increase of 465 ERCs. Thus, we believe that using the linear regression method gives a better prediction of the number of customers for this rate case. Therefore, the margin reserve is based on the growth of 465 ERCs per year.

Commission policy is that only the utility's investment in the margin reserve should be recognized in rate base and the CIAC should be imputed for the additional ERCs. The imputation of CIAC should not, however, reduce rate base further than if no margin reserve had been allowed. Without this adjustment, the utility would be allowed to earn a return on plant that would be contributed by future customers. As its policy, Gulf collects prepaid CIAC from developers in advance of when the future customers connect to the system. As such, this adjustment is not an imputation but a reclassification of prepaid to "used and useful" CIAC.

In calculating the appropriate amount of CIAC to impute, we used 465 ERCs times a year and a half included in the margin reserve, times the plant capacity charge of \$800 per ERC. This results in a maximum imputation of \$558,000. We then compared this amount to the amount of plant included in the margin reserve which was 9.13 percent of total treatment plant, or \$331,353. We have, therefore, limited the imputation to that amount of plant included in the margin reserve.

Accordingly, we find it appropriate to impute CIAC of \$331,353, with corresponding adjustments of \$14,414 to accumulated amortization of CIAC and \$14,414 amortization expense.



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Used and Useful

a. Water Treatment and Distribution System - Gulf currently has two (2) water plants: the San Carlos lime softening treatment plant with a capacity of 2.415 MGD and the Corkscrew membrane softening water treatment plant with a capacity of 0.5 MGD. Both water plants have the same distribution system, but the 0.5 MGD ultrafiltration plant was not officially in service during the field inspection in February 1991.

The utility's extension policy provides for the customer and developer to install all on-site facilities and contribute them to the utility. Since the distribution mains and services are contributed, there is no rate base consideration. Therefore, no used and useful analysis was necessary for the distribution system.

We calculated the used and useful percentages for the water systems by adding the average of five maximum consumption days as peak flow, the required fire flow, and margin reserve, less any excessive unaccounted for water, and then dividing by the combined capacity of the two water plants. By this approach, the water plant is 100 percent used and useful. Thus, all the accounts associated with the San Carlos water plant are considered 100 percent used and useful. By the same approach and based on the current capacity of 0.5 MGD, the Corkscrew membrane softening plant is also 100 percent used and useful.

Nevertheless, the Corkscrew treatment facilities were designed and built for build-out capacity, so the plant can be expanded to 3.0 MGD simply by adding more membrane trains and feed pumps. If a linear relationship is used, then only 17 percent of the treatment facilities are fully used for 0.5 MGD water production. However, the utility's design engineer consultant explained that all the accessory facilities, besides the membrane train and feed pump, are economically designed at the minimum size. At the same time, those facilities can handle up to 3.0 MGD water flow capacity, but they are indeed the minimum engineering design as the consultant engineer pronounced.

We believe that it is appropriate to consider economies of scale and make an adjustment to the treatment facilities. As discussed above, all of the equipment is minimum sized and prudently designed. Therefore, no adjustment should be made to the treatment facilities of the membrane softening plant and the water plant should be considered 100 percent used and useful. However, the utility does have some reserved space and some pipes with

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oversized capacity for future customers, which are not considered used and useful.

The main treatment process building is a metal structure of 4,680 square feet on concrete foundations, trenches, and floors. There is a 1,990 square foot area in the main process building which is reserved for the purpose of future capacity expansion. The construction cost for that 1,990 square foot was about \$79,919, and it should be removed from the rate base. The piping in the water plant was also properly sized for 3.0 MGD built-out capacity. Therefore, an adjustment should be made to pipes over 8-inches. Based on actual material costs, the construction cost difference was \$2,405 and that amount should also be eliminated from the rate base.

Upon consideration, we find that the Corkscrew water plant is 100 percent used and useful on all accounts, except for a total adjustment of \$82,324 for the reserved building space and oversized piping.

b. Well-field - The new well field was developed in 1990 as the raw water source for Corkscrew's membrane softening plant. This well field is situated in the environmentally protected areas of Corkscrew Swamp and Estero Bay. Therefore, based on concerns for environmental protection and economic effectiveness, the utility installed 11 shallow aquifer wells at one time, as well as laying the 18-inch raw water line.

Upon review, we believe that the costs for legal, engineering, hydrology, environmental, and restoration of the well site should be considered 100 percent used and useful, because these items are essentially the same regardless of the number of wells constructed. The survey cost should be considered 90 percent used and useful because it costs less for surveying only four wells.

Presently, two wells are equipped with well pumps. One well is enough to meet the current production capacity of the Corkscrew water plant and the other is used as standby. DER requires two wells for a utility of this size. The other nine wells are reserved for future development. Upon consideration, we will allow four wells in order for the utility to meet the one-foot drawdown requirement of the South Florida Water Management District.

Therefore, we find it appropriate to consider these four wells to be 100 percent used and useful and the other seven wells to be non-used and useful.

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c. Raw Water Line - For the current plant capacity, an 8-inch water line is adequate to deliver 0.5 MGD water flow. However, based on the concern for environmental protection, sound engineering design, and economic effectiveness, some larger sized pipes were put in the ground instead of 8-inch lines. According to the design firm, the oversized PVC pipes are 18, 16, and 12 inches, respectively, at different sections. Furthermore, using these oversized water pipes, over 6.0 MGD raw water can be pumped through this raw water line.

The evaluation of used and useful for this raw water line can be based on a flow basis, comparing 0.5 MGD to 6.0 MGD. This results in a used and useful percentage of less than 10 percent. However, it also can be based on the diameter size of the pipe per linear foot basis, comparing 8-inch to 18, 16, and 12-inch, respectively. This results in a used and useful percentage of about 45 percent to 67 percent. Upon consideration, we believe it appropriate to make an adjustment based on economics of scale. This recognizes the differences in the cost of material, since the labor cost for laying an 18-inch or 6-inch PVC pipe is not materially different. We do not believe it appropriate to penalize the utility for having the excess capacity. Also, using economies of scale is a practical method for this used and useful adjustment. To be conservative and credit the good engineering determination of the utility, we find the raw water line to be 70.7 percent used and useful.

d. Corkscrew Reuse Line - As the utility explains in its application, the reject concentrate from the membrane softening plant is piped to the golf course through a reuse line. Prior to reaching the golf course, the concentrate is mixed with treated effluent from the Three Oaks wastewater treatment plant.

As previously discussed, a 12-inch pipe was installed instead of an 8-inch pipe. If the used and useful analysis were based on pipe diameter, then the reuse line for the Corkscrew water plant would be about 67 percent used and useful. On the other hand, it is 75 percent used and useful when an economy of scale approach is used because it takes about three quarters of the cost of laying a 12-inch pipe to lay an 8-inch pipe. Therefore, the Corkscrew reuse line is found to be 75 percent used and useful.

e. Corkscrew Booster Station - The booster station located at the south side of the service area has a one million gallon concrete ground storage tank and two 750 GPM high service pumps. Currently, it is also used for the Corkscrew membrane softening plant. The original purpose of this booster station was solely to supplement



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pressure around that neighborhood. Now it is primarily used for ground storage and the high service pumping station.

Normally, a water utility will provide a storage of one day's plant capacity for peak demand or fire protection. Therefore, if the focus is only on the new 0.5 MGD Corkscrew water plant, it would have excess storage of a half million gallon capacity. However, if the focus is on the whole water system, which has a 2.915 MGD combined capacity, then there is only 2.647 million gallon storage available, including all booster stations, ground storage, and clear wells. For that reason, there is no excess storage. Accordingly, we agree with the utility that the booster station is 100 percent used and useful.

#### Non-used and useful plant

In its MFRs, Gulf showed a used and useful adjustment to plant of \$120,343 and accumulated depreciation of \$2,004, for a net used and useful adjustment of \$118,339. Based on our previous used and useful decisions, used and useful plant should be \$379,672, and accumulated depreciation should be \$16,214, for a net of \$363,458. This results in a net decrease to used and useful plant and an increase in non-used and useful plant of \$245,119. A corresponding reduction to depreciation expense is also appropriate in the amount of \$14,210. Property tax expense associated with this plant should be decreased by \$835.

#### Land

The utility did not reflect an accurate land balance in the MFRs. Upon review of the utility's MFRs and general ledger, it was noted that land costs were misclassified and some costs were not included in the MFRs. As previously discussed, \$105,317 of land cost is misclassified in the plant account. The utility's audited books for December 31, 1990, revealed that \$15,266 in land costs should be included the MFRs land balances. Therefore, we will increase the land account by \$15,266.

#### Other Adjustments

Because of the change in the test year and the utility's use of a 13 month average instead of a beginning and year-end average as previously discussed, additional adjustments are required. Accordingly, the following adjustments are appropriate: increase CIAC by \$120,303; decrease accumulated amortization by \$10,663; decrease advances for construction by \$54,333; increase amortization of CIAC by \$9,112.



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### Prepaid-connections and Refundable Advances

The utility reports that it requires developers to prepay 100 percent of the water and wastewater service availability charges for a project before the contributed systems are accepted. The prepaid connections are recorded in a subsidiary ledger by developer, development, and phase. As developers request meters, pay the appropriate charges and sign the "Water Users Agreements," prepaid connections are reduced and CIAC is increased. The prepaid connections represent funds set aside for the construction of new plant that has not been constructed. Since there is no plant in existence to include in rate base relating to prepaid connections, we will not include prepaid connections in rate base.

The utility's books contain an account entitled "Refundable Advances for Construction." The utility explained that this account contains agreements with developers for the construction of oversized lines or lines which benefit future connections to the system. These agreements may involve additional hydraulic capacity above and beyond the requirements needed by the developer. These advances are no-interest loans from the developers and are repaid to the developers according to the terms of the agreement, based on the future connections. Because the refundable advances are referring to plant and connections that are in existence and will ultimately be 100 percent contributed, we find they should be included in rate base. The utility reported these amounts as zero-cost funding in the capital structure.

Accordingly, we will include refundable advances in rate base in the amount of \$76,498 and will make a corresponding adjustment to remove the refundable advances from the capital structure.

### Working Capital

We accept as reasonable the utility's method of calculating working capital by using the formula method of one-eighth of operation and maintenance expenses. As discussed in a subsequent portion of this Order, the appropriate amount of operation and maintenance expense is \$1,156,798, reflecting various adjustments we have made. Using the formula method, we calculate the resulting working capital amount to be \$145,247, which requires an increase to the requested level of working capital of \$4,045.

### Rate Base

Based on the adjustments discussed above, we find the appropriate average rate base to be \$2,936,976.

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#### COST OF CAPITAL

Schedule No. 2-A shows the utility's capital structure and our adjustments are shown on Schedule No. 2-B.

#### Return on Equity

The utility requested a return on equity of 13.51 percent. Based upon the components of the adjusted capital structure shown in Schedule No. 2-A, the utility's equity ratio is 10.90. Applying the Commission's current leverage formula as contained in Order No. 24246, the appropriate return on equity is 13.11 percent, with a range of reasonableness of 12.11 percent to 14.11 percent.

#### Overall Rate of Return

The utility requested an overall rate of return of 10.24 percent. Based on the adjustments made herein, we find that the appropriate overall cost of capital should be determined by using the utility's adjusted capital structure and by reconciling each item on a pro rata basis. This results in an overall rate of return of 10.27 percent, with a range of 10.16 percent to 10.38 percent.

#### NET OPERATING INCOME

#### Operation and Maintenance (O & M) Expenses

As previously discussed, we have updated the historical base year from 1989 to 1990. Our audit suggested several adjustments to reflect an appropriate amount of actual 1990 O & M expenses to use as a basis for projection. We have discussed these adjustments below. Once the actual 1990 level of expenses was adjusted, we then escalated those amounts in the same manner, with some exceptions, that the utility used to project 1990 forward to 1991.

Our audit revealed that the utility had recorded several miscellaneous non-utility expenses and charged them to the utility. The utility incurred \$1,967 in donations and civic group memberships and charged them to the water account for miscellaneous expenses. In addition, the utility charged \$4,800 to miscellaneous expenses-water for a payment to the Business Development Corporation. This organization promotes new businesses to locate in Lee County. The utility indicated that the purpose of this expenditure was to promote new businesses to locate in the service area. A direct result of the new businesses locating in the

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utility's service area would increase business for the utility and allow prudently-sized facilities to be built and become used and useful. The utility is one of the largest businesses in the service area and supports community efforts.

The NARUC Uniform System of Accounts, Accounting Instruction 6, states that donations for charitable, social or community welfare purposes are to be accounted for as miscellaneous non-utility expenses. Accordingly, we find it appropriate to reduce miscellaneous expenses by \$6,767.

Timucuan Asset Management, a related party, was hired by the utility for investment services. The utility charged \$12,221 to Water Contractual Services - Other for these services. We believe these charges are shareholder costs and should have been charged below the line. Therefore, Contractual Services - Other will be reduced by \$12,221.

In 1990, the utility charged the Miscellaneous Expense account for \$2,503 in gift certificates and \$826 for a fishing trip. Materials and Supplies expense was charged \$60 for gift certificates. All three of these expenditures were made on behalf of the utility's employees for a Christmas party and a fishing trip. The utility reports that these functions have been provided to the employees since the early 1980's in appreciation for their efforts. The utility reports it considers the cost incurred for the fishing trip to be a part of employee compensation and the gift certificates are given as gifts to its employees at Christmas. A list of the gift recipients of the \$125 gift certificate could not be provided. The utility does have a cash benefits program in lieu of a formal pension or profit sharing program for its employees. The NARUC, Uniform System of Accounts, Accounting Instruction 6, provides that donations for social purposes should be reported below the line. We find it appropriate to remove these expenditures of gifts and donations for social purposes from the O & M accounts.

Gulf also charged Water Miscellaneous expenses \$1,657 for meals, golf, drinks, and car wash and waxing for the utility's executive officer. Although the utility states that these charges are utility in nature, no other charges similar to these for other employees or utility vehicles was noted. We are not convinced that utility business was the purpose of these expenses. Accordingly, these charges should be removed.

In its MFRs, the utility projected a balance of \$946,264 for its 1990 O & M expenses. Actual 1990 expenses according to the

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audit amounted to \$1,045,724, resulting in an increase of \$99,460. With the adjustments discussed above, we have reduced the actual 1990 level by \$34,434. We then escalated all O & M expenses, with the exception of chemicals, purchased power and salaries, based on an escalation factor of 1.09 for customer growth only.

In analyzing the level of chemical expense, we compared the actual 1990 expense of \$134,477 to the 1991 projected amount of \$144,758 and found that the actual 1990 cost exceeded the utility's 1991 projection by \$10,281. After reviewing the reasonableness of the 1990 cost, we have allowed the total actual cost incurred for chemicals for 1990 instead of the projected amount for 1991. No escalation factor was added to this amount.

For purchased power, we have allowed the utility's requested projected level for 1991 of \$125,075. Even though the actual amount in 1990 was \$1,319 higher than originally projected by the utility, the 1991 level was calculated based on the expected flows of the new reverse osmosis treatment plant. We believe this amount is reasonable and therefore no further adjustment is necessary.

The utility's projection methodology for salaries and wages was based on the hiring of five new employees at a cost of \$103,800 and escalating the current employee salaries by a five percent increase for both 1990 and 1991. This projection methodology is reasonable and we will accept it. We did not update salaries for the actual amounts expensed in 1990 as those amounts were escalated at a higher rate than five percent, which we do not believe was reasonable. After reviewing the 1991 projected information from the MFRs, the salaries and wages of the officers and directors revealed that 1990 salaries and wages were actually increased by more than five percent. To reflect the utility's escalation factor of five percent, we have reduced the salaries and wages of the officers and directors by \$9,664.

The net effect of recalculating the 1991 level of O & M expenses results in an increase of \$38,505. We believe this adjustment reflects a better estimate of the operating needs of this utility on an on-going basis.

#### Rate Case Expense

Gulf Utility requested \$68,000 in rate case expense in its MFRs for the processing of this case. The utility has submitted an update of the actual rate case expense incurred for this case and supporting documentation, as well as the estimated amount to complete. The revised request for rate case expense totals



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\$52,442. This included \$32,025 for rate case consultant fees for preparation of the MFRs, \$12,445 for legal services, \$7,594 for the filing fee, printing and mailing costs and \$350 for other accounting services incurred. In reviewing this updated information, we found the expenses to be reasonable. An adjustment of \$3,890 is necessary to reduce the requested rate case expense to the revised rate case expense.

The utility has also included rate case expense amortization of \$2,253 from a previous rate case. The utility's last water rate case occurred in Docket No. 840105-WS, which is over five years ago and recovery of those expenses should be complete. The utility's request for recovery of previous rate case expense of \$2,253 will therefore be removed.

Accordingly, we find that \$52,442 is a reasonable amount for rate case expense and that the requested rate case expense amortization of \$2,253 from a previous case is disallowed.

#### Test Year Operating Income

Based on our adjustments made herein, we find the appropriate test year level of operating income to be \$301,627. The operating statement is attached as Schedule No. 3-A, with the adjustments shown on Schedule No. 3-B.

#### REVENUE REQUIREMENT

The utility requested total annual water revenues of \$1,832,114. Based upon our adjustments made herein, we find the appropriate annual revenue requirement to be \$1,781,384. This represents an increase of \$305,128, or 20.67 percent, over test year revenues and will allow the utility the opportunity to recover its expenses and earn a 10.27 percent return on its investment.

#### APPORTIONMENT OF RATE CASE EXPENSE

Section 367.0815, Florida Statutes, states in pertinent part:

In the event that a rate increase is granted but in an amount less than requested, the rate case expenses, including costs and attorney's fees, shall be apportioned in such a way that the public utility shall pay a proportion of the rate expenses which is equal to the

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percentage difference between the rate increase requested and the rate increase approved. However, no such apportionment shall be allowed if it will cause the utility's return on equity to drop below its authorized range.

Because of the interpretation of the last sentence of this chapter, most utilities, such as Gulf, will receive no reduction to rate case expense. This happens because of three factors; the magnitude of the rate case expense, the equity ratio of the company, and the actual size of the company. These factors will, in almost every instance, render the statute ineffective as the application of the full reduction would cause the utility's return on equity to drop below its authorized range.

We believe that this may not have been the intent of those persons responsible for drafting this statutory change. The last sentence of the statute seems to conflict with the first portion. We believe that this statute should be interpreted to cap the reduction at the low end of the equity return. By making a reduction to the floor of the range on equity, the statute would be followed as no apportionment of the rate case expense reduction would cause the utility's return to drop below the authorized range. We believe that this methodology is closer to the intent of the statute and will therefore make a reduction down to the floor of the equity range. The reduction to rate case expense is therefore \$5,179.

#### RATES AND CHARGES

##### Rates

Our approved rates, which we find to be fair, just and reasonable, are designed to achieve the revenue requirement previously discussed. The rates are designed to use the base facility charge rate structure. The base facility charge rate structure is our preferred structure because of its ability to track costs and to give the customers some control over their water bills. Each customer pays his pro rata share of the related costs necessary to provide service through the base facility charge and only the actual usage is paid for through the gallonage charge.

Some of the utility's customers who will be away for months at a time temporarily discontinue service during their absence. The utility waives the base facility charge for these customers during

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their absence. This is not appropriate. The base facility charge rate structure is established so that each customer should pay his or her pro rata share of the utility's fixed costs whether or not any water is consumed during the month. The utility must maintain the facilities necessary to meet peak demand from all its customers. Waiving the base facility charge for those customers who choose to live elsewhere part of the year results in the remaining customers subsidizing the absentee customers.

The utility should amend the rule section of its tariff to provide for temporary discontinuance of service. This section should read:

At any time a customer may request a temporary discontinuance of service in order to insure that the customer is not billed for any water usage during the period of time in which that premises is not occupied or otherwise utilized. The customer will, however, be liable for payment of the base facility charge during the entire period of time the temporary disconnect remains in effect, in order for the company to be able to recover its fixed cost of having water service available to those premises upon request by the customer.

Because the utility does not bill customers who temporarily discontinue service, we have adjusted the utility's 1990 billing analysis by adding 826 bills to the total for 5/8 inch x 3/4 inch meter residential customers. The revenue impact of this addition is \$5,914 for the 1990 base year at present rates. We adjusted the 1991 bills by the same percentage increase that occurred between 1989 and 1990. This added 1178 bills in 1991 and resulted in \$10,037 additional revenues for the 1991 projected test year at the newly approved rates.

The approved rates for water service are uniform for residential and general service customers. The approved rates will be effective for meter readings on or after thirty days from the stamped approval date on the revised tariff pages filed by Gulf. The revised tariff pages will be approved upon Staff's verification that the tariffs are consistent with our decision, that the proposed customer notice is consistent with Rule 25-22.0406(9), Florida Administrative Code, and upon expiration of the protest period. Gulf's present rates, its requested rates, and our approved final rates are set forth below for comparison:

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|                                     | <u>Monthly Rates</u>     |                              | <u>Commission<br/>Approved<br/>Final<br/>Rates</u> |
|-------------------------------------|--------------------------|------------------------------|--|
|                                     | <u>Present<br/>Rates</u> | <u>Utility<br/>Requested</u> |  |
| <u>Residential<br/>Meter Size:</u>  |                          |                              |  |
| 5/8" x 3/4"                         | \$ 7.16                  | \$ 8.21                      | \$ 8.52  |
| 1"                                  | 17.90                    | 20.50                        | 21.30  |
| 1 1/2"                              | 35.80                    | 41.05                        | 42.60  |
| 2"                                  | 57.28                    | 65.65                        | 68.16  |
| Gallage Charge<br>per 1,000 gallons | \$ 1.84                  | \$ 2.41                      | \$ 2.17  |

|  | <u>Monthly Rates</u>     |                              | <u>Commission<br/>Approved<br/>Final<br/>Rates</u> |
|--|--------------------------|------------------------------|--|
|  | <u>Present<br/>Rates</u> | <u>Utility<br/>Requested</u> |  |
| <u>General Service<br/>Meter Size:</u> |                          |                              |  |
| 5/8" x 3/4"                            | \$ 7.16                  | \$ 8.21                      | \$ 8.52  |
| 1"                                     | 17.90                    | 20.50                        | 21.30  |
| 1 1/2"                                 | 35.80                    | 41.05                        | 42.60  |
| 2"                                     | 57.28                    | 65.65                        | 68.16  |
| 3"                                     | 114.55                   | 131.35                       | 136.32   |
| 4"                                     | 178.99                   | 205.25                       | 213.00   |
| 6"                                     | 357.97                   | 410.50                       | 426.00   |
| Gallage Charge<br>per 1,000 gallons    | \$ 1.84                  | \$ 2.41                      | \$ 2.17  |

Service Availability Charges

The utility's existing service availability charges were approved by Order No. 14219, issued March 25, 1985, in Docket No. 840336-WS. The service availability policy requires new customers or developers to donate all on-site and off-site water lines, pay plant capacity charges based on anticipated usage and pay meter installation and tap-in fees based on meter size.



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The utility did not request any change to its service availability policy or charges. As of December 31, 1990, the utility's CIAC contribution level was 63 percent for water. This level is within the guidelines of Rule 25-30.580, Florida Administration Code, and therefore we will make no changes.

#### Private Fire Protection

The utility currently provides service to ten customers for private fire protection at no charge. Since the utility must maintain the capacity in order to provide flow requirements for private fire protection, these customers should pay a pro rata share of the costs. We will therefore establish a new class of service. The rate charged for this service should be equivalent to one third of the base facility charge for a comparably sized meter. The rates we establish are set forth below. The utility should send a notice to the affected customers informing them of the rates.

#### Private Fire Protection

##### Meter Size:

|     |           |
|-----|-----------|
| 6"  | \$ 142.00 |
| 8"  | 227.20    |
| 12" | 610.60    |

#### Rate Reduction

Section 367.0816, Florida Statutes, requires that rate case expense be apportioned for recovery over a period of four years. The statute further requires that the rates of the utility be reduced immediately after the four year period by the amount of rate case expense previously included in the rates. This statute applies to all rate cases filed on or after October 1, 1989.

The water rates should be reduced by \$8,305 as shown on Schedule No. 4. The revenue reduction reflects the annual rate case amount amortized (expensed) plus the gross-up for regulatory assessment fees.

The utility should file revised tariffs no later than one month prior to the actual date of the required rate reduction. The utility also should file a proposed "customer letter" setting forth the lower rates and the reason for the reduction.

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If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of Gulf Utility Company for increased water rates is hereby approved to the extent set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the schedules attached hereto are by reference incorporated herein. It is further

ORDERED that all of the provisions of this Order are issued as proposed agency action and shall become final unless an appropriate petition in the form provided by Rule 25-22.029, Florida Administrative Code, is received by the Director of the Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the date set forth in the Notice of Further Proceedings below. It is further

ORDERED that Gulf Utility Company is authorized to charge the new rates as set forth in the body of this Order. It is further

ORDERED that the rates approved herein shall be effective for meter readings taken on or after thirty (30) days after the stamped approval date on the revised tariff pages. It is further

ORDERED that prior to its implementation of the rates approved herein, Gulf Utility Company shall submit and have approved a proposed notice to its customers of the increased rates and the reasons therefor. The notice will be approved upon Staff's verification that it is consistent with our decision herein. It is further

ORDERED that prior to its implementation of the rates approved herein, Gulf Utility Company shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon Staff's verification that the pages are consistent with our decision herein and that the protest period has expired. It is further

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ORDERED that in the event of a protest by any substantially affected person other than the utility, Gulf Utility Company is authorized to collect the rates approved herein on a temporary basis, subject to refund in accordance with Rule 25-30.360, Florida Administrative Code, provided that Gulf Utility Company has furnished satisfactory security for any potential refund and provided that it has submitted and Staff has approved revised tariff pages and a proposed customer notice. It is further

ORDERED that this docket will be closed if no timely protest is received from a substantially affected person.

By ORDER of the Florida Public Service Commission, this 1st  
of July, 1991.

  
\_\_\_\_\_  
STEVE TRIBBLE, Director,  
Division of Records and Reporting

(S E A L)

NSD

Dissents:

Commissioners Deason and Gunter dissented on the use of the formula method in calculating working capital.

Commissioner Wilson dissented on the majority's interpretation of Section 367.0815, Florida Statutes, as follows:

I dissent. The interpretation by the majority produces a reasonable result with which I agree. However, it is not the result compelled by the plain language of the statute. The statute says, in pertinent part:

In the event that a rate increase is granted but in an amount less than requested, the rate

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case expenses, including costs and attorney's fees, shall be apportioned in such a way that the public utility shall pay a proportion of the rate expenses which is equal to the percentage difference between the rate increase requested and the rate increase approved. However, no such apportionment shall be allowed if it will cause the utility's return on equity to drop below its authorized range.

The language "no such apportionment shall be allowed" appears to leave little room for interpretation. So as a matter of law, I must disagree with the majority view.

Chairman Beard also dissented on the majority's interpretation of Section 367.0815, Florida Statutes.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, 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 or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on

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In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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

If this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

GULF UTILITY COMPANY  
SCHEDULE OF WATER RATE BASE  
TEST YEAR ENDING DECEMBER 31, 1991

SCHEDULE NO. 1-A  
DOCKET NO. 900718-WU

| COMPONENT                    | TEST YEAR<br>PER<br>UTILITY | UTILITY<br>ADJUSTMENTS | ADJUSTED<br>TEST YEAR<br>PER UTILITY | COMMISSION<br>ADJUSTMENTS | COMMISSION<br>ADJUSTED<br>TEST YEAR |
|------------------------------|-----------------------------|------------------------|--------------------------------------|---------------------------|-------------------------------------|
| UTILITY PLANT IN SERVICE     | \$ 13,553,177               | \$ 0                   | \$ 13,553,177                        | \$ 8,792                  | \$ 13,561,969                       |
| LAND                         | 79,379                      | 0                      | 79,379                               | 120,583                   | 199,962                             |
| NON-USED & USEFUL COMPONENTS | (118,339)                   | 0                      | (118,339)                            | (245,119)                 | (363,458)                           |
| ACCUMULATED DEPRECIATION     | (1,892,166)                 | 0                      | (1,892,166)                          | (6,047)                   | (1,898,213)                         |
| C.I.A.C.                     | (9,111,739)                 | 0                      | (9,111,739)                          | (211,050)                 | (9,322,789)                         |
| AMORTIZATION OF C.I.A.C.     | 1,298,493                   | 0                      | 1,298,493                            | 3,751                     | 1,302,244                           |
| ADVANCES FOR CONSTRUCTION    | (557,155)                   | 0                      | (557,155)                            | (54,333)                  | (611,488)                           |
| REFUNDABLE ADVANCES          | 0                           | 0                      | 0                                    | (76,498)                  | (76,498)                            |
| WORKING CAPITAL ALLOWANCE    | 141,202                     | 0                      | 141,202                              | 4,045                     | 145,247                             |
| <b>RATE BASE</b>             | <b>\$ 3,392,852</b>         | <b>\$ 0</b>            | <b>\$ 3,392,852</b>                  | <b>(455,876)</b>          | <b>\$ 2,936,976</b>                 |

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GULF UTILITY COMPANY  
SCHEDULE OF WATER RATE BASE  
TEST YEAR ENDING DECEMBER 31, 1991

SCHEDULE NO. 1-A  
DOCKET NO. 900718-WU

| COMPONENT                    | TEST YEAR<br>PER<br>UTILITY | UTILITY<br>ADJUSTMENTS | ADJUSTED<br>TEST YEAR<br>PER UTILITY | COMMISSION<br>ADJUSTMENTS | COMMISSION<br>ADJUSTED<br>TEST YEAR |
|------------------------------|-----------------------------|------------------------|--------------------------------------|---------------------------|-------------------------------------|
| UTILITY PLANT IN SERVICE     | \$ 13,553,177               | \$ 0                   | \$ 13,553,177                        | \$ 8,792                  | \$ 13,561,969                       |
| LAND                         | 79,379                      | 0                      | 79,379                               | 120,583                   | 199,962                             |
| NON-USED & USEFUL COMPONENTS | (118,339)                   | 0                      | (118,339)                            | (245,119)                 | (363,458)                           |
| ACCUMULATED DEPRECIATION     | (1,892,166)                 | 0                      | (1,892,166)                          | (6,047)                   | (1,898,213)                         |
| C.I.A.C.                     | (9,111,739)                 | 0                      | (9,111,739)                          | (211,050)                 | (9,322,789)                         |
| AMORTIZATION OF C.I.A.C.     | 1,298,493                   | 0                      | 1,298,493                            | 3,751                     | 1,302,244                           |
| ADVANCES FOR CONSTRUCTION    | (557,155)                   | 0                      | (557,155)                            | (54,333)                  | (611,488)                           |
| REFUNDABLE ADVANCES          | 0                           | 0                      | 0                                    | (76,498)                  | (76,498)                            |
| WORKING CAPITAL ALLOWANCE    | 141,202                     | 0                      | 141,202                              | 4,045                     | 145,247                             |
| <b>RATE BASE</b>             | <b>\$ 3,392,852</b>         | <b>\$ 0</b>            | <b>\$ 3,392,852</b>                  | <b>(455,876)</b>          | <b>\$ 2,936,976</b>                 |

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GULF UTILITY COMPANY  
ADJUSTMENTS TO RATE BASE  
TEST YEAR ENDING DECEMBER 31, 1991

SCHEDULE NO. 1-B  
PAGE 1 OF 2  
DOCKET NO. 900718-WU

| EXPLANATION   | ADJUSTMENT<br>WATER |
|---|---------------------|
| -----   |                     |
| 1 Plant   |                     |
| A. To reclassify land   | (105,317)           |
| B. To update projection based on actual 1990 balance            | (213,704)           |
| C. Reallocated general plant based on customers                 | 318,020             |
| D. Increase for change in beginning and end of year avg.        | 30,514              |
| E. Adjustment to reflect replacement<br>and retirement of car   | (20,721)            |
|   | -----               |
|   | \$ 8,792            |
|   | -----               |
| 2 LAND  |                     |
| A. To reclassify land from plant                                | 105,317             |
| B. To add land not included in MFRs but on books<br>of utility. | 15,266              |
|   | -----               |
|   | \$ 120,583          |
|   | -----               |
| 3 NON-USED & USEFUL PLANT                                       |                     |
| A. Used and useful adjustment - Plant                           | (259,329)           |
| B. Used and useful adjustment - Accum Depre.                    | 14,210              |
|   | -----               |
| TOTAL   | \$ (245,119)        |
|   | -----               |
| 4 ACCUMULATED DEPRECIATION                                      |                     |
| E. Adjustment to reflect replacement<br>and retirement of car   | 9,648               |
| B. Adjustment to reflect average balance                        | (15,695)            |
|   | -----               |
| TOTAL   | \$ (6,047)          |
|   | -----               |
| 5 CIAC  |                     |
| A. Imputation of CIAC for margin reserve                        | (331,353)           |
| B. To reflect actual average balance                            | 120,303             |
|   | -----               |
| TOTAL   | \$ (211,050)        |
|   | -----               |



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GULF UTILITY COMPANY  
 ADJUSTMENTS TO RATE BASE  
 TEST YEAR ENDING DECEMBER 31, 1991

SCHEDULE NO. 1-B  
 PAGE 2 OF 2  
 DOCKET NO. 900718-WU

| EXPLANATION  | ADJUSTMENT<br>WATER |
|--|---------------------|
| -----  | -----               |
| 6 ACCUMULATED AMORTIZATION OF CIAC                     |                     |
| A. Adjustment assoc. with imputation of CIAC           | 14,414              |
| B. To reflect actual average balance                   | (10,663)            |
|  | -----               |
| TOTAL  | \$ 3,751            |
|  | -----               |
| 7 ADVANCES FOR CONSTRUCTION                            |                     |
| A. Adjustment to reflect an average balance            | \$ (54,333)         |
|  | -----               |
| 8 REFUNDABLE ADVANCES                                  |                     |
| A. To reclassify from the cost of capital to rate base | \$ (76,498)         |
|  | -----               |
| 9 WORKING CAPITAL ALLOWANCE                            |                     |
| A. Adjustment due to reduced O&M Expenses              | \$ 4,045            |
|  | -----               |

GULF UTILITY COMPANY  
 COST OF CAPITAL - WATER  
 TEST YEAR ENDING DECEMBER 31, 1991

SCHEDULE NO. 2-A  
 DOCKET NO. 900718-WU

| DESCRIPTION               | ADJUSTED<br>TEST YEAR<br>PER UTILITY | WEIGHT  | COST   | WEIGHTED<br>COST | COMMISSION<br>PRO RATA ADJ<br>TO UTILITY<br>EXHIBIT | BALANCE<br>PER<br>COMMISSION | WEIGHT  | COST   | WEIGHTED<br>COST |
|---------------------------|--------------------------------------|---------|--------|------------------|---|------------------------------|---------|--------|------------------|
|                           |                                      |         |        |                  |   |                              |         |        |                  |
| 1 LONG TERM DEBT          | \$ 8,975,000                         | 83.20%  | 10.29% | 8.56%            | \$ (6,513,366)                                      | \$ 2,461,634                 | 83.82%  | 10.29% | 8.62%            |
| 2                         |                                      |         |        |                  |   |                              |         |        |                  |
| 3 SHORT TERM DEBT         | 75,360                               | 0.70%   | 12.50% | 0.09%            | (54,690)  | 20,670                       | 0.70%   | 12.51% | 0.09%            |
| 4                         |                                      |         |        |                  |   |                              |         |        |                  |
| 5 CUSTOMER DEPOSITS       | 177,756                              | 1.65%   | 7.78%  | 0.13%            | (129,002)   | 48,754                       | 1.66%   | 7.78%  | 0.13%            |
| 6                         |                                      |         |        |                  |   |                              |         |        |                  |
| 7 PREFERRED STOCK         | 0                                    | 0.00%   | 0.00%  | 0.00%            | 0   | 0                            | 0.00%   | 0.00%  | 0.00%            |
| 8                         |                                      |         |        |                  |   |                              |         |        |                  |
| 9 COMMON EQUITY           | 1,166,957                            | 10.82%  | 13.51% | 1.46%            | (846,888)   | 320,069                      | 10.90%  | 13.11% | 1.43%            |
| 10                        |                                      |         |        |                  |   |                              |         |        |                  |
| 11 INVESTMENT TAX CREDITS | 0                                    | 0.00%   | 0.00%  | 0.00%            | 0   | 0                            | 0.00%   | 0.00%  | 0.00%            |
| 12                        |                                      |         |        |                  |   |                              |         |        |                  |
| 13 DEFERRED INCOME TAXES  | 313,000                              | 2.90%   | 0.00%  | 0.00%            | (227,151)   | 85,849                       | 2.92%   | 0.00%  | 0.00%            |
| 14                        |                                      |         |        |                  |   |                              |         |        |                  |
| 15 OTHER CAPITAL          | 78,915                               | 0.73%   | 0.00%  | 0.00%            | (78,915)  | 0                            | 0.00%   | 0.00%  | 0.00%            |
| 16                        |                                      |         |        |                  |   |                              |         |        |                  |
| 17 TOTAL CAPITAL          | \$ 10,786,988                        | 100.00% |        | 10.24%           | \$ (7,850,012)                                      | \$ 2,936,976                 | 100.00% |        | 10.27%           |
| 18                        |                                      |         |        |                  |   |                              |         |        |                  |

RANGE OF REASONABLENESS

LOW HIGH

EQUITY

12.11% 14.11%

OVERALL RATE OF RETURN

10.16% 10.38%

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GULF UTILITY COMPANY  
ADJUSTMENTS TO CAPITAL STRUCTURE  
TEST YEAR ENDING DECEMBER 31, 1991

SCHEDULE NO. 2-B  
DOCKET NO. 900718-WU

| DESCRIPTION               | UTILITY<br>ADJUSTED<br>TEST YEAR | ADJUST<br>TO REMOVE<br>CONSTR. ADV. | PRO RATA<br>RECONCILE | NET<br>ADJUSTMENT |
|---------------------------|----------------------------------|-------------------------------------|-----------------------|-------------------|
| 1 LONG TERM DEBT          | \$ 8,975,000                     | \$                                  | \$ (6,513,366)        | \$ (6,513,366)    |
| 2                         |                                  |                                     |                       |                   |
| 3 SHORT TERM DEBT         | 75,360                           |                                     | (54,690)              | (54,690)          |
| 4                         |                                  |                                     |                       |                   |
| 5 CUSTOMER DEPOSITS       | 177,756                          |                                     | (129,002)             | (129,002)         |
| 6                         |                                  |                                     |                       |                   |
| 7 PREFERRED STOCK         | 0                                |                                     | 0                     | 0                 |
| 8                         |                                  |                                     |                       |                   |
| 9 COMMON EQUITY           | 1,166,957                        |                                     | (846,888)             | (846,888)         |
| 10                        |                                  |                                     |                       |                   |
| 11 INVESTMENT TAX CREDITS | 0                                |                                     | 0                     | 0                 |
| 12                        |                                  |                                     |                       |                   |
| 13 DEFERRED INCOME TAXES  | 313,000                          |                                     | (227,151)             | (227,151)         |
| 14                        |                                  |                                     |                       |                   |
| 15 OTHER CAPITAL          | 78,915                           | (78,915)                            | 0                     | (78,915)          |
| 16                        |                                  |                                     |                       |                   |
| 17 TOTAL CAPITAL          | \$ 10,786,988                    | \$ (78,915)                         | \$ (7,771,097)        | \$ (7,850,012)    |
| 18                        | =====                            | =====                               | =====                 | =====             |

GULF UTILITY COMPANY  
 STATEMENT OF WATER OPERATIONS  
 TEST YEAR ENDING DECEMBER 31, 1991

SCHEDULE NO. 3-A  
 DOCKET NO. 900718-WU

| DESCRIPTION                 | TEST YEAR<br>PER UTILITY | UTILITY<br>ADJUSTMENTS | UTILITY<br>ADJUSTED<br>TEST YEAR | COMMISSION<br>ADJUSTMENTS | COMMISSION<br>ADJUSTED<br>TEST YEAR | REVENUE<br>INCREASE OR<br>(DECREASE) | REVENUE<br>REQUIREMENT | ADJ FOR<br>STATUTORY<br>RC EXP | ADJUSTED<br>REVENUE<br>REQUIREMENT |
|-----------------------------|--------------------------|------------------------|----------------------------------|---------------------------|-------------------------------------|--------------------------------------|------------------------|--------------------------------|------------------------------------|
| 1 OPERATING REVENUES        | \$ 1,265,992             | \$ 566,122             | \$ 1,832,114                     | \$(355,858)               | \$ 1,476,256                        | \$ 310,551                           | \$ 1,786,807           | \$(5,423)                      | 1,781,384                          |
| 2                           |                          |                        |                                  |                           |                                     |                                      |                        |                                |                                    |
| 3 OPERATING EXPENSES        |                          |                        |                                  |                           |                                     | 21.04%                               |                        |                                |                                    |
| 4                           |                          |                        |                                  |                           |                                     |                                      |                        |                                |                                    |
| 5 OPERATION AND MAINTENANCE | \$ 853,920               | \$ 275,695             | \$ 1,129,615                     | \$ 32,362                 | \$ 1,161,977                        | \$ 0                                 | \$ 1,161,977           | \$(5,179)                      | 1,156,798                          |
| 6                           |                          |                        |                                  |                           |                                     |                                      |                        |                                |                                    |
| 7 DEPRECIATION              | 38,374                   | 133,487                | 171,861                          | (19,347)                  | 152,514                             | 0                                    | 152,514                |                                | 152,514                            |
| 8                           |                          |                        |                                  |                           |                                     |                                      |                        |                                |                                    |
| 9 AMORTIZATION              | 0                        | 0                      | 0                                | 0                         | 0                                   | 0                                    | 0                      |                                | 0                                  |
| 10                          |                          |                        |                                  |                           |                                     |                                      |                        |                                |                                    |
| 11 TAXES OTHER THAN INCOME  | 80,976                   | 72,450                 | 153,426                          | (21,729)                  | 131,697                             | 13,975                               | 145,672                | (244)                          | 145,428                            |
| 12                          |                          |                        |                                  |                           |                                     |                                      |                        |                                |                                    |
| 13 INCOME TAXES             | 54,560                   | (24,791)               | 29,769                           | (116,354)                 | (86,585)                            | 111,602                              | 25,017                 |                                | 25,017                             |
| 14                          |                          |                        |                                  |                           |                                     |                                      |                        |                                |                                    |
| 15                          |                          |                        |                                  |                           |                                     |                                      |                        |                                |                                    |
| 16 TOTAL OPERATING EXPENSES | \$ 1,027,830             | \$ 456,841             | \$ 1,484,671                     | \$(125,068)               | \$ 1,359,603                        | \$ 125,577                           | \$ 1,485,180           | \$(5,423)                      | 1,479,757                          |
| 17                          |                          |                        |                                  |                           |                                     |                                      |                        |                                |                                    |
| 18                          |                          |                        |                                  |                           |                                     |                                      |                        |                                |                                    |
| 19 OPERATING INCOME         | \$ 238,162               | \$ 109,281             | \$ 347,443                       | \$(230,790)               | \$ 116,653                          | \$ 184,974                           | \$ 301,627             | 0                              | 301,627                            |
| 20                          |                          |                        |                                  |                           |                                     |                                      |                        |                                |                                    |
| 21                          |                          |                        |                                  |                           |                                     |                                      |                        |                                |                                    |
| 22 RATE BASE                | \$ 3,392,852             | \$                     | \$ 3,392,852                     |                           | \$ 2,936,976                        |                                      | \$ 2,936,976           |                                | 2,936,976                          |
| 23                          |                          |                        |                                  |                           |                                     |                                      |                        |                                |                                    |
| 24                          |                          |                        |                                  |                           |                                     |                                      |                        |                                |                                    |
| 25 RATE OF RETURN           | 7.02%                    |                        | 10.24%                           |                           | 3.97%                               |                                      | 10.27%                 |                                | 10.27%                             |
| 26                          |                          |                        |                                  |                           |                                     |                                      |                        |                                |                                    |



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GULF UTILITY COMPANY  
ADJUSTMENTS TO OPERATING STATEMENT  
TEST YEAR ENDING DECEMBER 31, 1991

SCHEDULE NO. 3-B  
PAGE 1 OF 2  
DOCKET NO. 900718-WU

| EXPLANATION   | ADJUSTMENT<br>WATER |
|---|---------------------|
| -----   |                     |
| 1 OPERATING REVENUES  |                     |
| A. To remove utility's requested revenue increase                   | (361,772)           |
| B. To reflect actual revenues                                       | 5,914               |
| -----   |                     |
| NET ADJUSTMENT  | \$ (355,858)        |
| -----   |                     |
| 2 OPERATION AND MAINTENANCE EXPENSE                                 |                     |
| A. Adjustment to reflect 1990 escalated actual adjustments          | 38,505              |
| B. Adjustment to rate case expense                                  | (6,143)             |
| -----   |                     |
| TOTAL   | \$ 32,362           |
| -----   |                     |
| 3 DEPRECIATION EXPENSE  |                     |
| A. Adjust to reflect actual depr.                                   | 3,617               |
| B. Adjustment assoc. car replacement & retirement                   | (3,452)             |
| C. To reduce for non-used and useful                                | (14,210)            |
| D. Adjustment to reflect actual depr.                               | 9,112               |
| E. Adjustment to amort. expense for imputation of CIAC              | (14,414)            |
| -----   |                     |
| TOTAL   | \$ (19,347)         |
| -----   |                     |
| 4 TAXES OTHER THAN INCOME   |                     |
| A. Reg. assess. fees on revenue increase                            | (16,280)            |
| B. Reg. assess. fees assoc. with imputed revenue                    | 266                 |
| C. To remove payroll tax expense associated with R.O. plt. trainees | (4,880)             |
| D. To remove property tax associated with non-used & useful plant.  | (835)               |
| -----   |                     |
|   | \$ (21,729)         |
| -----   |                     |

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GULF UTILITY COMPANY  
 ADJUSTMENTS TO OPERATING STATEMENT  
 TEST YEAR ENDING DECEMBER 31, 1991

SCHEDULE NO. 3-B  
 PAGE 2 of 2  
 DOCKET NO. 900718-WU

| EXPLANATION<br>-----   | ADJUSTMENT<br>WATER<br>----- |
|--|------------------------------|
| 5 INCOME TAXES   |                              |
| A. Adjustment to income taxes                                      | \$ (116,354)<br>-----        |
| 6 REVENUE REQUIREMENT  |                              |
| A. To reflect the increase in<br>the revenues required             | \$ 310,551<br>-----          |
| 7 TAXES OTHER THAN INCOME  |                              |
| A. RAF on revenue increase recomm.                                 | \$ 13,975<br>-----           |
| 8 INCOME TAXES   |                              |
| A. To reflect income taxes<br>relating to revenue<br>requirements. | \$ 111,602<br>-----          |

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GULF UTILITY COMPANY  
 DOCKET NO.: 900718-WU  
 June 11, 1991

SCHEDULE NO. 4

Rate Reduction for Full Amortization  
 of Rate Case Expense

|  | Water<br>Monthly Rates<br>-----                | Rate<br>Decrease<br>After<br>Four Years<br>----- |
|--|--|--|
| Residential and General Service<br>----- | Commission<br>Approved<br>Final Rates<br>----- |  |
| Base Facility Charge:                    |  |  |
| Meter Size:                              |  |  |
| 5/8"x3/4"                                | \$8.52   | \$0.07   |
| 1"                                       | \$21.30  | \$0.17   |
| 1-1/2"                                   | \$42.60  | \$0.35   |
| 2"                                       | \$68.16  | \$0.55   |
| 3"                                       | \$136.32                                       | \$1.11   |
| 4"                                       | \$213.00                                       | \$1.73   |
| 6"                                       | \$426.00                                       | \$3.46   |
| Gallage Charge per 1,000 G.              | \$2.17   | \$0.01   |
| Private Fire Protection<br>-----         |  |  |
| Base Facility Charge:                    |  |  |
| Meter Size:                              |  |  |
| 6"                                       | \$142.00                                       | \$1.15   |
| 8"                                       | \$227.20                                       | \$1.85   |
| 12"                                      | \$610.60                                       | \$4.96   |