

MEMORANDUM

December 9, 1997

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FPSC - Records/Reporting

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF LEGAL SERVICES (VACCARO) *OV*

RE: DOCKET NO. 960329-WS - INVESTIGATION OF RATES OF GULF
UTILITY COMPANY IN LEE COUNTY FOR POSSIBLE OVEREARNINGS.

DOCKET NO. 960234-WS - APPLICATION FOR INCREASE IN RATES
AND SERVICE AVAILABILITY CHARGES IN LEE COUNTY BY GULF
UTILITY COMPANY.

PSC-97-1544-FOF-WS

Attached is an ORDER APPROVING, IN PART, AND DENYING, IN PART,
MOTION FOR RECONSIDERATION AND RELEASING ESCROW FUNDS, to be issued
in the above-referenced docket.

(Number of pages in order - 36)

TV/der

Attachment

cc: Division of Water and Wastewater (Merchant, Fuchs, Galloway)

I:960329-o.tv

Attachments Not Online

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation of rates
of Gulf Utility Company in Lee
County for possible overearnings

DOCKET NO. 960234-WS

In re: Application for increase
in rates and service
availability charges in Lee
County by Gulf Utility Company.

DOCKET NO. 960329-WS
ORDER NO. PSC-97-1544-FOF-WS
ISSUED: December 9, 1997

The following Commissioners participated in the disposition of
this matter:

J. TERRY DEASON
SUSAN F. CLARK

ORDER APPROVING, IN PART, AND DENYING, IN PART,
MOTION FOR RECONSIDERATION
AND RELEASING ESCROW FUNDS

BY THE COMMISSION:

BACKGROUND

Gulf Utility Company (Gulf or utility) is a Class A utility which serves approximately 7,040 water and 2,435 wastewater customers in Lee County, Florida. The utility is located in a water use caution area as designated by the South Florida Water Management District (SWFWMD). Rate base was last established for Gulf's wastewater facilities by Order No. 20272, issued November 7, 1988, in Docket No. 880308-SU. Rate base for water facilities was last established by Order No. 24735, issued July 1, 1991, in Docket No. 900718-WU.

By Order No. PSC-96-0501-FOF-WS, issued April 11, 1996, in Docket No. 960234-WS, we initiated an overearnings investigation and held \$353,492 in annual water revenues subject to refund. As noted by that order, the overearnings investigation has been combined with this rate proceeding.

On June 27, 1996, Gulf filed an application for an increase in wastewater rates, approval of a decrease in water rates, and approval of service availability charges. The minimum filing requirements (MFRs) were satisfied on August 23, 1996, which was established as the official filing date pursuant to Section

DOCUMENT NUMBER-DATE

12561 DEC-96

FPSC-RECORDS/REPORTING

367.083, Florida Statutes. The utility's requested test year for interim purposes is the historical year ended December 31, 1995. The requested test year for final rates is the projected year ending December 31, 1996.

By Order No. PSC-96-1310-FOF-WS, issued October 28, 1996, we suspended Gulf's proposed rates, approved interim wastewater rates subject to refund, and granted the utility's request to reduce its water rates and held additional water revenues subject to refund. The Prehearing Conference was held on February 17, 1997. The technical and customer hearings were held on March 5 and 6, 1997 at the Elks Club of Bonita Springs in Bonita Springs, Florida.

By Order No. PSC-97-0847-FOF-WS, issued July 15, 1997, we approved final water and wastewater rates and charges for Gulf. On July 30, 1997, Gulf timely filed a Motion For Reconsideration of Order No. PSC-97-0847-FOF-WS. Gulf also filed a Motion to Release Escrow Funds on July 30, 1997. OPC filed a response to the Motion For Reconsideration on August 11, 1997, after an extension of time approved by us. On September 18, 1997, Gulf filed a Request for Administrative Notice for a letter provided by an engineering firm to support the in-service time frame for the one million gallon reject holding tank.

ADMINISTRATIVE NOTICE

On September 18, 1997, Gulf filed a Request for Administrative Notice, in which it requested that we take administrative notice of a letter provided by an engineering firm which purports to set forth the time period in which Gulf's one million gallon reject holding tank will reach start-up and be fully operational. Gulf has requested reconsideration of our decision to exclude this tank from rate base, as discussed later in this Order. As grounds for its request, Gulf alleges that the facts stated in the letter should be administratively noticed, "because they are capable of accurate and ready determination by the Commission and staff," as provided in Section 90.202(12), Florida Statutes.

Section 90.202(12), Florida Statutes, provides that the following may be administratively noticed:

Facts that are not subject to dispute because they are capable of accurate and ready determination by resort to sources whose accuracy cannot be questioned.

Examples of such facts are the exchange rate between American and Canadian currency and whether or not a specific location falls within county boundaries. See MacDonald v. International Chemalloy

Corporation, 473 So. 2d 760 (Fla. 4th DCA 1985); and Liberty Mutual Insurance Company v. Magee, 389 So. 2d 1090 (Fla. 4th DCA 1980), respectively. These examples are facts which do not require formal proof because they are indisputable. We do not find that the start-up and operational dates of a holding tank are the types of facts contemplated by the statute. Further, in the MacDonald case, the Court held that a letter from counsel was not sufficient authority to base judicial notice on the American/Canadian exchange rate. 473 So. 2d at 761. Likewise, we do not find that the letter provided by Gulf is sufficient authority upon which to base administrative notice of the facts alleged.

Further, pursuant to Section 90.901, Florida Statutes, "[a]uthentication or identification of evidence is required as a condition precedent to its admissibility." Gulf has not provided a witness to authenticate the letter in question and, at any rate, the record in this docket is closed, barring inclusion of any new evidence. Based on the foregoing, Gulf's Request for Administrative Notice is denied.

RECONSIDERATION UNDER "END RESULT DOCTRINE"

In its Motion for Reconsideration Gulf requests that we reconsider our Final Order on the basis that the order does not consider the effects it will have on the financial integrity of the utility, and, therefore, ignores the "end result doctrine." Citing Federal Power Commission v. Hope Natural Gas, 320 U.S. 591, 602 (1944), Gulf states that "the end result doctrine establishes the constitutional principle that rates which do not 'enable the company to operate successfully, to maintain its financial integrity, to attract capital and to compensate investors for the risk assumed' result in an unlawful confiscation of the utility's property." Gulf further states that "the end result doctrine applies in every rate case to determine whether just and reasonable rates have been set." Gulf cites, among others, the following cases in support of its statement: Tamaron Homeowners Association, Inc. v. Tamaron Utilities, Inc., 460 So. 2d 347, 353 (Fla. 1984); Westwood Lake, Inc. v. Dade County, 264 So. 2d 7, 9 (Fla. 1972).

In its motion, Gulf provided an Affidavit of Mr. James Moore, President of Gulf, which allegedly details the effect which the Final Order will have on the utility. In summary, the Affidavit provides that Gulf will not have a sufficient return to provide confidence in the financial integrity of the business, maintain its credit, and attract capital on reasonable terms. Gulf also states that "[t]he end result of the Final Order is that there is inadequate revenue from utility operations to pay bond interest on Gulf's outstanding debt securities." Finally, Gulf states that we

have set rates which are \$438,037 less therefore, the rates set are not fair, just a

In its response to Gulf's motion, OPC agreed of the cases cited by Gulf. However, OP hardships alleged in Mr. Moore's affidavit, are of excessive debt in 1988. OPC states that Mr hearing that the utility borrowed \$10,000,000 not required to borrow this much money. OPC full cross-examination, Mr. Moore conceded that the Development Revenue Bonds issued by the utility by the utility, not customers. Likewise, Mr. the losses sustained because of these bonds management decisions, not customer or development asserts that the loss depicted in Attachment Affidavit is due solely to the issuance of exceeded the capital requirements of the utility that a loss sustained by the company's excess sustained by the utility, not the customers, and Reconsideration should be denied.

The standard for determining whether appropriate is set forth in Diamond Cab Comparison 146 So. 2d 889 (Fla. 1962). In Diamond Cab, the purpose for a petition for reconsideration agency's attention a point of fact or law which which the agency failed to consider when it rendered the first instance, and it is not intended rearguing the case merely because the losing party the judgment. Id. at 891. In Stewart Bonded 294 So. 2d 315 (Fla. 1974), the Court held that reconsideration should be based upon specific set forth in the record and susceptible to review these standards in our review of Gulf's Motion 1

We agree with the holdings in the case law do not find them applicable in this matter. cases, end results are rates which are just and well aware of our obligation to set just compensatory rates under Section 367.081(2)(a) By Order No. PSC-97-0847-FOF-WS, we approved rates the utility the opportunity to earn a 9.20% rate investment and to recover its allowed level of considered all evidence presented and found that were just, fair and reasonable. It is apparent arguments that it is merely dissatisfied with hearing. Therefore, Gulf's arguments are reconsideration under the Diamond Cab case. inappropriately relies on Mr. Moore's Affidavit

These items go beyond the scope of reconsideration, because neither is a part of the record in this case. See Stewart Bonded Warehouse v. Bevis, 294 So. 2d 315 (Fla. 1974). Finally, we agree with OPC that Gulf's excessive debt is not the responsibility of the ratepayers. We correctly allowed the utility to collect interest on its rate base only, and, therefore, did not make a mistake of fact or law. Accordingly, Gulf's Motion for Reconsideration under the "end result doctrine" is denied.

INTERIM RATES SURCHARGE

In its Motion For Reconsideration, Gulf requests that we authorize it to collect the difference between its interim and final rates in the form of a surcharge from customers who received service during the interim period, if we approve Gulf's Motion. In support of its request, Gulf states that if its Motion is approved, Gulf's revenue requirement for water will be greater than the revenue allowed for interim rates. Gulf alleges that, under case law, "utility companies must be allowed to recoup through a surcharge revenue deficiencies caused by interim rates set lower than final rates." In support of its argument, Gulf cites Southern States Utilities, Inc. v. Florida Public Service Commission, 22 Fla. L. Weekly D1492 (Fla. 1st DCA 1997) citing GTE v. Clark, 668 So. 2d 971 (Fla. 1996).

In its response to Gulf's Motion, OPC states that the utility's request should be denied. OPC states that Gulf misconstrues the Court's finding in Southern States. Further, OPC states that Commission rules and statutes provide a different method of calculating interim and final rates, such that Gulf's requested surcharge would nullify the requirements of Section 367.082, Florida Statutes.

We find Gulf's request inappropriate for several reasons. First, the utility raises new arguments regarding subject matter not previously contained in the record of this proceeding. See Stewart Bonded Warehouse 294 So. 2d at 317. Second, Gulf's request does not relate to whether we made a mistake of fact or law in making its final decision on rates. See Diamond Cab 146 So. 2d at 891 (Fla. 1962). Therefore Gulf's request is outside the scope of reconsideration.

Third, Gulf's argument is unsupported by case law. The Southern States decision is not applicable. As OPC asserts, Gulf misconstrues the Court's finding in Southern States. In the Southern States case, we directed Southern States Utilities, Inc. (SSU) to make refunds to customers who overpaid under erroneously approved uniform final rates, but denied SSU a surcharge for customers who underpaid under the uniform rate structure. The

Court determined that SSU could collect the surcharge from customers who underpaid and, citing the GTE case, stated that "equity applies to both utilities and ratepayers when an erroneous rate order is entered." Southern States, 22 Fla. L. Weekly at D1492. Because the Southern States and GTE cases only address surcharges involving erroneously approved final rates, neither case supports Gulf's position. In the present case, Gulf has never alleged that our determination of interim rates was in any way erroneous.

Finally, the determination of the appropriate interim amount is one strictly made following the formula found in Section 367.082, Florida Statutes. Interim rates "protect utilities from 'regulatory lag' associated with full blown rate proceedings." Citizens of the State of Florida v. Public Service Commission, 425 So. 2d 534, 540 (Fla. 1981). These rates provide the utility relief pending our final decision on rates, requiring only a prima facie showing of entitlement to relief. As such, interim rates are not intended to provide a utility with the same level of relief which may be established by a complete evidentiary hearing. Gulf's requested surcharge would undermine the purpose of interim rates. The interim statute does not contemplate a true-up or surcharge of any alleged deficiency later. Therefore, a surcharge would defeat the purpose of interim rates. Based on the foregoing, Gulf's requested surcharge is denied.

RECONSIDERATION OF RATE BASE

Corkscrew Reject Holding Tank

Gulf states in its Motion for Reconsideration that we misapprehended Section 367.081(2), Florida Statutes, in excluding the cost of construction of the one million gallon reject holding tank from rate base. That section states, in part:

The Commission shall also consider the investment of the utility in land acquired or facilities constructed or to be constructed in the public interest within a reasonable time in the future, not to exceed, unless extended by the Commission, 24 months from the end of the historical test period used to set rates.

According to Gulf, the language plainly states that the Commission shall consider the investment in facilities to be constructed "24 months from the end of the historical test period." In its motion, Gulf references a statement from page 12 of the Final Order in which we stated, "Had there been at least a signed contract to construct the reject holding tank, we could have considered its inclusion in some manner." Gulf maintains in its

petition, that the Final Order overlooked Gulf's legal argument that the holding tank should be in rate base because it is required by Gulf's Florida Department of Environmental Protection (DEP) permit, and that the minimum filing requirements (MFRs) contain all information required by Rule 25-30.4415, Florida Administrative Code, in order to include the cost of this tank in rate base. Furthermore, Gulf requests the docket be kept open until the completion of the million gallon holding tank project for the purpose of including it in rate base.

OPC, in its Response to Motion for Reconsideration, states, "The Company had the obligation to present the evidence, which is made a part of the record, to support the inclusion of this facility in its rate base. At the hearing, the company clearly failed to meet this burden." OPC further states that, "It is not appropriate for Gulf to now utilize a motion for Reconsideration to supplement the record to bolster its case on this issue, after the hearing has been completed. That is not the purpose of a Motion for Reconsideration, per the Diamond Cab Co. case." OPC further states that the plain language of Section 367.081(2), Florida Statutes, only requires that we consider the investment of the utility in land acquired or facilities constructed within a reasonable time in the future.

In regard to keeping the docket open, OPC states, "Such a procedure might be a reasonable option if the Commission could satisfy itself that a material savings could be realized for the ratepayers. However, upon verification that the facilities have been completed, the Commission must also verify the proper amount of CIAC to offset the investment and the proper used and useful percentage of the facilities."

The utility chose an historic test year ending December 31, 1996. By the end of the test year, there was no construction initiated, nor firm contract signed, for construction of the holding tank. Section 367.081(2), Florida Statutes, only requires us to give consideration to future investments in land or facilities. Gulf had ample opportunity to produce firm evidence of a signed contract or other proof of construction up to and including the hearing dates. At the hearing, utility witness Moore was questioned regarding the disposition of plans for the tank. He indicated that the tank had not been constructed, nor were any contracts in hand to indicate construction would be initiated in the foreseeable future. There is no evidence in the record to support the utility's position for reconsideration.

The utility's argument, that the Final Order overlooked the legal argument that the reject holding tank should be included in rate base because of DEP permit requirements and that the MFRs

contain all information required by Rule 25-30.4415, Florida Administrative Code, to include the cost of the tank, is invalid. This rule only states the filing requirements for requesting recovery of such plant costs; it does not automatically authorize recovery without further supporting evidence. Again, Gulf was given opportunities at the hearing to produce evidence of construction or firm contracts for construction of the tank. Neither was forthcoming. The responses to staff cross-examination produced no firm information that would satisfy the requirement of completion within the 24-month period in question. Further, keeping the docket open for possible inclusion of the investment for the reject holding tank is inappropriate. Gulf has the option of initiating a limited proceeding or another rate case in order to place the holding tank in rate base. Here, the record has been closed.

Based on the evidence in the record, we find that we did not make a mistake of fact or law in our decision on this issue. Therefore, Gulf's Motion For Reconsideration on this issue is denied.

Used and Useful

1996 Flows

Gulf states that the Final Order is in error due to the use of 1995 flows instead of projecting test year 1996 flows in determining used and useful percentages for the water and wastewater plants. Gulf states that we overlooked the inclusion of flows for the Florida Gulf Coast University (FGCU) and overlooked inclusion of additional flows required by the 1996 growth of 430 equivalent residential connections (ERCs) in the water operations and 495 ERCs in the wastewater operations. In its response, OPC states that the calculations utilizing single family residence (SFR) or ERCs of 396 gallons per day (GPD) for water and 250 GPD for wastewater presented by the utility were high.

Gulf is correct that we mistakenly relied on 1995 flows in calculating used and useful percentages. Because the utility requested a projected 1996 test year, we should have used the projected 1996 flows. Our decision did not take Gulf's request into account, because our staff used 1995 flows in its final recommendation. Therefore, in reaching our final decision, we overlooked a material point of fact.

The 1996 projected flows, as well as the projected growth in ERCs, provided by Gulf in its filing, however, were incorrect. Testimony revealed that current ERC flows for the utility were 206 GPD for water and 158 GPD for wastewater. Table 1, below, is a

comparison of the flows provided by the utility, which were based on 396 GPD per SFR for water and 250 GPD per SFR for wastewater, to the correct flows of 206 GPD per SFR for water and 158 GPD per SFR for wastewater.

Finally, we did not overlook the 1996 growth of 430 ERCs for water and 495 ERCs for wastewater and the flows projected from the Florida Gulf Coast University. Based on a review of the evidence in the record, Gulf's Motion for Reconsideration regarding the use of 1995 flows is granted. The appropriate 1996 flows are contained in Table 1.

TABLE 1

	UTILITY PROVIDED FLOWS		APPROVED FLOWS	
	WATER MGD	WASTEWATER MGD	WATER MGD	WASTEWATER MGD
Average 5 day max flow	2.746	XXXXXX	2.746	XXXXXX
Average daily flow, max month	XXXXXX	0.67	XXXXXX	0.67
Annual Growth(1)	0.24	0.127	0.0886	0.0782
Fireflow(2)	0.36	XXXXXX	0.18	XXXXXX
Margin Reserve(3)	0.297	0.3	0.133	0.117
Florida Gulf Coast University(4)	0.073	0.052	0.073	0.052

Application of Used and Useful To Total Investment

Gulf argues that the Final Order is in error because we applied a used and useful percentage of 72.11% to the entire investment in the wastewater treatment plants. Gulf further argues that we overlooked the fact that the San Carlos plant is 100% used and useful, and phases 1 & 2 of the Three Oaks plant are 100% used and useful.

OPC states in its response that we found that no adjustments should be made to the old Three Oaks WWTP(phases 1 & 2). OPC further states that we made this finding when considering separate

used and useful percentages for the old Three Oaks plant relative to the new Three Oaks plant.

The utility is correct that we incorrectly applied the used and useful percentage intended solely for phase 3 of the Three Oaks WWTP plant to the entire investment, instead of limiting it to the investment in the phase 3 portion of the plant. Our staff had difficulty segregating the investment between plant accounts for the various WWTPs when it filed its recommendation. It appeared that the filing contained only the total investment in account 380.4. Subsequent to our final order, staff discovered that Gulf filed the account breakdown necessary to segregate the various dollars as a note in the appendices on page 171 of the MFRs. The investment dollars were filed with the interim rates filing information in this docket. Using the data found there, we are able to segregate the proper investment for phase 3 of the Three Oaks plant from the remaining plants in the WWTP accounts. However, we did not have the benefit of this information at the time of our vote, and, therefore, overlooked a material point of fact in making our decision.

The San Carlos WWTP and the Three Oaks WWTP are separate non-interconnected facilities, and, as such, should be considered separately. We did approve different used and useful percentages for the San Carlos WWTP, phases 1 & 2 of the Three Oaks WWTP and phase 3 of the Three Oaks WWTP plants. In Order No. PSC-97-0847-FOF-WS, we found that the San Carlos WWTP and phases 1 & 2 of the Three Oaks WWTPs were 100% used and useful. We found phase 3 of the Three Oaks WWTP 72.11% used and useful using 1995 flows. Although not specifically stated in the order, we were referring only to phase 3 of the plant. This fact is clarified by comparing staff's recommendation to the Final Order.

In Issue five of the post hearing recommendation, staff recommended no adjustments should be made to the old Three Oaks WWTP and that it should be considered 100% used and useful. We voted in favor of this recommendation. On page 14 of the Final Order, we stated, "In consideration of the evidence, we conclude that no adjustments will be made to the old Three Oaks plant." Issue 15 of the same recommendation concerned the actual used and useful percentage adjustments to the WWTPs. Based on staff's recommendation, we found that the Three Oaks plant was 72.11% used and useful. Although it was not specifically mentioned that the 72.11% used and useful pertained solely to phase 3, it is implied, because the recommendation in Issue five specified the old Three Oaks Plant was to have no adjustments, meaning it was to be considered 100% used and useful.

Furthermore, as discussed earlier in this order, we erred by using 1995 historical flows in lieu of the utility requested 1996 projected flows. Using our approved 1996 flows results in a used and useful percentage of 92.49% instead of the previously approved 72.11%, for only the portion of the Three Oaks WWTP known as phase 3. Based on the foregoing, Gulf's Motion for Reconsideration is granted on this issue. We find that the appropriate used and useful percentages to investment are 100% for the San Carlos WWTP and phases 1 and 2 of the Three Oaks plant, and 92.49% for phase 3 of the Three Oaks WWTP.

Additional Accounts

We have determined that in addition to erroneously using the historical 1995 flows, we omitted three water treatment plant accounts from our used and useful calculation. The result of the omission had the effect of granting the utility 100% used and useful on investment in accounts which the utility, by requesting a lesser amount of used and useful treatment, agreed were not 100%. These additional accounts were not addressed in OPC's response.

In Order No. 24735, issued July 1, 1991, in Docket No. 900718-WU, we granted less than 100% used and useful percentages to the structure containing the Corkscrew water treatment equipment (account no. 304.3), the raw water supply line from the Corkscrew well field (account no. 309.2), and the Corkscrew water reuse line (account no. 339.3), which transports unusable reject water to the disposal site, where it is blended with treated wastewater and sprayed on the disposal site. Additionally, due to the reconsideration of flows from 1995 historical flows to projected 1996 flows, a slight difference in used and useful percentage for the water treatment equipment results (account no. 320.3). On our own motion, we find it appropriate to make the following revisions to these accounts.

Account No. 304.3 (Water Treatment Plant-Structures and Improvements) - In Order No. 24735, we made an adjustment of \$82,324 to the building housing the water treatment equipment based on a used and useful finding of 76.15%. Gulf, in its MFRs for this docket, requested an adjustment of only 6.2 percent, or \$38,667. Since the last rate case in 1991, two additional skids have been added to the treatment equipment with the third skid placed in service in December of 1996. We find it appropriate to grant the utility's request of 93.8% used and useful.

Account No. 309.2 (Source of Supply and Pumping Plant Supply Mains) By Order No. 24735, we found the utility's well field was 70.7% used and useful. The utility installed a larger than required line, due to environmental concerns for the Corkscrew

swamp. The larger line negated the need to install additional lines as the need for more capacity grew, which could otherwise disturb the environment. We accepted the utility's concerns for environmental protection, sound engineering design and economic effectiveness. At that time, there were only two wells in operation with nine additional wells drilled, but undeveloped. In this docket, utility witness Cardey testified that an additional three wells have been equipped with pumps bringing the total number of developed wells to five of the eleven originally drilled. Witness Cardey further testified that the well pumps each have a capacity of 500 GPM. This capacity multiplied by 5 wells times 1440 minutes per day equals 3.6 MGD, which is several times larger than the 1991 well capacity. The capacity generated by the addition of three wells indicates that an increase in used and useful is appropriate. Therefore, we find that the utility's requested 84.4% used and useful for account no. 309.2 is appropriate.

Account No. 320.3 (Water Treatment Plant-Water Treatment Equipment) - Use of the projected 1996 flows, in lieu of the historical 1995 flows, results in a slight increase in account no. 320.3 (Water Treatment Equipment) from 77.15% to 77.66%. Our calculation is based on our approved 1996 projected flows, the corrected single family residence flows of 206 GPD per ERC for margin reserve calculation, plus the projected FGCU flows, scheduled to begin in the third quarter of 1997, as a separate line item.

Account No. 339.3 (Water Treatment Plant-Other Plant and Miscellaneous Equipment) - By Order No. 24735, we found the Corkscrew reuse line to be 75% used and useful. The plant capacity at that time was 0.5 MGD, with only one Reverse Osmosis skid in operation. Presently there are three skids with the third one placed in service in December 1996. Plant capacity is now permitted at 1.8 MGD. The increase in plant flows produces an increase of reject water. Therefore, we find that the utility's requested 89.2% used and useful percentage in account no. 339.3 is appropriate.

Imputation of Contributions in Aid of Construction (CIAC) on Margin Reserve

Gulf argues that we improperly imputed CIAC on the margin reserve. This is related to Gulf's previous argument that the San Carlos and Phases 1 and 2 of the Three Oaks wastewater treatment plants were found to be 100% used and useful without a margin reserve. Gulf contends that the only margin reserve available was in Phase 3 of the Three Oaks wastewater treatment plant. As such,

Gulf argues that the Final Order overstated CIAC and understated rate base for wastewater.

Gulf attached Appendix "F" to its Motion For Reconsideration to support its contention. The appendix describes the adjustment made in the Final Order and compares it to what Gulf contends is the net plant and used and useful amounts for the Three Oaks Phase 3 treatment plant. While Gulf believes that this appendix supports its calculation, the dollar amount of the net plant for the Three Oaks Phase 3 treatment plant reflected in Appendix F is not contained in the record; therefore, review of the appendix is inappropriate for reconsideration. See Stewart Bonded Warehouse, 294 So. 2d 315 (Fla.1974).

OPC states in its response that we made no error with respect to the Three Oaks wastewater treatment plant. Therefore, OPC states that no adjustment to imputed CIAC is required, and we should reject Gulf's request for reconsideration.

We fully analyzed the evidence in the record regarding the issue of imputation of CIAC on the margin reserve, as well as the issue of prepaid CIAC and how those amounts should be considered in rate base. Gulf is not disputing our rationale for imputing CIAC or reclassifying prepaid CIAC to used and useful CIAC. The issue in dispute is what amount of net plant should have been included in the margin reserve.

As a result of our corrections to the used and useful plant discussed earlier in this Order, the amount of CIAC related to the margin reserve must be reduced. The margin reserve gallonage in the Final Order included the gallonage for FGCU. When we removed this amount from the margin reserve and increased test year flows, the percentage of plant attributed to the margin reserve was reduced. As such, the amount of CIAC associated with plant in the margin reserve also decreased. By including the gallonage for the university in the margin reserve, we erroneously overstated the amount of CIAC. Specific adjustments for the CIAC collected from the university were already appropriately made to rate base by the utility.

The appropriate amount of net plant included in the margin reserve are now \$90,662 and \$240,711 for water and wastewater, respectively. Both of these amounts are less than the projected amounts of prepaid CIAC, as well as fifty percent of the amount of CIAC that would be collected from the number of ERCs included in the margin reserve period.

Further, our review of the Final Order reveals a typographical error on page 33. In the first sentence of the last paragraph on that page, the Final Order states that the gross amount of CIAC collected on the margin reserve would be \$1,594,000. The correct amount is \$594,000, which is calculated by multiplying 743 ERCs by the \$800 plant capacity charge, as detailed in the second sentence of that paragraph. While this typographical error does not change the end result of the imputation of CIAC on margin reserve, it is appropriate to make this correction.

Valuation Date of CIAC

Gulf argues that we used an unapproved test period to determine the amount of CIAC. The utility alleges that we ignored the approved projected test year and used a test year ended September 30, 1996. The utility argues that the Final Order was in error when it increased CIAC by \$115,371 for water and \$98,456 for wastewater. Gulf contends that we compared the 13-month average balance of CIAC at September 30, 1996 to the 13 month average at December 31, 1996. The utility argues that we took the difference between these two amounts and added the difference to the December 31, 1996 balance of CIAC. It concludes that the amounts were already included in the 1996 test year and that there was a doubling of CIAC. As a result, the utility argues that rate base was understated.

In support of its argument, Gulf attached Appendix G to its motion, which Gulf purports to be pages 5 and 6 of the Commission Staff Audit Report, identified and entered into the record as Exhibit 24. For clarification purposes, we note that Gulf's Appendix G is not pages 5 and 6 of Exhibit 24. It is a retyped version of the last paragraph of page 5 and all of page 6. The title, subject, statement of fact and the beginning of the auditor's opinion were omitted from this appendix.

OPC states in its response that the utility made the same argument regarding the unapproved test period during the hearing and that we rejected the argument. OPC agrees that we used the 13-month average ended September 30, 1996 to test the reasonableness of the utility's projections and that analysis proved that those projections were not reasonable. As such, OPC states that we did not use an unapproved test year as alleged by the utility. OPC states that the utility is merely rearguing a position that was rejected by us.

At first, we were confused as to which issue Gulf's arguments related. No issue in the prehearing order, or subsequently identified at the hearing, addressed the issue of the valuation date of CIAC. In the table of contents of the Final Order, the

only issues regarding CIAC were for the Caloosa Group lines, prepaid CIAC, imputation of CIAC on the margin reserve, and the grant received from the SWFWMD. Upon further review, we determined that the dollar amount of the adjustment that the utility quoted related to the issue on accumulated amortization of CIAC, regarding the correct amortization rate to be used. That issue, however, has no relevance to the valuation date of CIAC.

That issue arose because the utility was not amortizing its CIAC in compliance with Rule 25-30.140, Florida Administrative Code. The evidence in the case reflected that the staff auditor recalculated the 13-month average balance of accumulated amortization of CIAC (AACIAC) for the historical year ended August, 1996. This clearly was not the projected test year ended December 31, 1996, approved for this case. However, the utility had ample opportunity by Late-filed Exhibit 50 to recalculate what the appropriate test year average would have been using the methodology according to the rule. For whatever reason, the utility did not make this calculation and simply reiterated its position that the rule allowed this "alternative" methodology employed by Gulf. As indicated in the Final Order, we found that Gulf had not used the appropriate methodology to amortize its CIAC, and we relied on the best information in the record to correct this error. Further, we stated that if the utility wished to have AACIAC corrected to a fully-supported balance, it is not precluded from requesting that adjustment in its next filing. Therefore, Gulf's Motion for Reconsideration on this issue is denied.

Rate Base Summary

Based upon our reconsideration of the water and wastewater used and useful adjustments and imputation of CIAC on the margin reserve, the appropriate rate base amounts are \$3,483,659 for water and \$4,302,133 for wastewater. The water and wastewater rate base schedules are attached as Schedules 1-A and 1-B, and the adjustments to rate base are attached as Schedule 1-C.

RECONSIDERATION OF NET OPERATING INCOME

Customer Satisfaction Survey

By Order No. PSC 97 0847 FOF WS, we approved the costs associated with the utility's customer satisfaction survey; however, the costs were amortized over five years. Thus, test year expenses were reduced by \$5,145 for water and \$2,650 for wastewater to reflect the amortization of the \$9,744 expense. We found that it is important for a utility to be aware of its customers opinions regarding its quality of service, and that a survey is a legitimate method for Gulf to determine those opinions. However, due to the

utility's current and historical high quality of service, an annual survey was not necessary. Further, the utility could receive feedback from the customers by including a questionnaire in the monthly bill.

Gulf argues that the survey was necessary on an annual basis, because it would allow management to anticipate problems and solve them more quickly. An annual survey is a better method to anticipate problems and correct them early rather than waiting until problems develop. Gulf argues that the full cost should be allowed as an operating expense. In its response, OPC agrees with us that a survey is not necessary every year and that the same results could be accomplished at essentially no cost by including a questionnaire with the customers' bills.

We find utility's motion on this point is a mere reargument of the position taken during hearing. Accordingly, the utility's Motion For Reconsideration of this issue is denied.

Labor and Chemical Costs

In its Motion For Reconsideration, Gulf asks for the inclusion of added labor and chemical costs associated with the Corkscrew water treatment plant (WTP). The utility has requested an additional \$49,594 in chemical costs for stabilizing water in the distribution system, and \$56,764 for the labor cost of two additional operators needed with the expansion of the Corkscrew WTP. The utility contends that, even though these costs were unknown at the time of filing this case, the staff auditors recognized such costs in the audit report. Therefore, the utility argues that, contrary to case law, we failed to recognize factors which affect future utility rates, and that test year data must be adjusted for known changes. The utility cited the following cases in its motion: Floridians United v. Public Service Commission, 475 So. 2d 241 (Fla. 1985) and Gulf Power Company v. Bevis, 289 So. 2d 401 (Fla. 1974).

Further, Gulf argues that the Final Order is contrary to Section 367.081(3), Florida Statutes, which states that:

The commission, in fixing rates, may determine the prudent cost of providing service during the period of time the rates will be in effect following the entry of a final order relating to the rate request of the utility and may use such costs to determine the revenue requirements that will allow the utility to earn a fair rate of return on its rate base.

Gulf argues that these costs were a prudent cost of providing service in 1996, as well as when the new rates are in effect, and should have been included in the revenue requirement.

OPC, in its response, states that it is not our duty to include expenses in the test year which were not requested by the utility. OPC further points out that these costs were not identified as an issue in the Prehearing Order. OPC argues that the utility was not in compliance with Rule 25-22.056, (3) (a), Florida Administrative Code, which states that: "In the event that a new issue is identified by a party in a post-hearing statement, that new issue shall be clearly identified as such, and a statement of position thereon shall be included."

OPC adds that Gulf's only mention of this issue in its post-hearing brief was a note buried in an appendix which was referenced as additional documentation to Issue 51. OPC concludes that we should reject the utility's motion, because it was Gulf who failed to include the allowance in the MFRs, it was Gulf who continued to fail to identify it as an issue and it was Gulf who failed to properly identify or discuss this allowance in its post-hearing brief.

We find that it is the utility's burden to prove that its requested expenses are prudent. See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). If the utility fails to ask for relief, it is not our responsibility to provide that relief. Regardless, a Motion for Reconsideration is an improper vehicle to request costs not requested, nor ever considered by the us in the record of this docket. This request falls out of the parameters established by Diamond Cab for us to address on reconsideration. Accordingly, Gulf's Motion for Reconsideration on this issue is denied.

Allocation of Expenses To Caloosa Group

In the Final Order, we reallocated the salaries and benefits of five of Gulf's employees who also provide services to the Caloosa Group (Caloosa). Caloosa is a land developer that has the same owners with the same proportionate ownership interests as Gulf. Utility witness Cardey testified that he performed a review of the services provided to Caloosa. Based on his review, no salary expense allocation to Caloosa was needed, as his estimate was approximate to what was actually paid. Both OPC witness Dismukes and staff witness Welch testified that the hourly rate charged to Caloosa was less than the rate charged to Gulf. Both witnesses relied upon the utility's Earnings and Deductions reports, which detailed the earnings for each of the five

employees, along with the hours worked during each period. Utility witness Cardey testified on rebuttal that the reports were based on information from 1988 and the hours were set for computer payroll purposes and his actual review of employees hours was necessary. We found that witness Cardey did not provide a solid basis on which to determine the reasonableness of the Caloosa salaries and found his explanations and analysis insufficient regarding this issue. As such, we relied upon the breakdown of hours as reflected on the Earnings and Deductions reports, as provided to the OPC and staff witnesses by the utility.

Gulf argues that the Final Order misapplied the law by failing to take into account actual, updated information in allocating salaries and other expenses between Gulf and Caloosa. It again cites Sunshine Utilities v. Public Service Commission, 624 So. 2d 306 (Fla. 1st DCA 1993), where the Court found that in a rate case, "the best way to allocate employee expenses was actual time." Gulf's Motion also states that the report called "Earnings and Deductions" has been updated, and today shows salary only, which conforms to the actual practice of the Company. In the Final Order, we also reallocated some of the common administrative and general costs between Gulf and Caloosa based on payroll costs. As a result of this alleged incorrect salary reallocation to Caloosa, Gulf argues that the common administrative and general costs were also incorrect in the Final Order.

OPC states that Gulf's arguments are nothing more than a reargument of positions debated at the hearing. Further, OPC states that Exhibit 32 was a document produced by the Company and was a September 1995 through August 1996 "Earnings and Deductions" Report. It reflected the time spent on Caloosa projects as well as the related salary. It was objective evidence provided by the utility. OPC states that this Commission, as well as the staff and OPC witnesses, had good reasons to rely on this document to determine the amount of salaries that should be allocated or charged to Caloosa. Third, OPC argues that the newly updated "Earnings and Deductions" Report referred to by Gulf in its brief, was not in evidence and, hence, could not have been relied upon by the Commission.

OPC also contests the utility's suggestion that Mr. Cardey's analysis was based upon "actual time" which would comport with the requirements of the Sunshine case. OPC argues that Mr. Cardey's analysis was not, as alleged, based upon actual time, because none of the employees who worked for both the utility and Caloosa kept time records of the amount of time they spent working for each company. Mr. Cardey's analysis, as we agreed, was based upon subjective judgements, not objective records. In Sunshine, the Court found that "actual time sheets" were submitted to support the

allocation advocated by the utility. No such time sheets were submitted in the instant docket. OPC concludes that we should reject Gulf's request for reconsideration, because it raises no matters of fact or law overlooked or errors made by us concerning the salary reallocation.

We agree with OPC that the utility's Motion For Reconsideration is merely a reargument of the issues of the case. Further, Gulf's attempt to persuade us that what the Earnings and Deductions reports reflect today, is inappropriate. This new document is outside of the record, as well as irrelevant, as it fails to provide sufficient proof of the actual number of hours that the employees spend on Gulf or Caloosa work. Actual time sheets would have been the most conclusive support for how much time each employee spent performing their assigned duties. Absent this information in the record, we relied on the utility's Earnings and Deduction reports. We found that Mr. Cardey's review, without other substantive means of validation of how much time was spent on Caloosa work, did not satisfy the utility's burden of proof. We fully considered the evidence in the record and made no errors of fact or law in considering that evidence. As such, Gulf's Motion for Reconsideration on this issue is denied. Correspondingly, it is inappropriate to reconsider its adjustment to the common administrative and general expenses.

REVENUE REQUIREMENT

Based upon our reconsideration of used and useful and imputation of CIAC on the margin reserve discussed earlier in this Order, we find that the appropriate annual revenue requirements are \$2,056,775 for water and \$1,612,895 for wastewater. This results in a decrease of \$238,582, or negative 10.39%, for water test year revenues and an increase of \$308,165, or 23.62%, for wastewater test year revenues. The operating income statements, which reflect the water and wastewater revenue requirement calculations, are attached as Schedules 3-A and 3-B, and the adjustments are shown on Schedule 3-C.

RATES AND RATE STRUCTURE

Based upon our reconsideration of used and useful and its affect on the utility's annual operating water and wastewater revenue requirement, we have approved revised rates which are designed to allow the utility the opportunity to generate annual operating water revenues in the amount of \$2,056,775 and wastewater revenues in the amount of \$1,612,895.

Allocation of the revenue requirement was not an issue in this case. Ms. Andrews, a utility witness, testified that an allocation was assigned based on number of customers served. We believe that a more accurate method of allocation should be used when designing rates. Therefore, the approved rates are allocated consistent with Commission practice based on a fixed cost versus variable cost basis.

Further, pursuant to the Final Order, the miscellaneous revenues, in their entirety, are excluded from the water revenues only, rather than from both water and wastewater revenues. As set forth on page 87 in Order No. PSC-97-0847-FOF-WS, the utility's tariff provides that whenever both water and sewer service are provided, only a single charge is appropriate unless circumstances beyond the control of the utility require multiple actions. The miscellaneous revenues were included in total by the utility as water miscellaneous revenues. It has been our practice to allow a utility to record miscellaneous revenues in this way when both water and wastewater miscellaneous charges exist.

Consistent with the utility's request and the Final Order, we find that a 20% differential between the residential and general service wastewater gallonage charges is appropriate. The purpose of the 20% differential in the wastewater gallonage charge between residential and general service customers recognizes that approximately 20% of the water used by residential customers is used for purposes such as irrigation and is not collected by the wastewater systems.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the appropriate rates pursuant to Rule 25-22.0407(10), Florida Administrative Code. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates shall not be implemented until proper notice has been received by the customers. The utility shall provide proof of the date notice was given within 10 days after the date of the notice.

A comparison of the utility's water and wastewater rates prior to filing, Commission approved interim rates, Gulf's requested final rates, Commission approved final and reconsidered final rates, is shown on Schedules Nos. 4-A and 4-B.

Master Meter Influent Service Rate

Consistent with our adjustment to the wastewater revenue requirement pursuant to the utility's request for reconsideration, the resulting master meter influent service rate is the base facility charge associated with the related meter size, along with a gallonage charge of \$5.04 per 1,000 gallons, as found on Schedule No. 4-B, for the master meter influent customers.

STATUTORY FOUR-YEAR RATE REDUCTION

Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four-year period by the amount of rate case expense previously authorized in the rates. The reduction will reflect the removal of water and wastewater revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$38,010 and \$18,730 annually. The removal of rate case expense will reduce rates as shown on Schedules Nos. 5-A and 5-B.

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

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 for the reduction in the rates due to the removal of the amortized rate case expense.

REFUND OF INTERIM REVENUES

By Order No. PSC-96-0501-FOF-WS, issued April 11, 1996, we initiated an overearnings investigation and held \$353,492 or 16.92 percent of Gulf's annual water revenues subject to refund. By Order No. PSC-96-1310-FOF-WS, issued on October 28, 1996, we approved an interim wastewater rate increase and water rate reduction, with additional water revenues held subject to refund. For wastewater, we approved a revenue requirement of \$1,288,391 for interim purposes. This resulted in an annual increase of \$170,821 or 15.29%. For the water system, we calculated an interim revenue requirement of \$1,796,651, which resulted in decreased revenues of \$329,920 or a negative 15.51%.

Based on our revised revenue requirements, we have recalculated the adjusted revenue requirement for the interim collection period, which total \$2,018,765 for water and \$1,594,165 for wastewater. The annualized water revenue requirements for both

the first and second interim periods exceed the adjusted final revenue requirement for water; therefore, a water refund is necessary. In order to determine the appropriate refund percent, miscellaneous revenues have been excluded. Compared to the restated interim revenue requirement, the revised revenue requirement for wastewater exceeds interim revenues and no wastewater refund is necessary.

Section 367.082(4), Florida Statutes, provides that refunds shall not be in excess of the amounts held subject to refund. The refund amounts for water are less than the amounts held subject to refund; therefore, no limitation is necessary. For the period of April 11, 1996, to October 31, 1996, the utility shall refund 11.97% of the water revenues collected during this time frame. From November 1, 1996, the utility shall refund 4.40% of the water revenues collected until the effective date of the final water rates approved herein. The refunds shall be made with interest as required by Rule 25-30.360(4), Florida Administrative Code. Further, the utility shall submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. Also, the utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

RELEASE OF ESCROW FUNDS

Pursuant to Order No. PSC-96-1310-FOF-WS, issued October 28, 1996, the total amount of potential refunds for the water and wastewater systems was calculated at \$439,653. When we initially calculated the security amount, we considered potential overearnings as addressed in Order No. PSC-96-0501-FOF-WS along with any additional potential overearnings for the water system plus the interim wastewater revenue increase.

An escrow account was established by the utility to comply with security requirements set forth in Order No. PSC-96-1310-FOF-WS. As stated in the utility's Motion to Release Escrow Funds, which was filed on July 30, 1997, the escrow account balance as of June 30, 1997 was \$555,332. The utility is requesting that a portion of this balance be released given that the current balance is in excess of the security requirement.

Pursuant to Order No. SC-97-0847-FOF-WS, issued July 15, 1997, final rates were approved allowing the utility the opportunity to earn a revenue requirement. While we ordered a revenue decrease for the water system, a revenue increase was ordered for the wastewater system. The result, in terms of security, is that the entire initial calculation of \$439,653 is not necessary for refund purposes.

Considering the revenue requirements and the refunds approved in Order No. PSC-97-0847-FOF-WS, we have recalculated the appropriate security amount necessary for refunds. The updated security amount is \$255,778. A release of \$104,000 from the escrow account, as requested by the utility in its motion, will not harm the customers. A release of this portion of the escrow balance will not put any customer at risk of not receiving the appropriate refund. Therefore, \$104,000 of utility's escrow account shall be released to Gulf.

CLOSING OF DOCKET

This docket shall be closed after the time for filing an appeal has run, upon staff's verification that the utility has completed the required refunds with interest, and the proper revised tariff sheets and customer notice have been filed by the utility and approved by staff. Further, the utility's escrow account shall be closed upon staff's verification that the refund has been completed.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Gulf Utility Company's Motion for Reconsideration is granted, in part, and denied, in part, as set forth in the body of this Order. It is further

ORDERED 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 the rates approved herein shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets, pursuant to Rule 25-30.475, Florida Administrative Code, provided the customers have received notice. It is further

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

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DOCKETS NOS. 960234-WS, 960329-WS
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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 proposed customer notice is adequate. It is further

ORDERED that Gulf Utility Company shall provide proof that the customers have received notice within 10 days of the date of notice. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period, consistent with our decision herein. Gulf Utility Company shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall file a customer notice. It is further

ORDERED that Gulf Utility Company shall refund with interest, calculated pursuant to Rule 25-30.360(4), Florida Administrative Code, the additional water revenues collected subject to refund as set forth in the body of this Order. It is further

ORDERED that Gulf Utility Company shall make the refund to customers of record as of the date of this Order pursuant to Rule 25-30.360, Florida Administrative Code. Gulf Utility Company shall submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. It is further

ORDERED that Gulf Utility Company shall treat any unclaimed refunds as contributions in aid of construction pursuant to Rule 25-30.360(8), Florida Administrative Code. It is further

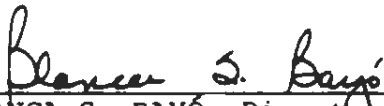
ORDERED that \$104,000 of Gulf Utility Company's escrow account shall be released to the utility. It is further

ORDERED that Gulf Utility Company's escrow account shall be closed upon staff's verification that the refund has been completed. It is further

ORDERED that this docket shall be closed upon staff's verification the Gulf Utility Company has made the required refunds as set forth in this Order and upon Gulf Utility Company filing and staff's approval of revised tariff sheets and a customer notice.

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By ORDER of the Florida Public Service Commission this 9th
day of December, 1997.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

TV

NOTICE OF JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), 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.

Any party adversely affected by the Commission's final action in this matter may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, 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 after the issuance 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.

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GULF UTILITY COMPANY
 SCHEDULE OF WATER RATE BASE
 TEST YEAR ENDED 12/31/96

SCHEDULE NO. 1-A
 DOCKET #60329-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENT	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENT	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$16,700,337	\$1,794,445	\$18,494,782	(\$700,000)	\$17,794,782
2 LAND & LAND RIGHTS	\$200,372	\$0	\$200,372	\$0	\$200,372
3 NON-USED & USEFUL COMPONENT	(\$193,954)	(\$881,535)	(\$1,075,489)	\$120,523	(\$954,966)
4 ACCUMULATED DEPRECIATION	(\$4,173,672)	(\$93,220)	(\$4,266,892)	(\$23,103)	(\$4,289,995)
5 CIAC	(\$12,220,685)	\$0	(\$12,220,685)	(\$174,161)	(\$12,394,846)
6 AMORTIZATION OF CIAC	\$2,942,325	\$0	\$2,942,325	(\$103,093)	\$2,839,232
7 ADVANCES FOR CONSTRUCTION	(\$4,885)	\$0	(\$4,885)	\$0	(\$4,885)
8 WORKING CAPITAL ALLOWANCE	\$358,144	\$0	\$358,144	(\$84,179)	\$293,965
9 RATE BASE	\$3,607,982	\$819,890	\$4,427,872	(\$944,013)	\$3,483,859

GULF UTILITY COMPANY
 SCHEDULE OF WASTEWATER RATE BASE
 TEST YEAR ENDED 12/31/96

SCHEDULE NO. 1-B
 DOCKET 960329-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENT	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENT	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$14,282,349	\$0	\$14,282,349	(\$2,265)	\$14,280,084
2 LAND	\$473,626	\$0	\$473,626	\$0	\$473,626
3 NON-USED & USEFUL COMPONENT	\$0	\$0	\$0	(\$115,584)	(\$115,584)
4 ACCUMULATED DEPRECIATION	(\$2,978,837)	\$0	(\$2,978,837)	(\$21,385)	(\$3,000,222)
5 CIAC	(\$9,060,383)	\$0	(\$9,060,383)	(\$364,295)	(\$9,424,678)
8 AMORTIZATION OF CIAC	\$1,978,074	\$0	\$1,978,074	(\$80,055)	\$1,898,019
8 ADVANCES FOR CONSTRUCTION	\$0	\$0	\$0	\$0	\$0
11 WORKING CAPITAL ALLOWANCE	\$235,467	\$0	\$235,467	(\$42,579)	\$192,888
RATE BASE	\$4,928,296	\$0	\$4,928,296	(\$628,163)	\$4,300,133

GULF UTILITY COMPANY
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED 12/31/96

SCHED. NO. 1-C
DOCKET 960329-WS
PAGE 1 OF 1

EXPLANATION	WATER	WASTEWATER
PLANT IN SERVICE		
1 To remove the projected cost of the reject holding tank	(\$700,000)	\$0
2 To correct transposition error to wastewater plant in rate base (Stp #1)	0	(2,285)
Total	<u>(\$700,000)</u>	<u>(\$2,285)</u>
NON-USED AND USEFUL		
To reflect net non-used and useful adjustment	<u>\$120,523</u>	<u>(\$115,584)</u>
ACCUMULATED DEPRECIATION		
1 To remove the projected cost of the reject holding tank	\$21,313	\$0
2 Correct error to test year depreciation rate used	(44,416)	(21,385)
Total	<u>(\$23,103)</u>	<u>(\$21,385)</u>
CIAC		
1 CIAC for lines which should have been contributed by Caloosa Group	(\$68,114)	(\$92,815)
2 Reflect prepaid and/or impute CIAC on the margin reserve	(\$90,662)	(\$240,711)
3 Impute CIAC for grant from SFWMD (Stp #15)	(15,385)	(30,769)
Total	<u>(\$174,161)</u>	<u>(\$364,295)</u>
ACCUM. AMORT. OF CIAC		
1 CIAC for lines which should have been contributed by Caloosa Group	\$10,855	\$14,145
2 Reflect prepaid CIAC on the margin reserve	\$1,281	\$4,020
3 Impute CIAC for grant from SFWMD (Stp #15)	142	236
4 To decrease for utility's use of a composite rate on total CIAC amort	(115,371)	(98,456)
Total	<u>(\$103,093)</u>	<u>(\$80,055)</u>
WORKING CAPITAL		
To reflect 13-month average adjusted working capital using the balance sheet approach	<u>(\$64,179)</u>	<u>(\$42,579)</u>

GULF UTILITY COMPANY
 CAPITAL STRUCTURE - 13 MONTH AVERAGE
 TEST YEAR ENDED 12/31/96

SCHEDULE NO 2
 DOCKET #96029-WS

ORDER No. 96-01-1544-FOP-WG
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DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENT (EXPLAIN)	PRO RATA ADJUSTMENT	CAPITAL	RATIO	COST RATE	WEIGHTED COST	
				TO RATE BASE				
PER UTILITY								
1 LONG TERM DEBT	\$8,668,424	\$0	(\$1,673,070)	\$6,995,354	74.77%	10.63%	7.95%	
2 SHORT-TERM DEBT	875,360	\$0	(\$14,969)	\$860,391	0.85%	11.01%	0.07%	
3 PREFERRED STOCK	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
4 COMMON EQUITY	\$1,077,293	\$0	(\$208,021)	\$869,272	9.29%	11.88%	1.10%	
5 CUSTOMER DEPOSITS	\$205,735	\$0	\$0	\$205,735	2.20%	6.00%	0.13%	
6 DEFERRED INCOME TAXES	\$1,517,923	\$0	(\$292,707)	\$1,225,216	13.10%	0.00%	0.00%	
7 DEFERRED ITC'S-ZERO COST	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
8 DEFERRED ITC'S-WTD COST	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
9 OTHER	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
10 TOTAL CAPITAL	<u>\$11,544,735</u>	<u>\$0</u>	<u>(\$2,188,787)</u>	<u>\$9,355,948</u>	<u>100.00%</u>		<u>9.25%</u>	
PER COMMISSION								
11 LONG TERM DEBT	\$8,668,424	\$0	(\$2,790,205)	\$5,878,219	75.57%	10.63%	8.03%	
12 SHORT-TERM DEBT	875,360	\$0	(\$24,257)	\$851,103	0.86%	11.01%	0.07%	
13 PREFERRED STOCK	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
14 COMMON EQUITY	\$1,077,293	(\$160,929)	(\$294,961)	\$621,403	7.89%	11.88%	0.95%	
15 CUSTOMER DEPOSITS	\$205,735	\$0	\$0	\$205,735	2.84%	6.00%	0.18%	
16 DEFERRED INCOME TAXES	\$1,517,923	\$0	(\$495,728)	\$1,022,195	13.14%	0.00%	0.00%	
17 DEFERRED ITC'S-ZERO COST	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
18 DEFERRED ITC'S-WTD COST	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
19 OTHER	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
17 TOTAL CAPITAL	<u>\$11,544,735</u>	<u>(\$160,929)</u>	<u>(\$3,588,014)</u>	<u>\$7,778,655</u>	<u>100.00%</u>		<u>9.21%</u>	
Staff Specific Adjustments						LOW	HIGH	
(A) Reduce equity for lines which should have been contributed by Caloosa						RETURN ON EQUITY	10.88%	12.88%
						OVERALL RATE OF RETURN	9.13%	9.28%

GULF UTILITY COMPANY
 STATEMENT OF WATER OPERATIONS
 TEST YEAR ENDED 12/31/76

SCHEDULE NO. 3-A
 DOCKET 960329-WS

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DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENT	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENT	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	2,295,357	(155,935)	\$2,139,422	\$155,935	\$2,295,357	(\$238,582) -10.39%	\$2,056,775
OPERATING EXPENSES:							
2 OPERATION AND MAINTENANCE	1,307,395	0	1,307,395	(34,995)	1,272,400		1,272,400
3 DEPRECIATION	165,417	0	165,417	60,922	226,339		226,339
4 AMORTIZATION	6,977	0	6,977	0	6,977		6,977
5 TAXES OTHER THAN INCOME	227,672	(7,017)	220,655	255	220,910	(10,736)	210,174
6 INCOME TAXES	0	29,383	\$29,383	\$76,298	\$105,681	(\$85,738)	\$19,943
7 TOTAL OPERATING EXPENSES	1,707,461	22,366	\$1,729,827	\$102,480	\$1,832,307	(\$96,474)	\$1,735,833
8 OPERATING INCOME	<u>\$587,896</u>	<u>(\$178,301)</u>	<u>\$409,595</u>	<u>\$53,455</u>	<u>\$463,050</u>	<u>(\$142,107)</u>	<u>\$320,943</u>
9 RATE BASE	<u>\$3,607,982</u>		<u>\$4,427,672</u>		<u>\$3,483,659</u>		<u>\$3,483,659</u>
10 RATE OF RETURN	16.29%		9.25%		13.29%		9.21%

GULF UTILITY COMPANY
 STATEMENT OF WASTEWATER OPERATIONS
 TEST YEAR ENDED 12/31/96

SCHEDULE NO 3-B
 DOK KET 960329-WS

ORDER NO. P96-07-1544-FOP-WI
 DOCKET# NO. 960234-WS, 960329-WS
 PAGE 31

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENT	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENT	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	1,304,730	366,340	\$1,671,070	(\$366,340)	\$1,304,730	\$308,165 23.62%	\$1,612,895
OPERATING EXPENSES							
2 OPERATION AND MAINTENANCE	859,570	0	\$859,570	(\$24,674)	\$834,897		\$834,897
3 DEPRECIATION	170,257	0	\$170,257	\$35,005	\$205,262		\$205,262
4 AMORTIZATION	3,594	0	\$3,594	\$0	\$3,594		\$3,594
5 TAXES OTHER THAN INCOME	132,610	16,485	\$149,095	(\$14,795)	\$134,300	\$13,867	\$148,167
6 INCOME TAXES	0	32,706	\$32,706	(\$118,822)	(\$86,116)	\$110,744	\$24,628
7 TOTAL OPERATING EXPENSES	1,166,031	49,191	\$1,215,222	(\$123,286)	\$1,091,936	\$124,612	\$1,216,548
8 OPERATING INCOME	<u>\$138,699</u>	<u>\$317,149</u>	<u>\$455,848</u>	<u>(\$243,054)</u>	<u>\$212,794</u>	<u>\$183,554</u>	<u>\$396,347</u>
9 RATE BASE	<u>\$4,928,296</u>		<u>\$4,928,296</u>		<u>\$4,302,133</u>		<u>\$4,302,133</u>
10 RATE OF RETURN	<u>2.81%</u>		<u>9.25%</u>		<u>4.95%</u>		<u>9.21%</u>

GULF UTILITY COMPANY
 ADJUSTMENTS TO OPERATING INCOME
 TEST YEAR ENDED 12/31/96

SCHED. NO. J-C
 DOCKET 960329-WS
 PAGE 1 OF 1

EXPLANATION	WATER	WASTEWATER
OPERATING REVENUES		
Remove requested final revenue increase/(decrease)	\$155,935	(\$366,340)
OPERATION & MAINTENANCE EXPENSE		
1 Reallocate salaries to Caloosa Group	(\$5,905)	(\$3,042)
2 To reduce salary increase to 5%	(4,895)	(2,521)
3 To reallocate common maint. expenses for lease to Caloosa Group	(2,378)	(1,224)
4 Reallocate additional A&G, vehicle, computer, etc. to Caloosa Group	(8,096)	(3,140)
5 To remove projection for unanticipated expenses	(3,300)	(1,700)
6 Correct 5-year amortization of San Carlos water line project	(2,284)	0
7 To amortize costs associated with customer survey	(5,145)	(2,650)
8 To reduce president's meals and entertainment costs	(1,072)	(553)
9 To reflect adjusted rate case expense amortization	18,091	8,289
10 To remove lobbying expenses (Stip #4)	(523)	(269)
11 To remove Rotary dues (Stip #5)	(155)	(80)
12 To remove pond cleaning expenses (Stip #7)	0	(8,000)
13 Add consulting expenses to rate case expense (Stip #8)	(4,205)	(1,979)
14 To reduce vice president's salary	(15,150)	(7,804)
Total	<u>(\$34,995)</u>	<u>(\$24,674)</u>
DEPRECIATION EXPENSE-NET		
1 To correct test year depreciation expense	\$78,338	\$42,770
2 To adjust for non-used and useful depreciation expense	361	(4,063)
3 CIAC for lines which should have been contributed by Caloosa Group	(2,108)	(2,755)
4 Reflect prepaid CIAC on the margin reserve	(2,563)	(8,040)
5 Impute CIAC for grant from SFVMD (Stip #15)	(142)	(238)
6 To adjust ty amort. exp for use of composite rates for CIAC amort	(12,987)	7,329
Total	<u>\$60,922</u>	<u>\$35,005</u>
TAXES OTHER THAN INCOME		
1 RAFs on revenue adjustments above	\$7,017	(\$16,485)
2 Reallocate payroll taxes	(6,047)	2,741
3 Correct test year regulatory assessment fees	(715)	(1,051)
Total	<u>\$255</u>	<u>(\$14,795)</u>
INCOME TAXES		
To adjust to test year income tax expense	\$76,298	(\$118,822)

UTILITY GULF UTILITY COMPANY
 COUNTY LEE COUNTY DIVISION
 DOCKET NO 960234-WS

Schedule 4A

WATER RATE SCHEDULE

Monthly Rates

	Rate Prior to Final	Commission Approved Interim	Utility Requested Final Rate	Rate Pursuant to Order No PSC-97-9847-FOF-WS	Commission Approved Rate Per Reconsideration
RESIDENTIAL, MULTI-FAMILY, & GENERAL SERVICE					
Base Facility Charge					
5/8"x3/4"	\$8 45	\$7 88	\$7 88	\$7 77	\$7 78
3/4"	\$12 88	\$11 82	\$11 82	\$11 88	\$11 88
1"	\$21 13	\$19 70	\$19 70	\$19 43	\$19 48
1-1/2"	\$42 25	\$38 38	\$38 38	\$38 85	\$38 92
2"	\$87 81	\$83 02	\$83 02	\$82 18	\$82 27
3"	\$135 21	\$128 03	\$128 03	\$124 32	\$124 55
4"	\$211 27	\$198 92	\$198 92	\$194 25	\$194 61
6"	\$422 54	\$383 85	\$383 85	\$368 50	\$368 21
Gallage Charge per 1,000 gallons	\$2 18	\$2 01	\$2 01	\$1 93	\$1 94
IRRIGATION & PUBLIC AUTHORITY					
Base Facility Charge					
5/8"x3/4"	\$8 45	\$7 88	\$7 88	\$7 77	\$7 78
1"	\$21 13	\$19 70	\$19 70	\$19 43	\$19 48
1-1/2"	\$42 25	\$38 38	\$38 38	\$38 85	\$38 92
2"	\$87 81	\$83 02	\$83 02	\$82 18	\$82 27
3"	\$135 21	\$128 03	\$128 03	\$124 32	\$124 55
4"	\$211 27	\$198 92	\$198 92	\$194 25	\$194 61
Gallage Charge per 1,000 gallons	\$2 18	\$2 01	\$2 01	\$1 93	\$1 94
PRIVATE FIRE PROTECTION					
Base Facility Charge					
1"	\$7 04	\$6 56	\$6 56	\$1 82	\$1 82
1-1/2"	\$14 08	\$13 12	\$13 12	\$3 24	\$3 24
2"	\$22 54	\$21 01	\$21 01	\$5 18	\$5 19
3"	\$45 07	\$42 01	\$42 01	\$10 38	\$10 38
4"	\$70 42	\$68 37	\$68 37	\$16 19	\$16 22
6"	\$140 85	\$131 29	\$131 29	\$32 38	\$32 43
8"	\$225 35	\$210 05	\$210 05	\$51 80	\$51 87
12"	\$605 84	\$564 52	\$564 52	\$138 21	\$138 38
TYPICAL MONTHLY BILL COMPARISONS					
Residential Usage (gallons)					
3,000	\$14 83	\$13 91	\$13 91	\$13 56	\$13 60
5,000	\$19 25	\$17 93	\$17 93	\$17 42	\$17 46
10,000	\$30 05	\$27 98	\$27 98	\$27 07	\$27 18

UTILITY: OULP UTILITY COMPANY
 COUNTY: LEE COUNTY DIVISION
 DOCKET NO. 960329-WS

Schedule 48

WASTEWATER RATE SCHEDULE

Monthly Rates

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final Rates	Rates Proposed to Order No. PSC-97-9847-POP-WS	Commission Approved Rates Per Reconsideration
RESIDENTIAL					
Base Facility Charge All Meter Sizes	\$14.48	\$16.73	\$16.48	\$16.00	\$16.21
Residential Gallonage Charge per 1,000 gallons Wastewater Gallonage Cap - 10,000 gallons	\$3.07	\$3.56	\$4.23	\$3.37	\$4.04

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final Rates	Rates Proposed to Order No. PSC-97-9847-POP-WS	Commission Approved Rates Per Reconsideration
GENERAL SERVICE, MULTI-FAMILY & PUBLIC AUTHORITY					
Base Facility Charge					
5/8"x3/4"	\$14.48	\$16.73	\$16.48	\$16.00	\$16.21
1"	\$36.20	\$41.82	\$41.19	\$40.01	\$40.52
1-1/2"	\$72.36	\$83.62	\$82.37	\$80.02	\$81.04
2"	\$115.85	\$133.83	\$131.81	\$126.03	\$129.88
3"	\$231.68	\$267.64	\$263.61	\$256.05	\$256.32
4"	\$362.01	\$416.19	\$411.89	\$400.03	\$405.18
6"	\$724.01	\$836.36	\$823.78	\$800.17	\$810.36
Gallonage Charge per 1,000 gallons (No Maximum)	\$3.68	\$4.25	\$5.08	\$4.05	\$4.86

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final Rates	Rates Proposed to Order No. PSC-97-9847-POP-WS	Commission Approved Rates Per Reconsideration
METER METER INFLUENT SERVICE					
Base Facility Charge					
5/8"x3/4"	\$14.48	\$16.73	\$16.48	\$16.00	\$16.21
1"	\$36.20	\$41.82	\$41.19	\$40.01	\$40.52
1-1/2"	\$72.36	\$83.62	\$82.37	\$80.02	\$81.04
2"	\$115.85	\$133.83	\$131.81	\$126.03	\$129.88
3"	\$231.68	\$267.64	\$263.61	\$256.05	\$256.32
4"	\$362.01	\$416.19	\$411.89	\$400.06	\$405.18
6"	\$724.01	\$836.36	\$823.78	\$800.17	\$810.36
Gallonage Charge per 1,000 gallons (No Maximum)	\$3.84	\$4.25	\$5.29	\$4.21	\$5.04

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final Rates	Rates Proposed to Order No. PSC-97-9847-POP-WS	Commission Approved Rates Per Reconsideration
TYPICAL MONTHLY BILL COMPARISONS					
Residential Usage (gallons) -					
3,000	\$23.69	\$27.38	\$29.17	\$26.11	\$28.33
5,000	\$29.83	\$34.46	\$37.83	\$32.85	\$36.41
10,000	\$45.18	\$52.23	\$56.78	\$49.70	\$56.61

UTILITY: GULF UTILITY COMPANY
 COUNTY: LEE COUNTY DIVISION
 DOCKET NO. 960329-WS

Schedule 5A
 Water

Schedule of Rate Decrease After Expiration of
 Amortization Period for Rate Case Expense

<u>RESIDENTIAL, MULTI-FAMILY, & GENERAL SERVICE</u>	<u>Commission Approved Rates Per Reconsideration</u>	<u>Commission Approved Decrease</u>
Base Facility Charge		
5/8"x3/4"	\$ 7 78	\$0 19
3/4"	\$11 68	\$0 29
1"	\$19 46	\$0 47
1-1/2"	\$38 92	\$0 95
2"	\$62 27	\$1 51
3"	\$124 55	\$3 04
4"	\$194 61	\$4 75
6"	\$389 21	\$9 49
Gallage Charge, per 1,000 gallons	\$ 1 94	\$0 03
<u>IRRIGATION & PUBLIC AUTHORITY</u>	<u>Commission Approved Rates Per Reconsideration</u>	<u>Commission Approved Decrease</u>
Base Facility Charge		
5/8"x3/4"	\$ 7 78	\$0 19
1"	\$19 46	\$0 47
1-1/2"	\$38 92	\$0 95
2"	\$62 27	\$1 51
3"	\$124 55	\$3 04
4"	\$194 61	\$4 75
Gallage Charge, per 1,000 gallons	\$ 1 94	\$0 03
<u>PRIVATE FIRE PROTECTION</u>	<u>Commission Approved Rates Per Reconsideration</u>	<u>Commission Approved Decrease</u>
Base Facility Charge		
1"	\$ 1 62	\$0 04
1-1/2"	\$ 3 24	\$0 08
2"	\$ 5 19	\$0 13
3"	\$10 38	\$0 25
4"	\$16 22	\$0 40
6"	\$32 43	\$0 86
8"	\$51 87	\$1 36
12"	\$139 39	\$3 58

UTILITY: GULF UTILITY COMPANY
 COUNTY: LEE COUNTY DIVISION
 DOCKET NO. 960329-WS

Schedule 5B
 Wastewater

Schedule of Rate Decrease After Expiration of
 Amortization Period for Rate Case Expense

<u>RESIDENTIAL</u>	<u>Commission Approved Rates Per Reconsideration</u>	<u>Commission Approved Decrease</u>
Base Facility Charge All Meter Sizes	\$18 21	\$0 25
Residential Gallonage Charge, per 1,000 gallons Wastewater Gallonage Cap - 10,000 gallons	\$4 04	\$0 02
<u>GENERAL SERVICE, MULTI-FAMILY, & PUBLIC AUTHORITY</u>	<u>Commission Approved Rates Per Reconsideration</u>	<u>Commission Approved Decrease</u>
Base Facility Charge 5/8"x3/4"	\$18 21	\$0 25
1"	\$40 52	\$0 81
1-1/2"	\$81 04	\$1 22
2"	\$129 66	\$1 95
3"	\$259 32	\$3 90
4"	\$405 18	\$6 09
6"	\$810 36	\$12 18
Gallonage Charge, per 1,000 gallons (No Maximum)	\$4 86	\$0 04
<u>MASTER METER INFLUENT SERVICE</u>	<u>Commission Approved Rates Per Reconsideration</u>	<u>Commission Approved Decrease</u>
Base Facility Charge: 5/8"x3/4"	\$18 21	\$0 25
1"	\$40 52	\$0 81
1-1/2"	\$81 04	\$1 22
2"	\$129 66	\$1 95
3"	\$259 32	\$3 90
4"	\$405 18	\$6 09
6"	\$810 36	\$12 18
Gallonage Charge, per 1,000 gallons (No Maximum)	\$5 04	\$0 03