

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**ORIGINAL  
FILE COPY**

In Re: Application of SAILFISH  
POINT UTILITY CORPORATION for a  
rate increase in Martin County )  
)  
)  
)

Docket No. 900816-WS  
Filed: May 3, 1991

**DIRECT TESTIMONY OF THOMAS C. DEWARD**

Respectfully submitted:

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Public Counsel

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Attorneys for the Citizens  
of the State of Florida

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1                                   **DIRECT TESTIMONY OF THOMAS C. DE WARD**  
2                                   **ON BEHALF OF THE CITIZENS OF FLORIDA**

3                                   **BEFORE THE**  
4                                   **FLORIDA PUBLIC SERVICE COMMISSION**

5                                   **SAILFISH POINT UTILITY CORPORATION**

6                                   **DOCKET NO. 900816-WS**

7    I.    **INTRODUCTION**

8    Q.    **WHAT IS YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS?**

9    A.    **Thomas C. DeWard. I am a Certified Public Accountant, registered in**  
10       **Michigan, and a Senior Regulatory Analyst in the firm of Larkin &**  
11       **Associates, Certified Public Accountants, registered in Michigan and Florida,**  
12       **with offices at 15728 Farmington Road, Livonia, Michigan 48154.**

13   Q.    **HAVE YOU PREPARED AN APPENDIX DESCRIBING YOUR**  
14       **QUALIFICATIONS AND EXPERIENCE?**

15   A.    **Yes. I have attached Appendix I which is a summary of my experience and**  
16       **qualifications.**

1 Q. PLEASE SUMMARIZE YOUR FINANCIAL ACCOUNTING AND  
2 AUDITING EXPERIENCE.

3 A. For the past nine and one-half years, I have been employed by Larkin &  
4 Associates. During this time period, I have worked primarily on utility  
5 matters.

6 I spent nine years in public accounting with Peat, Marwick, Mitchell & Co.  
7 (PMM&Co.) During this time, I participated in or managed audits of  
8 industrial and commercial companies, including two large manufacturing  
9 firms. The larger clients required coordination with other PMM&Co. offices,  
10 both domestic and foreign. Some work involved registration statements and  
11 certain mandatory filings with the SEC.

12 I also served as Vice President-Finance of a manufacturing firm and as  
13 Treasurer of a firm involved in packaging, distribution and data processing  
14 services. As both of these firms were relatively small, my responsibilities  
15 were very broad and included work in virtually all of the accounting and  
16 financial areas. I prepared the financial statements, negotiated loans and  
17 payment schedules with banks, selected fringe benefit plans, negotiated  
18 insurance coverage, and prepared tax returns.

1 Q. IN HOW MANY UTILITY CASES HAVE YOU PARTICIPATED?

2 A. I have participated in approximately 100 utility cases since joining the firm  
3 in 1981. This includes multiple phases related to the cases such as partial  
4 and interim, final, rebuttal, and rehearing.

5 Q. WHAT ISSUES HAVE YOU ADDRESSED IN THOSE CASES?

6 A. I have addressed issues such as revenue requirements, rate base, operating  
7 income, capital structure, capital costs, wage levels, fringe benefits, fuel  
8 accounting, fuel refunds, fuel cost, fuel handling, insurance, O&M,  
9 contributions and memberships, advertising, inflation rates, property taxes  
10 and state and Federal income taxes including the Tax Reform Act of 1986.

11 Q. HAVE YOU PRESENTED ANY TRAINING SEMINARS ON THE SUBJECT  
12 OF PUBLIC UTILITY ACCOUNTING?

13 A. Yes. Along with two other members of the firm, we presented a one day  
14 seminar on utility accounting for the Legal Services Regional Utilities Task  
15 Force in Atlanta, Georgia. We also presented a two day seminar on utility  
16 accounting for the Utility and Rate Intervention Division of the Kentucky  
17 Attorney General. Individuals from that division as well as industry and

1 consumer groups attended the seminar. In September, 1988, we presented a  
2 two day seminar on utility accounting for the office of Consumer Advocate,  
3 Attorney General's Office, State of Pennsylvania. Individuals from that  
4 division as well as Commission Staff members attended.

5 Q. BY WHOM WERE YOU RETAINED AND WHAT IS THE PURPOSE OF  
6 YOUR TESTIMONY?

7 A. Our firm was retained by the Florida Office of Public Counsel ("OPC") to  
8 review the combined rate increase request of \$733,665 made by Sailfish  
9 Point Utility Corporation ("Sailfish Point", "Company", or "Utility").

10 Q. WHAT CONCLUSIONS HAVE YOU REACHED AFTER COMPLETING  
11 YOUR REVIEW OF THE COMPANY FILING?

12 A. The Utility's requested rate increase is significantly overstated.

13 Q. WHAT ARE THE MAJOR ISSUES WHICH RESULT IN THE  
14 SIGNIFICANT DIFFERENCE BETWEEN YOUR RECOMMENDATION  
15 AND THE COMPANY REQUEST?

1 A. The Company has overstated rate base and return requirements which  
2 include a requested recovery of Federal and State income tax expense.

3 Rate base is overstated because the Company did not remove the proper  
4 level of plant which is not used and useful. Harry DeMeza, the engineering  
5 witness for Public Counsel addresses the proper percentage of used and  
6 useful plant.

7 The capital structure as proposed by the Company is inappropriate for  
8 ratemaking purposes. I recommend the use of the Utility's capital structure  
9 as opposed to that of Mobil Corporation which the Company uses.

10 Q. HOW WILL YOUR TESTIMONY BE ORGANIZED?

11 A. I will address in order the following topics:

- 12 II. Rate Base  
13 III. Capital Structure  
14 IV. Operating Income

1 consumer groups attended the seminar. In September, 1988, we presented a  
2 two day seminar on utility accounting for the office of Consumer Advocate,  
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1 II. RATE BASE

2 A. Utility Plant in Service

3 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO REDUCE PLANT IN  
4 SERVICE BY \$10,247 FOR BOTH WATER AND SEWER.

5 A. During a review at the Company offices, I discovered that Authorization for  
6 Expenditure (AFE) 4010 included items which were improperly capitalized.  
7 In total, \$39,877 was capitalized but only \$19,382 related to water and sewer  
8 modifications. Therefore, I reduced utility plant in service by \$20,495 which  
9 I allocated equally between water and sewer.

10 B. Non-used and Useful Plant

11 Q. PLEASE EXPLAIN THE ADJUSTMENT YOU ARE RECOMMENDING TO  
12 NON-USED AND USEFUL PLANT.

13 A. The adjustments to non-used and useful plant are shown on Schedules 5 and  
14 6. I use the Company's recommended plant balances and accumulated  
15 depreciation balances and multiply these amounts by the non-used and  
16 useful percentages which were provided to me by Harry DeMeza, the  
17 engineering witness for Public Counsel.

1           The calculated non-used and useful amounts for plant in service and  
2           accumulated depreciation are compared to the non-used and useful amount  
3           as calculated by the Company with the resulting adjustments shown on the  
4           schedule. These adjustments are then carried forward to increase the non-  
5           used and useful amounts which offset rate base.

6           C.     CIAC

7           Q.     ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE AMOUNT OF  
8           CIAC DEDUCTED FROM RATE BASE?

9           A.     No. However, should the Commission adopt the Company's position, which  
10          includes a margin of reserve as an element of the used and useful  
11          percentage, there should be a corresponding increase in the amount of CIAC  
12          to correspond with this margin of reserve.

13          D.     CIAC Deferred Tax Debits

14          Q.     PLEASE EXPLAIN WHY YOU HAVE REMOVED THE CIAC DEFERRED  
15          TAX DEBITS WHICH THE COMPANY HAS INCLUDED AS AN ELEMENT  
16          OF RATE BASE.

17          A.     I have removed the deferred tax debits from rate base and included these  
18          amounts as an offset to deferred income taxes in the capital structure. All

1 deferred taxes should be included in the capital structure and this  
2 adjustment properly transfers the deferred tax debit associated with CIAC to  
3 the capital structure.

4 E. Working Capital Allowance

5 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO THE WORKING CAPITAL  
6 ALLOWANCE.

7 A. I have removed the Company's requested working capital allowance from  
8 rate base because the Company has included an artificial allowance by  
9 multiplying 1/8 times operating and maintenance expenses. As this  
10 methodology always produces a working capital allowance but does not  
11 properly calculate a working capital requirement, it is appropriate to remove  
12 this artificial balance from rate base. The Company should not be allowed  
13 to earn a rate of return on an amount which is not supported by a proper  
14 methodology such as the balance sheet methodology of calculating working  
15 capital requirements.

16 III. CAPITAL STRUCTURE

17 Q. PLEASE EXPLAIN THE CAPITAL STRUCTURE WHICH YOU ARE  
18 RECOMMENDING IN THIS PROCEEDING.

1 A. The recommended capital structure is shown on Schedule 3. While the  
2 Company has chosen to utilize a capital structure of Mobil Corporation, I am  
3 recommending the Commission adopt the capital structure which is  
4 representative of the Utility.

5 Q. WHY IS THE UTILITY'S CAPITAL STRUCTURE MORE APPROPRIATE  
6 TO USE IN THIS PROCEEDING THAN THAT OF MOBIL  
7 CORPORATION?

8 A. The Utility's capital structure is more appropriate because it represents the  
9 actual conditions that exist and have existed since the formation of Sailfish  
10 Point Utility Corporation. The use of the Mobil Corporation's capital  
11 structure would be totally inappropriate and would allow the Utility to earn  
12 a return on an artificial capital structure which is not representative of the  
13 conditions which exist at the Utility.

14 Q. PLEASE IDENTIFY THE CONDITIONS THAT EXIST AND HAVE  
15 EXISTED AT SAILFISH POINT UTILITY CORPORATION.

16 A. The Utility Corporation financed the original transfer of utility plant with a  
17 mortgage payable to Sailfish Point, Inc. The interest rate is 11%. In 1983  
18 Sailfish Point, Inc., transferred to the utility, utility plant which had been

1 constructed as of that date. Sailfish Point, Inc., is the developer of the  
2 property.

3 From that date forward, the Utility financed additional plant additions and  
4 operating losses through cash advanced from its parent company. These  
5 cash advances and/or transactions between the Utility and its parent were  
6 recorded on the books of the utility as negative accounts receivable or  
7 intracompany accounts payable. I found no records to indicate that there  
8 was an intent to convert these cost-free, non-interest bearing advances to  
9 equity capital or to any debt arrangement.

10 It's obvious, as in the case of most utilities, the developers primary purpose  
11 is to sell lots to recover the original investment, including the cost of  
12 improvements, and to make a profit on the sales. In order to sell the lots, it  
13 is necessary to provide utility service. Obviously, the developer considered  
14 the utility a necessary cost of doing business. With few exceptions, the  
15 Utility has lost money in every year of its operation and this was acceptable  
16 to the developer. Furthermore, the arrangement to provide cost-free  
17 advances to the Utility was acceptable to the developer as there was no  
18 attempt to convert these advances to permanent capital or to interest  
19 bearing loans.

1 As this was an acceptable arrangement to the developer and to the Utility, it  
2 would be inappropriate at this time to allow the Utility to earn an artificial  
3 return, including an artificial level of income taxes, on an amount of equity  
4 capital which does not exist. The provision of these cost-free advances to  
5 the Utility is just another cost of business which the developer has willingly  
6 agreed to provide. The rules should not, and cannot be changed at this  
7 point in time which will allow the Utility to earn an artificial return on a  
8 capital structure which does not, or has not, ever existed.

9 Q. PLEASE EXPLAIN WHY YOU HAVE NOT INCLUDED ANY DEFERRED  
10 INVESTMENT TAX CREDITS AS A COMPONENT OF THE CAPITAL  
11 STRUCTURE.

12 A. The Company has stated that it has only taken investment tax credits on  
13 one small asset purchase. Furthermore, it stated in its minimum filing  
14 requirements that the policy of the parent corporation is that the  
15 investment tax credits were taken at the parent company level and  
16 immediately offset against taxes payable.

17 Q. IS THE COMPANY'S EXPLANATION ADEQUATE.

1 A. No. Should the Commission allow the Company any Federal income tax  
2 expense, which, in my opinion, would be inappropriate, the income tax  
3 expense should be offset by an amortization of investment tax credits as if  
4 the Utility had taken investment tax credits on all property eligible for  
5 investment tax credits.

6 IV. OPERATING INCOME

7 A. Rate Case Expense

8 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO REDUCE THE LEVEL OF  
9 RATE CASE EXPENSE.

10 A. I am recommending that the Company not be allowed to recover any of the  
11 rate case expense associated with the filing made by the Company in 1989.  
12 This case was dismissed by the Commission and the Utility should not be  
13 allowed to recover any of the expense associated with preparing that case,  
14 including the legal expense incurred by the Company. Ratepayers should  
15 not be required to pay for any of the costs of preparing a case which was  
16 later dismissed by the Commission.

17 I am also recommending that any of the legal costs incurred in this  
18 proceeding in opposing the intervention of the homeowners association be  
19 disallowed. Ratepayers should not be required to pay for any cost associated



1 with arguing against their rights to be fairly represented in a proceeding in  
2 which the Company is seeking rate increases of nearly \$750,000. The  
3 adjustment is shown on Schedule 7.

4 B. Depreciation

5 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO DEPRECIATION EXPENSE.

6 A. The adjustment to depreciation expense is shown on Schedules 5 and 6.

7 Depreciation expense is reduced to a level based on the proper level of used  
8 and useful percentages recommended by the OPC Engineering Witness.

9 C. Property Taxes

10 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PROPERTY TAX EXPENSE.

11 A. I have adjusted property tax expense to recognize the proper used and useful  
12 percentages. The adjustment is shown on Schedule 8.

13 D. Income Tax Expense

14 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO INCOME TAX EXPENSE.

15 A. I have removed income tax expense in total from this filing. The capital  
16 structure which I am recommending effectively includes only interest and

1 cost-free advances and therefore, as there is no equity component, there is  
2 no need to provide for Federal income tax expense.

3 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

4 A. Yes, at this point in time; however, there are certain unresolved issues  
5 which may need to be addressed in supplemental testimony. As of this date,  
6 OPC has yet to receive the tax returns, including the tax workpapers for the  
7 developer. As such, I have been unable to assure myself that all of the  
8 property which was transferred to the utility in 1983 represents a valid asset  
9 which was not expensed for tax purposes by the developer as a cost of goods  
10 sold.

11 Additionally, the Office of Public Counsel was not provided with complete  
12 copies of the consolidated tax return and therefore, it is impossible to  
13 determine at this time, whether the tax workpapers supplied by the Utility,  
14 accurately reflect the amounts included in the consolidated tax return.

**APPENDIX I**  
**THOMAS C. DE WARD, C.P.A.**

**QUALIFICATIONS**

Mr. DeWard graduated from the University of Michigan in 1962 with a BBA. In June of 1963 he received his M.B.A. in Accounting from the University of Michigan and immediately began working for the Detroit office of Peat, Marwick, Mitchell & Co., an international firm of certified public accountants. During his nine years at Peat, Marwick he was promoted to various supervisory levels and held the position of Manager for his last two years with the firm, 1971 - 1972.

Mr. DeWard is a member of the American Institute of CPAs and the Michigan Association of CPAs.

During his employment with Peat, Marwick, he supervised and controlled the audits of two of the major manufacturing clients of the office. These audits involved extensive work with inventories, inventory control procedures and related costing methods.

At Peat Marwick, Mr. DeWard was also in charge of the staff training program and presented seminars on accounting principles and theory. Through these activities he acquired an in-depth and comprehensive knowledge of accounting theory. Mr. DeWard received his C.P.A. Certificate in 1966.

During the period 1972 through 1981 he worked as Vice President-Finance for a manufacturing firm of aluminum building products and as a Treasurer for a company which provided packaging, distribution and data processing services.

Since July 1981, Mr. DeWard has been employed by Larkin & Associates, CPA's (formerly Larkin, Chapski & Co., prior to reorganization in September, 1982) and has worked almost exclusively in the area of regulatory matters. Larkin & Associates has been involved in regulatory matters since 1972. The firm has represented consumer groups, attorney generals, industry organizations, governmental agencies, and public service commissions in over 200 regulatory proceedings.

Mr. DeWard plays a major role in the analytical work done by Larkin & Associates in the area of utility ratemaking and regulation, and actively participates in the cases. He has testified and been accepted as an expert witness in the field of regulatory accounting in California, Florida, Kentucky, Michigan, Nevada and Texas.

In November, 1985, with two members of the firm, Mr. DeWard presented a seminar on utility accounting for the Legal Services Regional Utilities Task Force in Atlanta, Georgia.

In June, 1986, Mr. DeWard and two members of the firm presented a seminar on utility accounting for the Utility and Rate Intervention Division of the Kentucky Attorney General. Individuals from that division as well as industry and consumers groups attended the seminar.

In September, 1988, Mr. DeWard and two members of the firm presented a seminar on utility accounting for the Office of Consumer Advocate, Attorney General's Office, State of Pennsylvania. Individuals from that division as well as Commission Staff members attended.

Larkin & Associates was retained by Cravath, Swaine & Moore who represented The Columbia Gas System in a civil action brought against Columbia by Allegheny & Western Energy Corporation. Mr. DeWard participated in various aspects of this engagement.

Mr. DeWard has performed a substantial portion of the analytical work for the firm in the cases listed below:

Partial List of Utility Cases Participated in:

TR-81-208*	Southwestern Bell Telephone Company (Missouri Public Service Commission)
U-6794	Michigan Consolidated Gas Company - 16 Refunds (Michigan Public Service Commission)
U-6798	Cogeneration and Small Power Production - PURPA (Michigan Public Service Commission)
Docket No. 810136-EU	Gulf Power Company (Florida Public Service Commission)
Docket No. E-002/ GR-81-342	Northern States Power Company - Minnesota (Minnesota Public Utilities Commission)
8400	East Kentucky Power Cooperative, Inc. (Kentucky Public Service Commission)

Docket No. 18328	Alabama Gas Corporation (Public Service Commission of Alabama)
Docket No. 18416	Alabama Power Company (Public Service Commission of Alabama)
820100-EU	Florida Power Corporation (Florida Public Service Commission)
8624	Kentucky Utilities (Kentucky Public Service Commission)
8648	East Kentucky Power Cooperative, Inc. (Kentucky Public Service Commission)
U-7236	Detroit Edison - Burlington Northern Refund (Michigan Public Service Commission)
U-6633-R	Detroit Edison - MRCS Program (Michigan Public Service Commission)
U-6797-R	Consumers Power Company - MRCS Program (Michigan Public Service Commission)
U-5510-R	Consumers Power Company - Energy Conservation Finance Program (Michigan Public Service Commission)
U-7350	Generic Working Capital Hearing (Michigan Public Serviced Commission)
8738	Columbia Gas of Kentucky, Inc. (Kentucky Public Service Commission)
82-165-EL-EFC	Toledo Edison Company (Public Utilities Commission of Ohio)
ER-83-206*	Arkansas Power & Light Company (Missouri Public Service Commission)
8836	Kentucky American Water Company (Kentucky Public Service Commission)

U-7650                    **Consumers Power Company - Gas - Partial and  
Immediate (Michigan Public Service Commission)**

U-7650                    **Consumers Power Company - Gas - Final  
(Michigan Public Service Commission)**

U-15684                   **Louisiana Power & Light Company  
(Public Service Commission of the State of  
Louisiana)**

U-7395 & U-7397         **Campaign Ballot Proposals  
(Michigan Public Service Commission)**

U-7650 (Reopened)       **Consumers Power Company - Gas  
(Michigan Public Service Commission)**

U-7830                   **Consumers Power Company - Electric - Partial and  
Immediate  
(Michigan Public Service Commission)**

9003                      **Columbia Gas of Kentucky, Inc.  
(Kentucky Public Service Commission)**

9006\*\*                   **Big Rivers Electric Corporation  
(Kentucky Public Service Commission)**

U-7830                   **Consumers Power Company - Electric  
Step 3A - Financial Stabilization Rate Relief  
(Michigan Public Service Commission)**

16091                    **Louisiana Power & Light Company  
(Public Service Commission of the State of  
Louisiana)**

9163                      **Big Rivers Electric Corporation  
(Kentucky Public Service Commission)**

9283                      **Kentucky-American Water Company  
(Kentucky Public Service Commission)**

U-4620                   **Mississippi Power & Light Company  
(Mississippi Public Service Commission)**

U-7830 Consumers Power Company - Electric - Final  
(Michigan Public Service Commission)

U-7830 Consumers Power Company - Electric - Final -  
Rebuttal  
(Michigan Public Service Commission)

U-8431 Consumers Power Company - Electric -  
Relief from "Condition 5"  
(Michigan Public Service Commission)

1345-85-367 Arizona Public Service Company  
Arizona Corporation Commission

Docket No. The United Illuminating Company  
89-08-11 State of Connecticut, Department of Public Utility  
Control

**Cases where Testimony was Submitted,  
Cross Examination Complete, or Issues Stipulated**

Docket No. 6350 El Paso Electric Company  
(The Public Utility Regulation Board of the City of  
El Paso)

Docket No. 6350 El Paso Electric Company  
(Public Utility Commission of Texas)

U-8249 Consumers Power Company - Disposition of  
Nuclear Fuel  
(Michigan Public Service Commission)

Case No. 9430 Leslie County Telephone Company, Inc.  
(Kentucky Public Service Commission)

U-8055-R Consumers Power Company - Gas  
1985 Gas Cost Reconciliation  
(Michigan Public Service Commission)

U-8038-R Michigan Consolidated Gas Company  
1985 Gas Cost Reconciliation  
(Michigan Public Service Commission)

Case No. 9554*	<b>Columbia Gas of Kentucky, Inc.</b> <b>(Kentucky Public Service Commission)</b>
U-8586	<b>Consumers Power Company - Gas</b> <b>(Michigan Public Service Commission)</b>
Case No. 9678	<b>General Telephone of the South-Kentucky</b> <b>(Kentucky Public Service Commission)</b>
Docket No. 850646-SU	<b>Ocean Reef Club, Inc.</b> <b>(Florida Public Service Commission)</b>
850166-WS*	<b>Southern States Utilities, Inc. -Lake County</b> <b>(Florida Public Service Commission)</b>
860325-WS*	<b>Southern States Utilities, Inc. - Seminole County</b> <b>(Florida Public Service Commission)</b>
86-604-G-42*	<b>Mountaineer Gas Company</b> <b>(Public Service Commission of West Virginia)</b>
9796 ***	<b>Alltel Kentucky, Inc.</b> <b>(Kentucky Public Service Commission)</b>
9779	<b>Kentucky Power Company</b> <b>(Kentucky Public Service Commission)</b>
9780	<b>Kentucky Utilities Company</b> <b>(Kentucky Public Service Commission)</b>
9815	<b>Kentucky American Water Company</b> <b>(Kentucky Public Service Commission)</b>
9785	<b>Delta Natural Gas Company, Inc.</b> <b>(Kentucky Public Service Commission)</b>
9798	<b>Cincinnati Bell Telephone Company</b> <b>(Kentucky Public Service Commission)</b>
9803	<b>South Central Bell Telephone Company</b> <b>(Kentucky Public Service Commission)</b>



9781	<b>Louisville Gas and Electric Company (Kentucky Public Service Commission)</b>
9782	<b>Union Light, Heat and Power Company-Electric (Kentucky Public Service Commission)</b>
9788	<b>Union Light, Heat and Power Company-Gas (Kentucky Public Service Commission)</b>
9789	<b>Western Kentucky Gas Company (Kentucky Public Service Commission)</b>
9799	<b>Continental Telephone Company of Kentucky (Kentucky Public Service Commission)</b>
87-01-017	<b>Southern California Edison Company (California Public Utilities Commission)</b>
7460	<b>El Paso Electric Company (Public Utility Regulation Board of the City of El Paso)</b>
7460	<b>El Paso Electric Company (Public Utility Commission of Texas)</b>
Docket No. 860960-WS	<b>St. Johns Service Company (Florida Public Service Commission)</b>
Docket No. 850100-WS*	<b>Du-Lay Utility Company, Inc. (Florida Public Service Commission)</b>
Docket No. 7460	<b>El Paso Electric Company - Supplemental Testimony on Stipulation (Public Utility Commission of Texas)</b>
Docket No. 861338-WS	<b>Ferncrest Utilities, Inc. (Florida Public Service Commission)</b>
Case No. 10069****	<b>Kentucky-American Water Company (Kentucky Public Service Commission)</b>
Docket No. 870249-WS	<b>Atlantic Utilities of Jacksonville (Florida Public Service Commission)</b>

Case No. 10117	<b>GTE South Incorporated - Kentucky (Kentucky Public Service Commission)</b>
Docket No. 871134-WS	<b>Orange Osceola Utilities, Inc. (Florida Public Service Commission)</b>
Case No. 10201	<b>Columbia Gas of Kentucky, Inc. (Kentucky Public Service Commission)</b>
U-7830	<b>Consumers Power Company - Step 3B (Michigan Public Service Commission)</b>
Docket No. 870453-TL	<b>Quincy Telephone Company (Florida Public Service Commission)</b>
U-7660*	<b>Detroit Edison Company - Rehearing on Appeal to Circuit Court (Michigan Public Service Commission)</b>
Docket No. 8363	<b>El Paso Electric Company (Public Utility Regulation Board of the City of El Paso)</b>
Case No. 10117	<b>GTE-South, Incorporated-Kentucky-Rehearing (Kentucky Public Service Commission)</b>
Case No. 10201	<b>Columbia Gas of Kentucky, Inc. - Rehearing (Kentucky Public Service Commission)</b>
Docket No. 8363	<b>El Paso Electric Company (Public Utility Commission of Texas)</b>
Docket No. 88-1156	<b>Centel Network Communications, Inc. (Public Service Commission of Nevada)</b>
Case No. 10481	<b>Kentucky-American Water Company (Kentucky Public Service Commission)</b>
Case No. 88-685-T-42T*	<b>GTE South-West Virginia (Public Service Commission of West Virginia)</b>
Case No. 10498	<b>Columbia Gas of Kentucky, Inc. (Kentucky Public Service Commission)</b>

Docket No. 8588	<b>El Paso Electric Company - Fuel Reconciliation (Public Utility Commission of Texas)</b>
U-7830	<b>Consumers Power Company - Step 3B Rebuttal (Michigan Public Service Commission)</b>
Docket No. 890277-WS	<b>Palm Coast Utility Corporation (Florida Public Service Commission)</b>
Case No. 10498	<b>Columbia Gas of Kentucky, Inc. - Rehearing (Kentucky Public Service Commission)</b>
Docket No. 9165	<b>El Paso Electric Company (Public Utility Regulation Board of the City of El Paso)</b>
Docket No. 9165	<b>El Paso Electric Company (Public Utility Commission of Texas)</b>
Docket Nos. 88-1060 89-318 89-751	<b>Alternative Regulation For Telephones (Public Service Commission of Nevada)</b>
Case No. 89-348	<b>Kentucky-American Water Company (Kentucky Public Service Commission)</b>
Case No. 90-013	<b>Western Kentucky Gas Company (Kentucky Public Service Commission)</b>
Case No. 90-041	<b>Union Light, Heat and Power Company (Kentucky Public Service Commission)</b>
Docket No. 891239-TL	<b>United Telephone of Florida (Florida Public Service Commission)</b>
Docket No. 891246-TL	<b>Central Telephone Company of Florida (Florida Public Service Commission)</b>
Case No. 90-158	<b>Louisville Gas and Electric Company (Kentucky Public Service Commission)</b>

Docket No. 90-1037  
(BTER Phase)

**Nevada Power Company  
(Public Service Commission of Nevada)**

Case No. 90-013

**Western Kentucky Gas Company - Rehearing  
(Kentucky Public Service Commission)**

**Oral Testimony**

Docket No. 6350

**El Paso Electric Company - Application for  
Temporary Injunction  
(98th District Court of Travis County, Texas)**

**Cases Settled Prior to Submission of Testimony**

U-8378

**Wisconsin Electric Power Company  
(Michigan Public Service Commission)**

U-8475

**Lake Superior District Power Company  
(Michigan Public Service Commission)**

Case No.  
87-644-T-42T\*\*

**Mountain State Telephone Company  
(West Virginia Public Service Commission)**

Docket No.  
87-1249

**Central Telephone Company (Nevada)  
(Public Service Commission of Nevada)**

Docket No. 88-1001

**Nevada Bell  
(Public Service Commission of Nevada)**

Docket No. 89-745

**Contel of California, Inc. (Nevada Operations)  
(Public Service Commission of Nevada)**

Docket No. 89-949

**Nevada Power Company  
(Public Service Commission of Nevada)**

Docket No. 90-857

**Nevada Bell  
(Public Service Commission of Nevada)**

Case No. 90-063

**Columbia Gas of Kentucky, Inc.  
(Kentucky Public Service Commission)**

Case No. PUE-900034                      **Commonwealth Gas Services, Inc.**  
(State Corporation Commission - Commonwealth  
of Virginia)

Case No. 90-158                              **Louisville Gas and Electric Company - Rehearing**  
(Kentucky Public Service Commission)

Case No. 90-158                              **Louisville Gas and Electric Company - Responsive**  
**Testimony (Kentucky Public Service Commission)**

**Assistance in Analytical Analysis of Filing**

Case No. 9482                                **Kentucky-American Water Company**  
(Kentucky Public Service Commission)

Docket No. 861361-TL                      **Central Telephone Company of Florida**  
(Florida Public Service Commission)

Case No. 90-321                              **Kentucky-American Water Company**  
(Kentucky Public Service Commission)

**Testimony Filed - Cross Examination Not Completed**

Docket No. 90-1037                        **Nevada Power Company**  
(DEAA Phase)                              (Public Service Commission of Nevada)

\*Issues stipulated.  
\*\*Case withdrawn.  
\*\*\*No direct examination.  
\*\*\*\*Settlement reached between Company and Staff.

**SAILFISH POINT UTILITY CORPORATION**  
**Rate Base**  
**Test Year Ended June 30, 1992**

**Docket No. 900816-WS**  
**Exhibit \_\_ (TCD-1)**  
**Schedule 1**

	<u>Projected Test Year (1)</u>	<u>OPC Adjustments (2)</u>	<u>As Adjusted</u>
<b><u>Water</u></b>			
Utility plant in service	2,825,175	(10,247)	2,814,928
Land and land rights	19,500		19,500
Less - Non used and useful	(184,985)	(677,445)	(862,430)
Less - Accumulated depreciation	(596,452)		(596,452)
Less - CIAC	(753,403)		(753,403)
Accumulated amortization of CIAC	113,377		113,377
CIAC deferred tax debit	156,066	(156,066)	0
Working capital allowance	<u>29,786</u>	<u>(29,786)</u>	<u>0</u>
	<u>1,609,064</u>	<u>(873,544)</u>	<u>735,520</u>
<b><u>Sewer</u></b>			
Utility plant in service	2,444,511	(10,247)	2,434,264
Land and land rights	19,500		19,500
Less - Non used and useful	(298,966)	(574,235)	(873,201)
Less - Accumulated depreciation	(429,337)		(429,337)
Less - CIAC	(509,800)		(509,800)
Accumulated amortization of CIAC	82,203		82,203
CIAC deferred tax debit	93,773	(93,773)	0
Working capital allowance	<u>20,781</u>	<u>(20,781)</u>	<u>0</u>
	<u>1,422,665</u>	<u>(699,036)</u>	<u>723,629</u>

(1) MFR Schedule A-1 and A-2  
(2) Schedule 4

**SAILFISH POINT UTILITY CORPORATION**  
**Net Operating Income**  
**Test Year Ended June 30, 1992**

Docket No. 900816-WS  
 Exhibit (TCD-1)  
 Schedule 2

	<u>Requested Annual Amount (1)</u>	<u>OPC Adjustments (2)</u>	<u>As Adjusted</u>	<u>Calculated Increase</u>	<u>As Adjusted</u>
<b><u>Water</u></b>					
Operating revenues	<u>572,814</u>	<u>(371,755)</u>	<u>201,059</u>	<u>121,911</u>	<u>322,970</u>
Operation and maintenance	<u>238,287</u>	<u>(8,672)</u>	<u>229,615</u>		<u>229,615</u>
Depreciation, net of CIAC amortization	<u>62,346</u>	<u>(30,422)</u>	<u>31,924</u>		<u>31,924</u>
Taxes, other than income	<u>59,448</u>	<u>(25,914)</u>	<u>33,534</u>	<u>5,486</u>	<u>39,020</u>
Provision for income taxes	<u>53,871</u>	<u>(53,871)</u>	<u>0</u>		<u>0</u>
Operating expenses	<u>413,952</u>	<u>(118,879)</u>	<u>295,073</u>	<u>5,486</u>	<u>300,559</u>
Net operating income	<u>158,862</u>	<u>(252,876)</u>	<u>(94,014)</u>	<u>116,425</u>	<u>22,411</u>
Rate base	<u>1,609,064</u>	<u>(873,544)</u>	<u>735,520</u>		<u>735,520</u>
Rate of return	<u>9.87%</u>				<u>3.05%</u>
<b><u>Sewer</u></b>					
Operating revenues	<u>477,580</u>	<u>(361,910)</u>	<u>115,670</u>	<u>129,854</u>	<u>245,524</u>
Operation and maintenance	<u>166,245</u>	<u>(8,672)</u>	<u>157,573</u>		<u>157,573</u>
Depreciation, net of CIAC amortization	<u>66,907</u>	<u>(37,446)</u>	<u>29,461</u>		<u>29,461</u>
Taxes, other than income	<u>56,540</u>	<u>(25,942)</u>	<u>30,598</u>	<u>5,843</u>	<u>36,441</u>
Provision for income taxes	<u>47,427</u>	<u>(47,427)</u>	<u>0</u>		<u>0</u>
Operating expenses	<u>337,119</u>	<u>(119,487)</u>	<u>217,632</u>	<u>5,843</u>	<u>223,475</u>
Net operating income	<u>140,461</u>	<u>(242,423)</u>	<u>(101,962)</u>	<u>124,011</u>	<u>22,049</u>
Rate base	<u>1,422,665</u>	<u>(699,036)</u>	<u>723,629</u>		<u>723,629</u>
Rate of return	<u>9.87%</u>				<u>3.05%</u>

(1) MFR Schedule B-1 and B-2  
 (2) Schedule 4

**SAILFISH POINT UTILITY CORPORATION**

Capital Structure

Test Year Ended June 30, 1992

Docket No. 900816-WS

Exhibit\_\_ (TCD-1)

Schedule 3

	<u>Amount</u>	<u>Percentage of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
Mortgage payable	835,938 (1)	27.70%	11%	3.05%
Intercompany accounts receivable	2,117,793 (2)	70.18%	0	0
Intracompany accounts payable	1,300,035 (2)	43.08%	0	0
Common Equity:				
Common stock issued	1,000 (2)	0.03%	0	0
Retained earnings	(1,443,223) (2)	-47.83%	0	0
Accumulated Deferred Income Taxes	456,002 (3)	15.11%	0	0
CIAC Deferred Tax Debit				
Water	(156,066)	-5.17%	0	0
Sewer	(93,773)	-3.11%	0	0
	<u>3,017,706</u>	<u>99.99%</u>		<u>3.05%</u>

- (1) MFR Schedule D-5-Average of 6/30/91 and 6/30/92 outstanding balance
- (2) Company general ledger at March 31, 1991
- (3) MFR Schedule C-6-Average of 6/30/91 and 6/30/92 calculated balance



**SAILFISH POINT UTILITY CORPORATION**  
**Proposed Adjustments**  
**Test Year Ended June 30, 1992**

**Docket No. 900816-WS**  
**Exhibit (TCD-1)**  
**Schedule 4**

	<u>Water</u>	<u>Sewer</u>	<u>Source</u>
<b><u>Utility Plant in Service</u></b>			
To remove improperly capitalized plant	<u>(10,247)</u>	<u>(10,247)</u>	Testimony
<b><u>Non Used and Useful Plant</u></b>			
To adjust to amount using OPC witness used and useful percentages:			
Plant in Service	(875,285)	(718,622)	Schedules 5 & 6
Accumulated Depreciation	197,840	144,387	Schedules 5 & 6
	<u>(677,445)</u>	<u>(574,235)</u>	
<b><u>CIAC Deferred Tax Debits</u></b>			
To remove from rate base and offset against deferred taxes	<u>(156,066)</u>	<u>(93,773)</u>	Testimony
<b><u>Working Capital Allowance</u></b>			
Remove Company's request in total	<u>(29,786)</u>	<u>(20,781)</u>	Testimony
<b><u>Operating Revenues</u></b>			
Remove Company's requested rate increase	<u>(371,755)</u>	<u>(361,910)</u>	MFR Schedules B-1 & B-2
<b><u>Operation and Maintenance:</u></b>			
Rate Case Expense	<u>(8,672)</u>	<u>(8,672)</u>	Schedule 7
<b><u>Depreciation, Net of Amortization</u></b>			
To adjust for non used and useful percentages	<u>(30,422)</u>	<u>(37,446)</u>	Schedules 5 & 6
<b><u>Taxes Other Than Income</u></b>			
Remove gross receipts tax on Company's requested rate increase	(16,729)	(16,286)	MFR Schedules B-1 & B-2
Adjust property tax expense for used and useful percentage proposed by OPC witness	<u>(9,185)</u>	<u>(9,656)</u>	Schedule 8
	<u>(25,914)</u>	<u>(25,942)</u>	
<b><u>Provision for Income Taxes</u></b>			
Remove Company's requested amount	<u>(53,871)</u>	<u>(47,427)</u>	MFR Schedules B-1 & B-2

SAILFISH POINT UTILITY CORPORATION  
 Non Used and Useful  
 Projected Test Year Ended June 30, 1992

Docket No. 900816-WS  
 Exhibit\_\_ (TCD-1)  
 Schedule 5

	Test Year Average (1)	Plant		Accumulated Depreciation		Depreciation Expense	
		Non Used & Useful Percentage	Non Used & Useful Amount	Test Year Average (4)	Non Used & Useful Amount	Test Year Amount (3)	Non Used & Useful Amount
<u>Water</u>							
Land and Land Rights	19,500	41%	7,995				
Structures and Improvements	759,275	41%	311,303	237,003	97,171	23,008	9,433
Wells and Springs	267,502	41%	109,676	72,463	29,710	8,917	3,656
Pumping equipment	70,780	41%	29,020	19,072	7,820	3,539	1,451
Water treatment equipment	550,970	41%	225,898	82,735	33,921	25,044	10,268
Distribution reservoirs and standpipes	296,640	36%	106,790	47,030	16,931	8,017	2,886
Transmission and distribution mains	806,820	36%	290,455	122,933	44,256	18,763	6,755
Meter and meter installations	40,660	0	0	11,404	0	2,033	0
Hydrants	15,597	36%	5,615	2,896	1,043	347	125
Other plant and misc. equipment	790	36%	284	79	28	32	12
Office furniture and equipment	1,959	41%	803	327	134	131	54
Transportation equipment	13,179	41%	5,403	356	146	2,197	901
Tools, shop & garage equipment	842	41%	345	132	54	53	22
Other tangible plant	161	41%	66	24	10	16	7
	<u>2,844,675</u>		<u>1,093,654</u>	<u>596,454</u>	<u>231,224</u>	<u>92,097</u>	<u>35,568</u>
Amount per Company			<u>218,369</u> (2)		<u>33,384</u> (2)		<u>5,146</u> (3)
Adjustment			<u>875,285</u>		<u>197,840</u>		<u>30,422</u>

- (1) MFR Schedule A-5
- (2) MFR Schedule A-7
- (3) MFR Schedule B-10
- (4) MFR Schedule A-9

Non used and useful percentages from OPC witness Harry DeMeza

SAILFISH POINT UTILITY CORPORATION  
 Non Used and Useful  
 Projected Test Year Ended June 30, 1992

Docket No. 900816-WS  
 Exhibit\_\_ (TCD-1)  
 Schedule 6

	Test Year Average (1)	Plant		Accumulated Depreciation		Depreciation Expense	
		Non Used & Useful Percentage	Non Used & Useful Amount	Test Year Average (4)	Non Used & Useful Amount	Test Year Amount (3)	Non Used & Useful Amount
<b>Sewer</b>							
Land and Land Rights	19,500	25%	4,875				
Structure and Improvements	3,512	25%	878	274	69	110	28
Collection sewers-force and gravity	1,099,511	25%	274,878	152,764	38,191	27,488	6,872
Receiving wells	7,933	25%	1,983	2,714	679	264	66
Pumping equipment	29,893	25%	7,473	11,450	2,863	1,661	415
Treatment and disposal equipment	1,075,450	60%	645,270	220,332	132,199	59,747	35,848
Plant sewers	208,910	60%	125,346	40,328	24,197	5,969	3,581
Other plant and misc. equipment	1,032	60%	619	143	86	57	34
Office furniture and equipment	1,959	60%	1,175	327	196	131	79
Transportation equipment	13,179	60%	7,907	358	215	2,197	1,318
Tools, shop & garage equipment	842	60%	505	132	79	53	32
Power operated equipment	1,351	60%	811	281	169	113	68
Other tangible plant	939	60%	563	235	141	94	56
	<u>2,464,011</u>		<u>1,072,284</u>	<u>429,338</u>	<u>199,082</u>	<u>97,884</u>	<u>48,397</u>
Amount per Company			<u>353,662</u> (2)		<u>54,695</u> (2)		<u>10,951</u>
Adjustment			<u>718,622</u>		<u>144,387</u>		<u>37,446</u>

- (1) MFR Schedule A-6
- (2) MFR Schedule A-7
- (3) MFR Schedule B-11
- (4) MFR Schedule A-10

Non used and useful percentages from OPC witness Harry DeMeza

**SAILFISH POINT UTILITY CORPORATION**  
Rate Case Expense  
Test Year Ended June 30, 1992

**Docket No. 900816-**  
**Exhibit (TCD-1)**  
**Schedule 7**

Disallow amortization of prior rate case expense	68,374 (1)
Remove legal fees (estimated) associated with motions opposing intervention of homeowners' association	
8 hours @ \$125	<u>1,000</u>
	<b>\$69,374</b>
Amortization over 4 years	<u><b>\$17,344</b></u>
Allocation	
Water	<u>8,672</u>
Sewer	<u><b>8,672</b></u>

(1) MFR Schedule B-7

**SAILFISH POINT UTILITY CORPORATION**  
Property Tax Expense  
Test Year Ended June 30, 1992

Docket No. 900816-WS  
Exhibit (TCD-1)  
Schedule 8

	<u>Water</u>	<u>Sewer</u>
Property tax expense per MFR Schedule B-12 after adding back non used and useful amount	34,087	38,754
Non used and useful percentage	<u>38.45% (1)</u>	<u>43.52% (2)</u>
Non used and useful amount	<u>13,106</u>	<u>16,866</u>
Property tax expense less non used and useful amount	20,981	21,888
Amount per Company - MFR Schedule B-12	<u>30,166</u>	<u>31,544</u>
Adjustment	<u>(9,185)</u>	<u>(9,656)</u>

(1) Schedule 5 -  $\$1,093,654 / \$2,844,675 = 38.45\%$

(2) Schedule 6 -  $\$1,072,284 / \$2,464,011 = 43.52\%$

**CERTIFICATE OF SERVICE**  
**DOCKET NO. 900816-WS**

I HEREBY CERTIFY that a correct copy of the foregoing has been furnished by U.S. Mail or \*hand-delivery to the following parties this 3rd day of May, 1991.

BEN E. GIRTMAN, ESQUIRE  
1020 E. Lafayette Street  
Suite 207  
Tallahassee, FL 32301

\*CATHERINE BEDELL, ESQUIRE  
Florida Public Service  
Commission  
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Stephen C. Reilly  
Associate Public Counsel