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**ORIGINAL  
FILE COPY**

July 22, 1991

Steve Tribble, Director  
Division of Records and Reporting  
Florida Public Service Commission  
101 East Gaines Street  
Tallahassee, FL 32399-0850

Re: Docket No. 900816-WS

Dear Mr. Tribble:

Enclosed for filing in the above-captioned proceeding on behalf of the Citizens of the State of Florida are the original and 12 copies of Citizens' Brief to be filed in this docket.

Please indicate the time and date of receipt on the enclosed duplicate of this letter and return it to our office.

- ACR 2
- APA 3
- APP \_\_\_\_\_
- C/F \_\_\_\_\_
- CMR \_\_\_\_\_
- CTD \_\_\_\_\_
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- LR 1
- LR 3
- C \_\_\_\_\_
- R \_\_\_\_\_
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Sincerely,

Darlene Driscoll

Enclosure

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## STATEMENT OF BASIC POSITION

Sailfish Point Utility Corporation's ("utility," "company," or "SPUC") request for a rate increase is excessive and unjustified. Sailfish Point has overstated its rate base, operation, and maintenance expenses and has mischaracterized its capital structure. The utility's attempt to use Mobil Corporation's capital structure is totally inappropriate and could allow the utility to earn a return on an artificial capital structure which is not representative of the conditions which exist at the utility.

For approximately a decade Mobil Corporation and its subsidiaries have supplied cost-free advances to the utility from funds generated from the sale of lots in Sailfish Point to help finance construction and operation of the utility subsidiary. The arrangement to provide cost-free advances to the utility was acceptable to the developer as there was no attempt to convert these advances to permanent capital or to interest bearing loans.

The only exception to this practice was the one loan given in 1983 when Sailfish Point, Inc. ("SPI") transferred to the utility, utility plant which had been constructed to that date. The provision of these cost-free advances to the utility is just another cost of business which the developer has willingly provided for the past decade. The rules should not, and cannot be changed at this point in time which will allow the utility to earn an

artificial return on a capital structure which does not, or has not, ever existed.

## SYMBOLS AND CITATIONS

References to the transcript of the hearing are designated (T. page or pages). References to exhibits are designated (Exhibit No. \_\_\_, page or pages). Also attention is drawn to certain portions of an exhibit by designating (See response to interrogatory no. \_\_\_, page or pages of Exhibit No. \_\_\_). References to schedules are designated (See Schedules \_\_\_ and \_\_\_ of Exhibit \_\_\_) or OPC Briefs-Schedule \_\_\_).



Issue 1: Is the quality of service provided by the utility system satisfactory?

Citizens' Position: At the hearing there was considerable customer testimony complaining about the quality of the water. While the utility should be required to respond and correct any remaining problems the Citizens have not proposed an adjustment to the revenue requirement.

Discussion: There was a high percentage of customer participation in light of the late June hearing date. Mr. Paul Petrus confirmed that over 80% of the residents of Sailfish Point were not in residence at this time of the year. (T. 18). Many of the customers complained about the taste of the water and the need to drink bottled water and use various purification systems for drinking, cooking, and bathing. A test administered by Ms. Jeananne Petrus to a glass of tap water produced by SPUC resulted in a pronounced yellow color. (T. 59). According to Ms. Petrus the presence of the yellow color confirmed the presence excessive chlorine in the water. (T. 59). Other customers complained of soiled laundry, odor problems, damage to pipes and even a gold fish dying. An incident of bad tasting water experienced a few years ago was apparently caused by the utility utilizing a tank before its painted interior was fully dry. (T. 31-32).

While some of the problems were historic and have been solved others appear to be continuing. There appears to be a continuing problem of breaks in the water pipes underneath the Marina Way

road. (T. 51). Mr. Morris Cohen suggested that the pipe had been left out in the open exposed to sun and the elements for an excessive length of time causing the pipe to deteriorate before being installed. (T. 52). Several customers spoke of the inconvenience of the repeated shutoffs, rusty water, and debris that could be found in the water after one of the breaks occurs.

Although the Citizens have not proposed an adjustment to the revenue requirement because of problems with the quality of service the Commission should continue to monitor the unresolved problems to assure reasonable solutions are found to solve them.

Issue 2: Are contingency payments counted twice in the projected cost of the wastewater treatment plant?

Citizens' Position: No adjustment is proposed.

Discussion: No testimony was presented at hearing that would tend to support an adjustment to the revenue requirement because of a contingency payment being counted twice in the projected cost of the wastewater treatment plant.

Issue 3: Should the cost of the water distribution and wastewater collection lines and mains located on the Sailfish Point Property outside of the Utility parcel be included in rate base calculations?

Citizens' Position: Adopts SPOR's position. The cost of water distribution and wastewater collection lines and mains located outside of the utility parcel should not be included in rate base.

Discussion: Adopts SPOR's discussion of this issue in its brief. If for any reason the Commission decides not to exclude the cost of the water distribution and wastewater collection lines and mains from the utility's rate base the Commission should at minimum recognize the POA's financial responsibility to maintain those distribution and collection lines. The POA's financial responsibility could be incorporated into the rate structure of the utility by excluding the cost of maintaining the lines from the rates payable by the customers and replacing those funds with a guaranteed revenue agreement with a like dollar value from the POA. The initial dollar value of this guaranteed revenue agreement would be the \$18,199 for water distribution system and \$12,434 for the wastewater collection system as provided by utility's late filed Exhibit No. 12.

Issue 4: Should the cost of the water treatment and wastewater treatment facilities located upon the Utility Parcel be included in the rate case calculations?

Citizens' Position: Adopts SPOR's position. The cost of those facilities are a part of the overall investment made by the developer in improving the real estate of Sailfish Point to be recovered from the sale of lots just as the cost of the roads, storm sewers, irrigation systems, and all other improvements required by the approved development plan. They were contributed as CIAC and should not be included in rate base.

Discussion: Adopts SPOR's discussion of this issue in its brief.

Issue 5: Should the pre-1984 construction of the utility plant by SPI, while the utility was a division of SPI, be removed from rate base because the cost of this utility plant was included in the cost of developing the lots?

Citizens' Position: Yes.

Discussion: The utility failed to provide adequate documentation to establish that SPI did not include the cost of constructing early utility plant (\$3,757,211 including \$1,016.57 in CWIP) in SPI's lot development costs for tax purposes. Within seven days of our intervention the Citizens sought this tax information in our first request for production of documents. We received virtually no information on this issue during our April 1-3, 1991 inspection of records at Mobil Land Development (Florida) Corporation's offices.

As late as May 2, 1991, the Citizens received the last installment of tax information for SPI and SPUC, which the utility said would resolve the issue of the tax treatment given to this early plant construction. On May 14, 1991, the Citizens wrote a letter to the utility explaining the deficiencies of the information provided. On May 24, 1991, the utility offered access to the tax returns and associated files relating to SPI and SPUC at Mobil's Dallas Accounting Center. June 13, 1991 was the earliest the trip could be arranged.

During the June 13, 1991 inspection, we were able to trace the Schedule M adjustments previously furnished for SPI and SPUC to final Mobil Corporation consolidated tax returns. Unfortunately, while reviewing SPI and SPUC return files we also discovered a number of memoranda and notes which were later given document numbers 16, 17, 18, and 19 and made a part of this record in Composite Exhibit 3.

Without detailing the extensive questioning that took place at the hearing it suffices to say that the memoranda and notes documented the clear intention of SPI to include the early utility plant in its cost of developing the lots at Sailfish Point for tax purposes. In a recent case before this Commission (Palm Coast) a large multi-national corporation had, in fact, included utility plant costs in its development corporation's cost of goods sold, for tax purposes, and capitalized and depreciated the same costs on the books of its utility subsidiary, for tax purposes. Because of this prior experience and the eleventh hour discovery of these documents, the Citizens sought to confirm that SPI had not also included this early utility plant construction in the costs of developing its lots. The Commission is familiar with our unsuccessful effort to secure this information.

At the hearing witness Seidman was asked a series of questions concerning his knowledge of SPI's possible tax treatment of these utility assets:

Q Do you know if the development costs were increased by 6 to \$7 million to compensate SPI and/or SPUC for the cost of this already-constructed plant and anticipated plant to be built?

A Would you repeat that?

Q I guess my question is: Do you know if the development costs were increased, this would be by SPI, increased by the 6 to \$7 million to compensate SPI and/or SPUC for the cost of utility plant?

A No.

COMMISSIONER EASLEY: That's no you don't know, or no?

WITNESS SEIDMAN: No, I don't know.

Q (By Mr. Reilly) Again, do you know who would know?

A No. (T. 309).

Utility witness Olson was questioned concerning the basis for his statement made in his affidavit that the costs of utility plant were not included in SPI's cost of goods sold.

Q .....My question is, what steps did you take to verify your statement that the assets were not deducted as a cost of sales?

A I looked at the, basically, the work papers, files, which starts with the book accounting. And the assets that are recorded on SPUC's books for those years were depreciated under the tax rules, I believe under ACRS, and they were depreciated and treated as depreciation expense on the tax returns. They were not in any way, that I could tell, taken as a cost of sale.

Q So you only reviewed the documents that were in the position of the Dallas Accounting Center?



A That is correct.

Q And where -- excuse me?

A One other thing is I am familiar with, you know, Mobil's accounting procedures and basically I guess I have some comfort in the fact that these are depreciable assets based on Mobil's accounting procedures.

Q But may I assume then that the details that would make up the support for the cost of sales would be kept at the offices --

A If you're asking if I looked at the local ledgers, no, I have not.

Q Mr. Girtman asked you to comment on the conclusions you understood the Office of Public Counsel team reached after their inspection on 6-13-91. And you basically said that they seemed to be satisfied that the schedule Ms previously provided were, in fact, utilized by Mobil in its consolidated tax returns, which reflected the capitalization and the depreciation treatment.

However, is it not also true that after the team reviewed the memos much discussed in this hearing, Items 16 through 19, that Mr. DeWard asked to see the detail that comprised the cost of goods sold numbers for SPI for the years 1980 through 1984?

A It's my understanding that was in the document to compel or whatever it is, Motion to Compel?

Q But was that question asked and was not the answer that that detail would have to be found at the Mobil Land Development Corporation's offices in Palm Beach Gardens?

A That's the way I understood it, yes.

Q That was the question and the answer?

A Yes, sir. (T. 530-532).

Although witness Olson received comfort from the fact that these utility assets were depreciated based on his understanding of Mobil's accounting procedures, he conceded that he was not familiar with handling utility assets including normalization procedures and that Mobil had no other utility assets upon which to develop established accounting procedures. (T. 546 and 548).

Commissioner Deason had a discussion with the utility's attorney concerning the utility's burden of proof on this issue:

COMMISSIONER DEASON: Mr. Girtman, are we going to have a witness here who can testify concerning the decision made by SPI to book these assets and depreciate them as such as opposed to writing them off against lot sales and the relative tax benefits or detriments of that decision?

MR. GIRTMAN: You mean who made the decision?  
Or --

COMMISSIONER EASLEY: Come to the microphone, please, Mr. Girtman.

MR. GIRTMAN: You mean who made the decision?  
Or --

COMMISSIONER DEASON: The reason -- is there anyone who can testify as to the reason that decision was made?

MR. GIRTMAN: No, sir.

COMMISSIONER DEASON: Okay. You understand you do have the burden of proof in this case?

MR. GIRTMAN: Yes, sir. But if I could follow up to be sure I understand the burden. We have to prove the fact, we don't have to prove why, do we?

COMMISSIONER DEASON: I think you always have the burden to the prudence of any decision that affects the utility company's

operations and cost of service and just keep it at that.

I'm not trying to prejudge anything. These are lines of questions that brought a question to my mind as to why a decision that was made; it has been testified a certain decision was made as to how something was going to be treated for tax purposes which has a subsequent effect upon the accounting and ratemaking treatment that is the question before this Commission today. And I have a question as to why that decision was made the way it was and whether that was a prudent decision or whether that was in the best interest of the utility ratepayers.

I think the utility does have a burden to show why that decision was made and how it was beneficial to the ratepayers. (T. 235-237).

Commission Deason also discussed the utility's burden of proof on this issue with utility witness Seidman:

COMMISSIONER DEASON: Mr. Seidman, let me ask a question. I understand the characterization of these notes as being just that, planning, maybe some conjecture, or I think even one word is hope that something would happen. I understand that's the characterization. But it seems to me that this is some rather detailed notes looking at some very serious tax consequences of certain actions taken by the management of Sailfish Point, Incorporated, and I can appreciate that.

But at some point somewhere somebody in the management made the decision to treat these assets a certain way, and nowhere have I seen anywhere any documentation or explanation or notes, or whatever, of actually what happened, when that decision was made and why that decision was made that way.

So all we have here is all of this, the conjecture as you describe it, and I don't necessarily disagree with that description, but I don't have anything else in front of me

that tells me what happened when, why, and what the effects and considerations were at that time.

WITNESS SEIDMAN: Well, Commissioner --

COMMISSIONER DEASON: And I'm at a loss. It's hard to make a decision -- and I think I don't have all the facts in front of me. (T. 309-310).

The lack of documentation concerning the decision made and the reasons for the decision relating to the tax treatment of these utility assets was further explored by Commission Deason:

COMMISSIONER DEASON: Don't we have documents in front of us that show a lot of detailed consideration of the various tax consequences of doing it one way, and we have a void in the record as to the tax consequences of going the other way?

WITNESS SEIDMAN: From the documents here, yes.

COMMISSIONER DEASON: Thank you.

Commissioner Deason also questioned Citizens' witness DeWard on this issue:

COMMISSIONER DEASON: Mr. DeWard, on Page 14 of your testimony there is a phrase on Line 9 and 10 and it says, it states, "Was not expensed for tax purposes by developer as a cost of goods sold."

What is your opinion today, after reviewing the documents as to whether that is or is not true?

WITNESS DEWARD: I probably should read the full sentence. "As such, I have been unable to assure myself that all the property which was transferred to the Utility in 1983 represents a valid asset, which was not

expensed for tax purposes by the developer as a cost of goods sold."

It's clear right now that a portion of the assets, although I don't know yet, has been expensed as cost of goods sold was expensed for tax purposes in 1981 and 1982 and, in fact, they took the investment tax credits on it.

I do not know for a fact yet, and that's the subject of the Motion to Compel, whether a part or all of these assets might have been included in cost of goods sold.

COMMISSIONER DEASON: Is the distinction between taking a tax deduction through depreciation or through cost of lot sales, is that distinction important as to whether the Commission needs to impute this as a contribution or not?

WITNESS DeWARD: My recommendation would be that the difference between the tax depreciation taken on SPI's books in 1981 and 1982 of some 405,000, less the book depreciation, which is -- I'm not sure -- 120,000, that difference be taken either as an imputed CIAC or reduce the basis of the plant. So in my mind there is no real distinction on the ultimate treatment.

COMMISSIONER DEASON: So you're saying at least we need to take that difference --

WITNESS DeWARD: Yes. (T. 617-619).

The Citizens suggest that the utility has failed to meet its burden of proof on this issue. The Commission should remove the \$3,757,211 (including CWIP of \$1,016.57 added to plant-in-service) of utility plant from rate base until the company provides more complete documentation concerning Mobil's tax treatment of these early utility assets. If for any reason the Commission is not prepared to make this adjustment, it should at a minimum remove the

\$281,745 from rate base representing the depreciation taken by SPI on that plant for tax purposes in excess of book depreciation.

Issue 6: Should a margin reserve be included in the calculations of used and useful plant?

Citizens' Position: No. The inclusion of a margin reserve introduces costs associated with growth for recovery from current ratepayers. Current ratepayers should not be forced to pay for plant which is not serving them.

Discussion: Citizens' witness DeMeza testified that it was inappropriate to include a margin reserve in the used and useful calculations. (T. 571). He suggested that it was not the responsibility of current customers to provide a return on utility investment necessary to serve future customers. (T. 572). The beneficiaries of this reserve of plant are the future customers and the developer who is making a profit off of the sale of the lots to those future customers. The costs associated with maintaining this margin reserve should not be borne by current ratepayers, but by the beneficiaries of this reserve, namely the developer and the future customers when they pay an appropriate service availability fee to the utility. (T. 572).

Issue 7: If the Commission allows a margin reserve should it adopt the utility's allowance?

Citizens' Position: No. The utility has deviated from the five-year average method recommended by Staff. The utility's method overstates customer growth in Sailfish Point.

Discussion: The method used by the utility is not the five-year average as recommended by staff. (T. 572). For example, customer growth for the year ending June 1986 was 7; for year ending June 1987 was 24; for year ending June 1988 was 26; for year ending June 1989 was 24; and for year ending June 1990 was 57. The average for the five years is 27.6. Therefore, for the 18-month construction time:  $27.6 \times 1.5 = 41.4$  ERC. (T. 573).

Based on water sold of 99,310 GPY or 272 GPD per ERC, these ERC of  $41.4 \times 272$  GPD = 11,261 GPD. The comparison between the five-year average and the method used by the utility is as follows:

		<u>Utility</u>
6/90	11,261 GPD	29,941 GPD
6/91	11,261 GPD	35,548 GPD
6/92	11,261 GPD	39,285 GPD

These projections by the utility are excessive. (T. 573).



Issue 8: Is the utility's provision for fire flow correct?

Citizens' Position: No. The utility should not be given a fire flow allowance if it is unable to deliver the fire flow service required by local ordinance.

Discussion: Fire flow requirements are set by local ordinance to protect the structures in the service area. The ability of the utility to provide this service depends on the ability of the water system to provide the required pumping and storage to meet the local ordinance requirements with the largest pump out of service. (T. 574). This system requires, in addition to the maximum daily flow (124 GPM), 1,500 GPM for a duration of 2 hours. (T. 574). This means that the system must be able to deliver at the hydrant located at the condo's a flow of 1,500 GPM at a minimum of 20 psi. The two (2) hour duration represents 180,000 gallons of storage. This storage is available; however, when the largest pump (1,100 GPM) is out of service, the system theoretically has 630 GPM. (T. 574). Actually, it has less. The actual system capacity can be calculated by constructing system head-capacity and pump characteristic curves. This is usually done by the utility's engineer to assist him in the determination of system capability as to flow and pressure throughout the distribution system. (T. 574).

In the 1990 test year, the system theoretically could provide the maximum daily flow of 124 GPM and a minimum fire flow of 500 GPM. (T. 575). The Citizens allowed this fire flow allowance. In

the 1991 and 1992 test year, the system can only provide the maximum daily flow and the remaining pumping capacity is less than the required minimum fire flow. Therefore, in the Citizens' U & U calculation for 1991 and 1992, fire flow is not included. (T. 575).

In schedule F-5 on page 138 of the MFR's the utility concedes:

"High service pumping should be adequate to meet peak day requirements including fire flow with the largest pump out of service. The three high service pumps are rated at 230 GPM, 420 GPM, and 1,100 GPM. The capacity without the largest pump is 650 GPM." (Emphasis supplied).

At the hearing utility witness Seidman was asked:

Q Mr. Seidman in the event of a fire, can the system pump the 1500 gallons per minute plus the 124 gallons per minute which is required for the maximum daily demand with the 1100 gallons per minute pump out of service?

A No. But I'll tell you, I'd address those questions to Mr. Reese as far as the practical ability of the system to operate. (T. 331).

Mr. Reese was asked a series of questions on this issue:

Q Okay. Do you agree that to meet the fire flow requirements to put out a fire anticipated for the multistory condo projects, the system must be able to supply water at 1500 gallons per minute for two hours?

A Yes, sir.

Q Have you prepared a hydraulic analysis of the water distribution system to determine if the system can produce this quantity of water at the condo projects at a minimum of 20 pounds per square inch?

A No, sir, I have not.

Q Can this fire flow, this 1500 gallons per minute for two hours, be provided with the largest pump out of service and provide the maximum daily flow of 124 gallons per minute?

A Not with the largest pump out of service, no, sir. (T. 499-500).

The Citizens suggest it is improper to give the utility an allowance for a service it admits it can not provide according to the applicable requirements.

Issue 9: Is the level of unaccounted for water reasonable?

Citizens' Position: No. The customers should not be made to pay for unaccounted for water in excess of 10% of water produced.

Discussion: A review of Schedule F-1 found on page 134 of the MFR's reveals that the utility admitted that 20.51% of the water produced was not sold, which the schedule defined as unaccounted for water. In response to staff interrogatory no. 36, the utility furnished a corrected Schedule F-1 to try and put a better face on the serious unaccounted for water problem reflected in the first Schedule F-1. While the "corrected" schedule removed other uses from unaccounted for water to help make it look better, the problem remains that during the test year the utility failed to sell over 20% of the water it produced.

The Commission has historically recognized the need for plant use, flushing of hydrants, water and sewer lines, some line breakages, and fire flow. However the utility is required to explain and justify unaccounted for water in excess of 10%. (See MFR required schedule).

In this case, the utility admitted to unauthorized unmetered construction water use. (See utility response to staff interrogatory no. 36, page 18 of Exhibit 6). It is interesting to note that the utility's peak day demand was selected from the very

same month that experienced extraordinary unauthorized construction water use. (T. 509).

Staff questioned utility witness Reese concerning the utility's use of a peak day demand rather than the staff's 5 day average methodology to calculate used and useful. (T. 508). Utilizing the 5 day average helps avoid aberrant figures that are not truly representative of even the high demand periods. The wisdom of this staff methodology is demonstrated after witness Reese concedes that the high unauthorized construction usage could have helped cause the utility's peak day demand figure to be overstated. Staff asked witness Reese:

Q Would it be possible to conclude from those figures, both the one on page 18 of Exhibit 6 and on F-3, that with March 1990 being a month of high unauthorized construction usage, that it isn't representative of peak usage?

A It would be possible to conclude that, yes. (T. 509).

In its initial Schedule F-1 the utility also admitted that during the first half of the historic test year, during the break in phase of the new calcite contactor, additional flushing was necessary to control corrosivity. (MFR's page 134). The utility estimated that this unusual flushing (associated with breaking in the new calcite contactor) represented about 25% of the total 7,798,000 gallons pumped but not sold. (MFR's page 134). Costs

associated with producing this water should not be embedded into the prospective rate structure imposed upon the ratepayers.

The utility has the burden to justify the reasonableness of the amount of its unaccounted for water. The customers should not bear the cost of unaccounted for water in excess of 10% of water produced.

Issue 10: Are the utility's calculations to determine the number of equivalent residential connections for Sailfish Point by year for the years ending June 1990, 1991, and 1992 correct?

Citizens' Position: No.

Discussion: Citizens' witness DeMeza utilized the projected growth of customers and number of gallons sold furnished by the utility in its Schedule B-3, titled O&M Projected Growth Detail, located on page 59 of the MFRs, to calculate his proposed number of ERC's for both water and sewer systems for the years ending June 30, 1991-1992. (T. 575).

Utility witness DeMeza divided the gallons of water sold or wastewater treated by the actual number of residential customers to produce the gallons of water sold or wastewater treated for the average residential customers for a given year. (See Schedules 1 and 2 of Exhibit 14). Witness DeMeza then took the total gallons of water sold or wastewater treated for the remaining residential customers and divided that number by the above average gallons of water sold or wastewater treated for the residential customers to produce his equivalent number of residential customers to supplant the number of "other" customers. (See Schedules 1 and 2 of Exhibit 14). Witness DeMeza then added the equivalent residential customer number representing the other customer classes with the actual number of residential customers to produce the total equivalent

residential customers for the given year. (See Schedules 1 and 2 of Exhibit 14).

The Citizens suggest that this is a more appropriate method for calculating the number of equivalent residential connections for the water and sewer system for the historic and projected test years.



Issue 11: Is the utility's calculation for projected peak day water demand correct?

Citizens' Position: No.

Discussion: Even using the numbers supplied by the company in Schedule F-5 on page 139 of the MFRs and assuming the same percent of increase for peak day would produce lower peak day number of gallons for the test years ending June 30, 1991 and June 30, 1992 than those offered in Schedule F-5. According to Citizens' witness DeMeza, the test year ending 6/90 shows that the water sold was 30,224,000 gallons and that the peak day was 178,600 GPD. (T. 575). If the projection for 6/91 water sales is 33,401,000 gallons and the same percent increase for peak, then the following is the peak flow for 1991.

$$\begin{array}{rcl} \frac{30,224,000}{33,401,000} & = & \frac{178,600 \text{ GPD}}{X} \\ X & = & 197,374 \text{ GPD (T. 575)}. \end{array}$$

Likewise, the projection for the year ending 6/92, water sales of 37,134,000 gallons and the same percent increase for peak flow, then the following is the peak flow for 1992:

$$\begin{array}{rcl} \frac{33,401,000}{37,134,000} & = & \frac{197,374 \text{ GPD}}{Y} \\ Y & = & 219,433 \text{ GPD (T. 576)}. \end{array}$$

Utility witness Seidman was asked a series of questions concerning the utility's overstatement of gallons for peak day for 6/91 and 6/92:

Q If we could move to Schedule F-5, Page 2 of 2 in the MFR? And I'll give you the page number in just a minute. That would be Page 139.

A Yes.

Q Okay. Could you explain why the same ratio of water sold to peak day for the year ending 6/90, which is not used to project the '91 and '92 data? It's my understanding that the 6/90 figure is an historic, that's an actual figure.

So the question is why would you not use this ratio of actual thousands of gallons sold, which would be what, 30,224,000 gallons ratio, to the peak day, which is 178,600. Why wouldn't that ratio be appropriate and to be utilized to project '91 and '92 data?

A Let me see if I understand. You're saying that the 178.6 which is shown as peak day for 6/90.

Q Right.

A As a ratio to 30,224,000 gallons in that year, use that ratio?

Q Is it appropriate to use that ratio to project your '91 and '92 data?

A Offhand, I don't see where that's a particular problem. I haven't -- I don't know what the results of that are, but --

Q Subject to check, if you used that same ratio, I think we've calculated that you would come up with a [197,374 gallon] peak day --

A Uh-huh.

Q -- instead of the 212,044 and a 219,433 peak day instead of 234,000 ---

A I see that.

Q -- so it produces lower peak day.

A Yes. I see that.

Q Is that -- I'm just, again, this is just determining the reasonableness of the methodology. Is that in your view not a reasonable way to calculate the projected peak day?

A I don't think that's unreasonable. And just let me look at this a minute, because I think. (Pause)

I think that's what I intended to do and then I, just looking at my percent change column, and I multi -- it looks to me like I used a percent change between '89 and '90. is that 18%? And applied it to the wrong number. Because if you -- just one moment.

Q Okay. (Pause)

A Yeah. That's a mistake on my part, I'm sorry. I did use that method. Basically, it comes out the same. See on Line -- that's the row that's for 6/91, the year 6/91.

Q Right.

A It is a percent change of 10.51%.

Q Right.

A If you add the 10.51% growth to the 178.6, you'll come out with the 197,373. I picked up the percentage from the preceding year.

Q Okay. So --

A Those corrections would be in line with what they should be. That's fine. (T. 334-337).

In addition to the above, staff at the hearing helped point out another way that the utility managed to overstate peak day demand. Referring to the utility's response to staff interrogatory no. 36 found on page 18 of Exhibit 6, staff posed several questions to utility witness Reese:

Q Does the 600 figure for the unauthorized construction usage fall in the month of March, 1990?

A I don't know. I'm --

Q Is that not on that schedule on page --

A Yes. I'm looking at the 600 here, and it does occur in March of 1990, if that's your question, yes.

Q Okay. And is it also true that on F-3 that the maximum -- the peak day is also in March of 1990?

A Yes, that's correct.

Q Would it be possible to conclude from those figures, both the one on Page 18 of Exhibit 6 and on F-3, that with March 1990 being the month of high unauthorized construction usage, that it isn't representative of peak usage?

A It would be possible to conclude that, yes. (T. 508-509).

Issue 12: What are the appropriate percentages of used and useful plant?

Citizens' Position: The appropriate percentages of used and useful are:

Water treatment plant	59%
Water distribution system	64%
Sewer plant	40%
Collection system	75%

Discussion: OPC Witness DeMeza used the methodology and standards used by the Commission for computing used and useful percentages for the Sailfish Point Utility Corporation's water and wastewater systems. (T. 580). Staff questioned witness DeMeza concerning redundancy requirements for the wastewater treatment plant:

Q So did you or did you not take the redundancy requirements into account when you made your used and useful calculations?

A In my calculations I made -- or, rather, in my testimony I stated that when the plant reaches 65% of its capacity, you must make plans for addition. At the time that they permitted to the State for additions to the plant, which was identified as their redundancy, actually, their permit indicates that that plant is capable of processing twice as much as that flow. So their permit says \$250,000 gallons. Therefore, the redundancy is just immaterial because they had to do it anyway.

Commissioner Deason also explored the redundancy question with witness DeMeza:

COMMISSIONER DEASON: Mr. DeMeza, I'm trying to understand the redundancy issue.

Is it basically a question of the chicken or the egg, which came first? And what I mean by that, is it a question of whether there needed to be redundancy and that was required by DER, and to meet that requirement, additional capacity was added? Or is it a situation of the company was going to build capacity for customer growth anyway and that mooted the question of whether they needed to put in redundancy?

WITNESS DeMEZA: That's right. It just happened that at the time that they realized that they needed redundancy, that there was a lot of conversation which we're not privileged to between DER and the utility. I'm sure there must have been a lot of correspondence.

During the time of that correspondence more customers are coming in, so when the time came to actually do what DER had asked them to do, which was redundancy, it was time to enlarge the plant. So enlarging the plant met the redundancy, as well as increasing the capacity of the plant by twice as much. So they both kind of occurred at the same time.

A proper calculation for used and useful must rate the wastewater treatment capacity at 250,000 GPD.

Issue 13: What are the appropriate amounts of non-used and useful utility plant-in-service net of accumulated depreciation?

Citizens' Position: Water \$677,445; wastewater \$575,235.

Discussion: OPC Briefs-Schedules 5 and 6 illustrate non-used and useful plant-in-service, nonused and useful accumulated depreciation, and nonused and useful depreciation expense for water and wastewater respectively. Percentages applied are calculated by OPC Witness DeMeza as stated in Citizen's position on issue 12.

Issue 14: Should there be an imputation of contributions-in-aid-of-construction (CIAC) to offset margin reserve?

Citizens' Position: The Commission should not grant a margin reserve. However, if a reserve to serve future customers is included in used and useful plant, then the CIAC associated with those future customers should also be imputed.

Discussion: It has been the consistent policy of the Commission in prior rate cases to impute the CIAC associated with the future customers to be served by the additional plant that comprises the margin reserve when the margin reserve is included in the calculation of current rates. While the customers have consistently objected to collecting the cost to serve future customers from present customers, we have also consistently supported the Commission's policy to at least offset the costs of such reserve plant by the amount of CIAC the utility will receive from those future customers.



Issue 15: Should income taxes on contributions-in-aid-of-construction (CIAC) be capitalized in rate base?

Issue 22: Should debit and credit deferred taxes be offset, with the net credit included in the capital structure at zero cost?

Citizens' Position: No. Deferred tax debits on CIAC should not be recognized in rate base or capital structure.

Discussion: All deferred taxes should be included in the capital structure whether credit or debit. The debit deferred taxes included in the capital structure of Sailfish Point Utility Corporation are the result of SPUC not grossing up CIAC collections for tax purposes. For this Utility's rate case, no CIAC deferred tax debits should be recognized above the line since doing so unfairly burdens the customers who paid CIAC prior to the 1986 tax law change.

The Utility continues to not gross-up CIAC for tax purposes as testified to by Company Witness Seidman:

Q [By Mr. Reilly] And do you know what the current policy of the Company is on that issue?

A [By Mr. Seidman] On gross-up?

Q On gross-up.

A The Company does not gross up. (T. 339).

CIAC deferred tax debits in the amounts of \$156,066 and \$93,773 for water and wastewater respectively should be removed from rate base.

Issue 16: What is the appropriate amount of working capital to be included in rate base?

Citizens' Position: The utility has not properly documented its entitlement to a working capital allowance.

Discussion: The Citizens recommend removing the company's requested working capital allowance from rate base because the company has included an artificial allowance by multiplying 1/8 times operating and maintenance expenses. (T. 608). As this methodology always produces a working capital allowance but does not properly calculate a working capital requirement, it is appropriate to remove this artificial balance from rate base. (T. 608). The company should not be allowed to earn a rate of return on an amount which is not supported by a proper methodology such as the balance sheet methodology of calculating working capital requirements. (T. 608).

At the hearing the utility expressed its opinion that the Commission required it to utilize the 1/8 formula method to calculate its need for and entitlement to a working capital allowance.

Commissioner Deason engaged in a discussion with witness Seidman and Commissioner Easley on this issue:

COMMISSIONER DEASON: So you found it necessary to go away from the balance sheet to calculate that component (working capital) of rate base then, using the formula method?

WITNESS SEIDMAN: That's correct.

COMMISSIONER DEASON: Have you done a balance sheet method of calculating working capital component?

WITNESS SEIDMAN: No, sir.

COMMISSIONER DEASON: Why did you not?

WITNESS SEIDMAN: Commission rules require us to use the formula method now.

COMMISSIONER DEASON: I think for the record, Counsel, you can inject however you want to. I think that's an incorrect answer. Our Commission rules do not require this Commission to use the formula method for ratemaking purposes, and I think that needs to be stated on the record.

MR. GIRTMAN: Could we have a reference to that specific rule?

COMMISSIONER DEASON: I'll let the witness, he's the one that testified that it's in the rules and requires it, so I'll let him reference it.

WITNESS SEIDMAN: It's in the instructions to the MFRs, and I'll have to paraphrase without it in front of me, but my recollection is that you use the formula method and if you desire to use another method, you do so at your own expense.

COMMISSIONER DEASON: That's for MFR purposes, is that correct?

WITNESS SEIDMAN: Well, the MFR is part of the rule, it's incorporated.

COMMISSIONER DEASON: And does that -- is the Commission required to accept everything as filed in the MFRs for ratemaking purposes?

WITNESS SEIDMAN: It's not required to accept everything we calculate in there, but we're required to accept what the rule says.

COMMISSIONER DEASON: So you filed it that way and you think that's the appropriate way to calculate working capital?

WITNESS SEIDMAN: Well, I happen to think it is, but that's beside the point, Commissioner. The rule -- the MFR instructions which are incorporated in the rule say use one-eighth O&M. And if you don't then you perform the other calculations at your own expense and it's not recoverable.

COMMISSIONER DEASON: How expensive is it to perform a balance sheet calculation?

WITNESS SEIDMAN: Offhand, I don't know. You know, it could be a few thousand dollars.

COMMISSIONER DEASON: Would you be surprised if I tell you I just did one here this morning in about five minutes?

WITNESS SEIDMAN: I wouldn't be surprised, no.

COMMISSIONER EASLEY: Commissioner, I think the difficulty is that sometimes the parties are caught in the result of a vote on the Commission. In other instances in which -- in this case, as you are aware, one of our colleagues had a continual battle going on this particular subject. For a while it looked like maybe we might have a different outcome, but at the moment the vote has been to go with this methodology.

COMMISSIONER DEASON: I don't disagree with that. I do think it needs to be clear that the rules, though, I think, speak for themselves; that a certain methodology is prescribed for filing in MFRs, but that certainly does not bind the Commission in any way. (T. 449-452).

The Citizens strongly recommend that the utility should not be automatically rewarded with a working capital allowance equal to 1/8 of its operation and maintenance expenses. The utility has the

burden of demonstrating a need for a working capital allowance based upon its particular working capital requirements. Utilizing the balance sheet method more accurately reveals the company's true working capital needs, if any.

Issue 17: What is the appropriate level of test year rate base?

Citizens' Position: Citizens agree with SPOR that the utility's investment should be zero. However, as an alternative, water rate base should be no more than \$544,632 and sewer rate base should be no more than \$616,691.

Discussion: Rate base calculations for water and wastewater are shown on OPC Briefs-Schedule 1. If the Commission does not accept SPOR's recommendation of zero utility investment, the rate bases should be no more than \$544,632 for water and \$616,691 for wastewater.

Issue 18: What is the appropriate capital structure for ratemaking purposes?

Citizens' Position: The utility's capital structure is more appropriate than Mobil Corporation's capital structure because it represents the actual conditions that exist and have existed since the formation of Sailfish Point Utility Corporation.

Discussion: The Citizens recommend that the Commission utilize the utility's actual capital structure rather than utilizing the fictitious surrogate capital structure of the utility's multi-national parent corporation. The utility's capital structure is more appropriate because it represents the actual conditions that exist and have existed since the formation of Sailfish Point Utility Corporation. (T. 609). The use of the Mobil Corporation's capital structure would be totally inappropriate and would allow the utility to earn a return on an artificial capital structure which is not representative of the conditions which exist at the utility. (T. 609).

The utility corporation financed the original transfer of utility plant with a mortgage payable to Sailfish Point, Inc. The interest rate is 11%. (T. 609). In 1983 Sailfish Point, Inc., transferred to the utility, utility plant which had been constructed as of that date. From that date forward, the utility financed additional plant additions and operating losses through cash advanced from its parent company. These cash advances and/or transactions between the utility and its parent were recorded on



the books of the utility as negative accounts receivable or intracompany accounts payable. The Citizens found no records to indicate that there was an intent to convert these cost-free, non-interest bearing advances to equity capital or to any debt arrangement. (T. 610).

It's obvious, as in the case of most utilities, the developer's primary purpose is to sell lots to recover the original investment, including the cost of improvements, and to make a profit on the sales. In order to sell the lots, it is necessary to provide utility service. Obviously, the developer considered the utility a necessary cost of doing business. With few exceptions, the utility has lost money in every year of its operation and this was acceptable to the developer. Furthermore, the arrangement to provide cost-free advances to the utility was acceptable to the developer as there was no attempt to convert these advances to permanent capital or to interest bearing loans. (T. 610).

As this was an acceptable arrangement to the developer and to the utility, it would be inappropriate at this time to allow the utility to earn an artificial return, including an artificial level of income taxes, on an amount of equity capital which does not exist. The provision of these cost-free advances to the utility is just another cost of business which the developer has willingly agreed to provide. The rules should not, and cannot be changed at this point in time which will allow the utility to earn an

artificial return on a capital structure which does not, or has not, ever existed. (T. 611).

Staff deposed witness DeWard and utilized portions of the deposition to comprise its Exhibit 16, made a part of this record. At the deposition, Mr. Maurey with staff, posed several questions to witness DeWard:

Q And I will ask you if you will elaborate on why you believe the utility's capital structure, or SPUC's capital structure will be more appropriate to use in this proceeding than that of the Mobil Corporation?

A Well, I think I explained it in my testimony. Basically, it would be ludicrous to use Mobil Oil Corporation's capital structure, which has no relevance to this utility. I mean, it was obvious from the beginning what Mobil and its subsidiaries and ultimately the parent of the utility were attempting to do there. It was a necessary evil to build a utility in order to sell lots, and they financed the utility as they saw fit. And that was basically through one mortgage and all the rest being cost-free advances. And now it would be just totally inappropriate to turn around and say that we should allow a return on these invested assets using a capital structure of Mobil Corporation, which has no relevance to the utility's capital structure.

Q So, it is your recommendation that we use the capital structure on Schedule 3 of your testimony, and that the capital structure represented on Schedule 3 fully accounts for the actual capital cost incurred by SPUC?

A Yes, it does, because that is the way Mobil and, again, its subsidiaries financed the utility. And if they had wanted to contribute more funds to the utility and more -- convert cost-free payables or advances into capital, they would have done so. They didn't. They are more than happy to let this

capital structure exist not to require a return on any of these cost-free assets, other than on the mortgage payable. And that is the way it has been, and that is the way it should be, and continue to be that way. (Exhibit 16, pages 6-7).

During the deposition Mr. Maurey asked additional questions of witness DeWard:

Q Page 10 of your testimony, you mention that you found no records to indicate that there was an intent to convert these cost-free, noninterest-bearing advances to equity capital or to any debt arrangement. How extensive was your review to determine that there were no -- that there were no intent on behalf of the company to make these advances anything but cost-free capital?

A Basically, a review of the trial balances, the financial statements that were provided. That is the way they show, as being either negative intercompany accounts receivable which, of course, are payable, or accounts payable to affiliates. We asked for any documents, I believe, to support any interest-bearing items, and they provided a copy of the mortgage, which dated back to 1983.

Q You further state that the arrangement to provide cost-free capital advances to the utility was acceptable to the developer. How did you come to that conclusion?

A Well, if it wasn't acceptable then there would have been, as I said, either a transfer from these advances to paid-in capital or an attempt to make these interest-bearing. Of course, the utility is 100 percent owned by its parent corporation; and, therefore, the utility doesn't have a whole lot of say in what happens. And, obviously, if they had wanted to make these cost-free advances into interest-bearing, it could have been easily done by the parent of the utility. And that wasn't done. I mean, the utility, obviously, would have had no say in it. All of a sudden

these noninterest-bearing advances could have been interest-bearing. They weren't made that way.

Q And, finally, on this point, moving on to page 11, you also mention that if the Commission were allowed to use the hypothetical Mobil capital structure, in effect it would allow the utility to earn an artificial return on an amount of equity which has not been invested?

A Right. Did you want me to elaborate on that?

Q Well, now that you mentioned it, sure.

A Well, it kind of goes back to the whole scenario here, where Mobil Corporation through its subsidiaries has been perfectly happy to let this situation exist where they advance these funds noninterest-bearing. And now if you go back to allow a hypothetical capital structure with Mobil, you would be requiring the ratepayers to pay a return on this artificial structure, including income taxes, which from all the documents I have looked at it was not the intent of either the utility, or Mobil, or the subsidiaries of Mobil which control the utility. (Exhibit 16, pages 7-9).

At the hearing the utility questioned witness DeWard concerning his answers to questions posed in his deposition:

Q Then why is Mobil Corporation's capital structure not relevant to this utility?

A It's -- again, I think you referred to the staff memo on capital structure, and it says right in that staff memo that a parent capital structure that has very little utility in it may be totally irrelevant to use in a proceeding. And you referred to this staff memo, and this apparently, according to Mr. Olson, is the only utility operation that Mobil has. And we've heard 300 consolidated subsidiaries, and I'm sure SPUC, or Sailfish Point Utility Corporation, is probably one of the smallest corporations that it owns, and

it's owned through another series of companies.

So certainly there is absolutely no relationship whatsoever between Mobil Corporation's capital structure and Sailfish Point Utilities Corporation's capital structure. And as I said, it would be ludicrous to allow a return on assets based on Mobil's capital structure.

It would be just unfair, and that's the way it's been set up is cost-free advances with one mortgage payable at 11% and now to change the game, because you're coming in for a rate increase or because the utility is coming in for a rate increase, would be just ridiculous.

Q Okay. Now, if that capital structure is not relevant, then which capital structure should you use?

A If you'd refer to my Schedule 3, that will give you the exact capital structure to use.

Q I would like you to state -- you don't have to go through the whole capital structure, but just briefly tell me what other capital structure you would use.

A The capital structure of the utility, which has been the capital structure from inception through today. And I'm sure there's been probably some more cost-free advances and some intercompany payables and receivables recorded since the last financial statement I looked at, but that's the capital structure to use. That's what's been the basis to finance all of these assets. And it would be, again, ridiculous to now go to Mobil Corporation's capital structure.

Q What is the source of a capital, where does it come from, for the utility?

A Well, I have been in a lot of utility proceedings, Mr. Girtman, and a lot of people have always said it's impossible to trace funds. But in this case, they are probably advanced from Sailfish Point.

Q But the original source of the funds that is generated, isn't that from Mobil Corporation?

A Sailfish Point is a very, very profitable operation, and they generate all kinds of cash. I see no reason why the funds that they've been able to make on a cost-free, no-cost basis to the utility didn't come right from Sailfish Point, Inc.

And it would be impossible, Mr. Girtman, according to all of my experience, to exactly trace where those funds have come from. But this is the capital structure that's existed all these years, and now you want to change the game and come up with some very high return, which is just totally inappropriate.

Q Do you know where Sailfish Point, Inc.'s funds come from, other than earnings?

A Again, it would be impossible to trace funds. As a matter of fact, I don't know if Sailfish Point Inc., is a wholly owned subsidiary of another company, which is wholly owned of another, which is wholly owned of another. I don't know the chain. And it's irrelevant, because I've got the correct capital structure right here on Schedule 3. (Applause) (T. 621-624).

In his prefiled rebuttal testimony utility witness Seidman argued that a 1986 intra-Commission memorandum endorsed the company's recommendation on the capital structure. (T. 189). He stated that the 1986 memorandum indicated that the appropriate capital structure to use is at the first level, beginning with the utility's per books capital structure, that attracts investor capital from any arm's length transaction. (T. 189).

The utility argues that the first level which attracts investor capital in an arm's length transaction is at the Mobil Corporation level. However, at witness Seidman's deposition staff pointed out that the 1986 memorandum, relied upon by the utility, had been superseded by a 1989 memorandum. The later memorandum provides that even where the parent company is the first company to attract capital in an arm's length transaction, but only has a small percentage of its assets involved in regulated utility operations, the capital structure and costs rates of the parent company may not necessarily be representative of a regulated utility.

In response to the utility's questions posed at the hearing witness DeWard made reference to the 1989 memorandum requirement that it might be wrong to utilize a parent's capital structure for ratemaking purposes in cases when the parent has very little of its assets involved in the regulated utility's operations. (T. 621). Under questioning by Commissioner Deason, utility witness Olson conceded that to his knowledge Mobil's utility operation at Sailfish Point was its only utility operation. (T. 548). That is particularly significant when one considers the small size of the Sailfish Point Utility operation and the size of its multi-billion dollar, multi-national corporate parent. The standard of reasonableness and relatedness of capital structure to the utility operation requires the Commission to utilize the utility's actual

capital structure rather than the surrogate capital structure proposed by the utility.

It is primarily the utility's proposed use of the fictitious surrogate capital structure of its parent that accounts for this proposed astronomical 413.55% increase in wastewater revenues and a 254.51% increase in water revenues. If only the Commission will utilize the utility's actual capital structure the resulting rates will be more within a range of reasonableness, rather than producing one of the highest, if not the highest, water and sewer rates in the State of Florida.



Issue 19: What is the cost of common equity capital?

Citizens' Position: Since common equity is negative, the cost rate for rate of return purposes should be zero.

Discussion: In most water and wastewater cases before the Commission, Citizens acquiesce to the usage of the cost of equity ordered by the Commission annually using the leverage graph. However, since Sailfish Point Utility Corporation is in a negative equity position, the cost of equity has been capped at zero percent.

Issue 20: What is the cost of debt capital?

Citizens' Position: The cost of debt capital is 11 percent per anum on the mortgage. All other debt components should be considered cost free.

Discussion: OPC witness DeWard explains in his direct testimony why the mortgage payable should be the only debt component that is not cost free:

A The utility corporation financed the original transfer of utility plant with a mortgage payable to Sailfish Point, Inc. The interest rate is 11%. In 1983 Sailfish Point, Inc., transferred to the utility, utility plant which had been construed as of that date. Sailfish Point, Inc., is the developer of the property.

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

It's obvious, as in the case of most utilities, the developers primary purpose is to sell lots to recover the original investment, including the cost of improvements, and to make a profit on the sales. In order to sell the lots, it is necessary to provide utility service. Obviously, the developer considered the utility a necessary cost of doing business. With few exceptions, the utility has lost money in every year of its operation and this was acceptable to the developer. Furthermore, the arrangement to provide cost-free advances to the utility was acceptable to the developer as there was no attempt to convert these

advances to permanent capital or to interest bearing loans.

Therefore, the mortgage payable at 11% should be considered the only debt component that is not cost-free.

Issue 21: What specific adjustments should be made to accumulated deferred income taxes?

Citizens' Position: Based on evidence revealed during cross examination of Company Witness Seidman, deferred taxes as stated in the capital structure of the Company's filing should be increased by \$53,866 as shown on OPC Briefs-Schedule 7.

Discussion: Utility Witness Seidman stated that his calculation of deferred taxes for purposes of the MFR was completed prior to the Company's compilation of actual tax timing differences. (T. 218).

He agrees that the Company's compilation of tax timing differences (Composite exhibit 3, page 1) should be substituted for his MFR compilation and that the 34% tax rate used for each year should be replaced by the appropriate tax rates applicable to the years included in the compilation. During questioning of Mr. Seidman concerning his computation of deferred taxes for MFR purposes, the following was revealed:

A [By Mr. Seidman]... The only thing is my schedule is done on going back and applying a 34% all the way through instead of recognizing the tax rates in the particular years.

Q [By Mr. Reilly] The next question, I guess, would be, why, in light of our acknowledgement about the tax rates for those various years, did you in the lower schedule use a 34% rate?

A I did it on the basis assuming that the deferred tax schedule would probably be adjusted to reflect the differential. However, with the availability of the

Company's calculation that has now been booked. I would substitute what they have booked as actual for the combination of these two as the proper numbers. (Emphasis supplied)(T. 219).

Recalculation of deferred taxes using the Company's booked timing differences and the applicable tax rates results in an increase to deferred taxes of \$53,866 as shown on OPC Briefs - Schedule 7.

Issue 23: What is the appropriate amount and cost rate of investment tax credits to be included in the capital structure?

Citizens' Position: The unamortized balance of \$279,962 of ITC's should be included in the capital structure at zero cost as shown on OPC Briefs-Schedule 8.

Discussion: In 1981, utility assets of approximately \$2.7 were on the books of Sailfish Point Inc. (SPI). (T. 224). Most of the assets were qualified for investment tax credits at the rate of 10%. Therefore approximately \$270,000 of ITC's should have been transferred at the same time the utility assets were transferred in 1983. Not recognizing investment tax credits associated with utility assets effectively harms the ratepayer since it ignores the fact that the ratepayer has the burden of payment of the utility assets. In other words, if ITC's are not transferred, this results in the ratepayer paying more than the actual cost of the assets.

Company Witness Seidman testified that the investment tax credits should have followed the transfer of the utility's assets.

Q [By Mr. Reilly] Aren't most utility assets which are eligible for investment tax credits?

A [By Mr. Seidman] Yes.

Q In 1981, was the ITC rate 10%?

A Yes.

Q So the ITC would have been approximately \$270,000, correct?

A That's correct.

Q As the assets were recorded on the books of SPI, should SPI have been entitled to the ITCs?

A Yes.

Q Do you know if SPI took ITCs on those assets?

A Yes, they did.

Q Since they did take those ITCs, did not the credit flow immediately to reduce SPI's tax expense?

A Yes, it did.

Q But utilities defer the ITCs and amortize the benefits over the life of the related assets, is that correct?

A That's correct.

Q Were those ITC benefits ever transferred to S.P.U.C., SPUC?

A No, they weren't.

Q Why not?

A I don't know.

Q Should they have been?

A I would say under the regulations of this Commission they should have followed.

Q [By Mr. King] Would you repeat that answer?

A Under the regulations of this Commission, they should have followed. The ITC benefits should have gone with the plant to the Utility. (T. 224-225).

The Utility also added ITC eligible plant in 1984 in the amount of \$1,016,057. (T. 225-227). Once again, the investment tax credit has not been recognized on the Utility's books.

It would appear by Company Witness Seidman's own admissions that the investment tax credits generated by utility assets should be recognized at the Utility level of Mobil Corporation.

Therefore, the unamortized balance of investment tax credits in the amount of \$279,962 should be recognized in the capital structure at zero cost. This calculation is shown on OPC Briefs-Schedule 8.



It would appear by Company Witness Seidman's own admissions that the investment tax credits generated by utility assets should be recognized at the Utility level of Mobil Corporation.

Therefore, the unamortized balance of investment tax credits in the amount of \$279,962 should be recognized in the capital structure at zero cost. This calculation is shown on OPC Briefs-Schedule 8.

Issue 24: What is the weighted average cost of capital including the proper components, amounts, and cost rates associated with the appropriate capital structure?

Citizens' Position: The Utility's capital structure should be used as discussed in issue 18. The overall cost of capital after adjustments discussed in other issues are made should be 2.55% as shown on OPC Briefs-Schedule 3.

Discussion: See issues 18 through 23.

Issue 25: Are intercompany expense allocations appropriate?

Citizens' Position: The Citizens do not recommend an adjustment to this expense at this time.

Discussion: While the Citizens did not solicit sufficient evidence at the hearing to recommend an adjustment to this expense for this rate case, this item must be closely scrutinized in any future rate case. The need for this scrutiny is based upon Mobile Land Development (Florida) Corporation's power to allocate to its subsidiaries any of its expenses it deems necessary. The utility is powerless to deny the legitimacy of any bills imposed upon it by Mobile Land Development (Florida) Corporation.

Issue 26: Should the utility's purchased power and chemical expense be adjusted for unaccounted for water?

Citizens' Position: Yes. The utility in the MFR's have already adjusted purchased power and chemical expense downward by 5% to reflect nonrecurring water losses. The Commission should scrutinize the other 5.51% of produced but unsold water that exceeded the 10% of unaccounted for water to determine if additional adjustments should be made.

Discussion: While the utility has proposed a 5% downward adjustment to the test year figures to help account for nonrecurring water losses, this adjustment fails to address the other 15.51% of its produced but unsold water discussed in issue 9. To the extent the Commission feels the utility has not justified this additional amount of unsold water, further reductions to these two expenses would be appropriate.

Issue 27: Is the replacement program for the new spiral wound membranes appropriate?

Citizens' Position: No. The utility's replacement program for the new spiral wound membranes is not justified. A replacement program based on four years use rather than three years use would be more reasonable.

Discussion: The utility proposed an annual expense of \$25,000 to pay for a replacement program for the new spiral wound membranes utilized by the reverse osmoses water treatment plant. (T. 481-482). The Citizens believe that the proposed replacement program is unnecessary and too costly and will likely never be actually implemented by the utility.

The original RO membrane system at the Sailfish Water Plant are of the hollow fiber configuration offering the greatest ratio of surface area to volume. This membrane system has offered an excellent water quality and a long life of as much as 10 years of service. (T. 581). This long life of the RO units can be attributed to the excellent operation of the plant particularly the operation of the raw water wells and the prefilter. The purpose of the prefilter is to protect the high pressure pump and membranes from large particles. The disposable cartridges are inspected and replaced at frequent intervals to produce a high efficient plant. (T. 582).

This history of excellent operation must be considered in the life of the new membrane system. The new membrane system is of the spiral wound cellulose acetate. The proposed system will have seven (7) assemblies with six (6) membranes each or a total of forty-two (42) membranes. (T. 582).

The standard life of the membranes is 3-5 years. The utility is proposing a Change-Out Program which allows for a 3-year life then all 42 membranes are installed. The change-out will be accomplished every two (2) years with the first change-out in 1994 replacing 14 membranes. (T. 582).

The utility is proposing a cost of \$25,000 per year as a replacement cost for the Change-Out Program. In the opinion of Citizens' witness DeMeza, the life of the membranes should be four (4) years and not three (3) as suggested by the utility, based on the excellent history of operation and with a change-out of eleven (11) membranes in 1995 at a cost of \$1,700 per membrane or a total of \$18,700. This represents a savings of approximately 25% of the utility's estimated cost of \$25,000. The Citizens' estimated cost is based on \$1,480 (1991 dollars) per membrane installed plus 15% inflation cost for a total of \$1,700 per membrane in 1995.

The utility's witness Reese admitted that the normal membrane life is three to five years and that they are guaranteed for three years. (T. 498). Witness Reese was asked if he recommended the

utility to replace the membranes when the warranty runs out whether or not the membranes, in fact, needed to be replaced. He responded: "No. You would replace them when they're needed." (T. 498). Witness Reese admitted that the old membranes lasted close to 10 years although in the early years the plant experienced much lower flow rates. (T. 498-499). He also admitted that the utility had no historic experience with the new membranes. (T. 498).

Witness Reese was also asked:

Q You indicated that, although you are proposing to build into the rates this replacement cost -- which, now, to the extent that experience results in those membranes not being replaced after three years, that the customers would be required to pay for an expense that the utility, in fact, did not incur?

A If they're not replaced and it is budgeted for replacement and included in the rate, that is correct. (T. 499).

Witness Reese was also posed the question by staff:

Q And does the company anticipate a longer usage than the three years that's warranted?

A I will speak for myself. I don't know what the company expects. I don't know. I mean, to be just very honest about it, I do not know.

Given the speculative nature of the life expectancy of these new membranes, the long life of the old membranes, the number of years involved adding and ultimately replacing these new membranes and the manufacturer's indication of 5 years of expected service with a 3 year guarantee, the Citizens believe that the 4 year

replacement program at \$18,700 annually would be far more justified. Even this reduced annual expense embedded in the customer's rates may prove to be higher than the expense ultimately incurred by the utility.



Issue 28: Should rate case costs for the prior docket be allowed in this case?

Citizens' Position: No, the utility should not be permitted to recover any of the rate case expense associated with the filing made by the company in 1989. Ratepayers should not be required to pay for any of the costs associated with a case that was dismissed.

Discussion: The utility is proposing to collect all of its rate case expense of \$68,374 associated with the prior rate case, which was dismissed by the Commission. (T. 177-178, 432). The utility has only itself to blame for the dismissal of Docket No. 891114-WS. It is wrong to now try to collect from its ratepayers the costs of its own failures.

The Citizens recommend that the company not be allowed to recover any of the rate case expense associated with the filing made by the company in 1989. (T. 612). Staff posed a number of questions to utility witness Seidman concerning this issue:

Q That gets me to my next question.

Isn't it true that you were not able to use any prior rate case schedules except for the rate base schedules in preparing for the current rate case?

A That's correct. I cannot use the schedules because the MFR rules changed and new schedules were designated.

Q And we were using a different test year as well?

A Well, that would affect the schedules, yes. It wouldn't affect the fact that the

information buildup to get there was still necessary.

Q And did you actually use any of the prior rate base schedules for this case.

A You mean the actual schedules? No.

The ratepayers should not be required to pay for any of the costs of preparing a case which was later dismissed by the Commission. (T. 612). This is particularly true when the Commission considers the small customer base present at Sailfish Point and the high current rate case expense being proposed by the utility.

Issue 29: What is the appropriate amount for current rate case expense?

Citizens' Position: Any legal costs incurred in this proceeding in opposing the intervention of the homeowners or their duly elected representatives should be disallowed. All other requests for rate case expense should be closely scrutinized and justified.

Discussion: Given the small customer base of the utility it has a special duty to attempt to contain rate case expense at every opportunity. The systematic strategy to deny participation of the non-Mobil customers and their representative group, and to attempt to muzzle them after their intervention was granted, was needless and costly. It has always been the Commission's policy to liberally grant intervention status to customers and customer groups that are adversely affected by proposed rate increases. This is especially true when the rate increase is so phenomenal.

The non-Mobil lot owner and non-Mobil lot owners group's petition for leave to intervene was met with a utility objection to the petition. When the non-Mobil customers responded to this unwarranted objection the utility responded with a motion to strike the customer's response and another motion to deny petition for leave to intervene. This 81 page double pleading, including exhibits, continued the nonstop strategy of harassment designed to deny or limit the participation of non-Mobil lot owners in this proceeding.

After failing to deny the non-Mobil lot owners' intervention the utility continued to pursue its strategy with its "Utility Motion for Order Requiring All Parties to Attend All Preliminary Prehearing Conferences," and its third attempt to muzzle the non-Mobil lot owners with its 9 page "Utility's Motion in Limine to Strike Certain Testimony and Exhibits of Witness Roger W. Rasmusen."

While the non-Mobil intervenors interposed no interrogatories or requests for production of documents or otherwise engage in discovery in an effort to curtail rate case expense, the utility interposed both interrogatories and requests for production of documents to the non-Mobil intervenors. The utility also filed a motion to expedite the discovery.

To continue the strategy the utility also filed "Utility's Motion to Retain Customer Hearings for Customer Issues," wherein the utility attempted to muzzle the other non-Mobil lot owners that were not intervenors, but might wish to share a different perspective concerning one or more of the issues before this Commission. Fortunately the Commission rejected these later attempts to muzzle the customers as it had rejected the utility's initial attempts to deny the selected non-Mobil customers intervenor status.

As if this litany of obstructive pleadings was not enough, the utility also filed an additional motion titled "Utility's Contingent Motion For Extension of Time to File Rebuttal Testimony and Exhibits in Response to Witness Roger W. Rasmusen." In its fifth and sixth direct written pleadings designed to muzzle non-Mobil opinion the utility also filed "Utility's Motion to Strike Addendum and to Strike All Pre-filed Testimony and Exhibits of Roger W. Rasmusen," and "Utility's Supplement to Motion to Strike Addendum and to Strike All Pre-filed Testimony and Exhibits of Roger W. Rasmusen." These motions were complemented with oral arguments at the prehearing conference and the hearing designed to eliminate non-Mobil opinion from the Commission's consideration.

Although we decided against doing it, the Citizens considered filing a motion after the hearing titled, "Citizens' Motion to Prohibit Utility From Filing Motion to Strike Brief of Intervenors' Sailfish Point Property Owners Representatives and Charles R. Buckridge." Arguing the merits of this motion would be as pointless and nonproductive as the endless skirmishes we have endured to preserve the customer's right to participate in this proceeding as outlined above. Only time will tell whether filing such a preemptive motion would have spared the Commission one final chapter to the utility's campaign to "muzzle the customers."

While the utility is entitled to recover reasonable rate case expense it can not expect the customers to pay for this concerted

campaign to deny or limit the non-Mobil customers' participation in this proceeding. This is not a legitimate cost recoverable from the customers. Until more detail is furnished concerning the utility attorney's time in prosecuting this case, the Citizens recommend a reduction of at least five thousand dollars (\$5,000) in the utility's proposed current rate case expense. This reduction will help assure the customers that they are not being required to pay for the utility's concerted campaign to muzzle them in this proceeding.

Issue 30: Is the utility's proposed depreciation expense overstated?

Citizens' Position: Yes.

Discussion: As a result of OPC adjustments to the Utility's non-used and useful percentages, depreciation expense should be reduced by \$29,881 for water and \$37,446 for wastewater as shown on OPC Briefs-Schedules 5 and 6.

Issue 31: Should the utility's requested provision for taxes other than income be approved?

Citizens' Position: The utility's proposed property tax expense is overstated.

Discussion: The Utility's property tax expense as reflected in the MFR's should be adjusted to reflect the used and useful percentages as calculated by OPC witness DeMeza. Calculations for this adjustment are shown on OPC Briefs-Schedule 11. This schedule takes into account the fact that the Utility had made an adjustment for non-used and useful property tax expense in its filing.

Property tax expense allowed in rates should be only that expense associated with property and real estate that is used and useful to the utility ratepayers.



Issue 32: Should a parent debt adjustment be made in this case?

Citizens' Position: A parent debt adjustment should be made.

Discussion: A parent debt adjustment is necessary to recognize that a subsidiary's equity is comprised of a combination of debt and equity flowing from the parent. Sailfish Point Utility Corporation's capital structure reflects only \$1,000 in common stock equity. Theoretically, a parent debt adjustment should be made if the Commission accepts the stand alone capital structure of the Utility recommended by Citizens. However, making this adjustment would have a negligible effect on the Utility's revenue requirement since the amount of common stock issued is such a minute part of the applicable capital structure recommended by Citizens. Therefore, Citizens' schedules have not been adjusted for parent debt.

Issue 33: What is the appropriate income tax expense?

Citizens' Position: The utility should not be granted any income tax expense.

Discussion: OPC Witness DeWard recommended removing income tax in total from the company's filing. The capital structure that Mr. DeWard is recommending is debt and cost free capital. Since there is no positive equity in the capital structure, there is no need to provide for Federal income taxes. (T. 613,614).

Issue 34: What is the appropriate level of test year operating income before revenue increase?

Citizens' Position: Water: negative \$86,445;  
Wastewater: negative \$101,463.

Discussion: The calculation for test year net operating income before a revenue increase is shown on OPC Briefs-Schedule 2. This schedule takes into account, at a minimum, the adjustments discussed throughout Citizen's brief.

Issue 35: What is the total revenue requirement?

Citizens' Position: Citizens adopt SPOR's revenue requirements of \$269,953 for water and \$202,284 for wastewater.

Discussion: If revenue requirements calculated by SPOR are not accepted by the Commission, then, as an alternative, revenue requirements should be no more than \$306,139 for water and \$238,402 for wastewater. OPC Briefs-Schedule 2 illustrates Citizens' calculations of these alternative revenue requirements.

Issue 36: Is an adjustment necessary to comply with Section 367.0815, Florida Statutes, regarding the limitation of rate case expense?

Citizens' Position: Possibly. The Commission should faithfully enforce the requirements of Chapter 367.0815, Florida Statutes.

Discussion: The Legislature enacted this statute to discourage utilities from making unsupported and unreasonable requests for rate increases and to apportion more fairly the costs associated with rate cases between the utility and its customers.

Issue 37: What final rates should be authorized?

Citizens' Position: No Position.

Discussion: While the Citizens actively participate in the proceeding to help the Commission determine the proper revenue requirement we do not make recommendations concerning rate design.

Issue 38: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense?

Citizens' Position: Fall-out number.

Discussion: Since the enactment of Chapter 367.0816, Florida Statutes, the Commission is required to amortize any allowable rate case expense over a period of four years. At the conclusion of the recovery period the rates of the utility must be reduced immediately by the amount of rate case expense previously included in the rates.

Issue 39: Is the utility's existing service availability policy in compliance with Rule 25-30.580, Florida Administrative Code?

Citizens' Position: No position.

Discussion: The Citizens have historically not made recommendations concerning the adequacy of service availability fees collected by utilities.



Issue 40: What are the appropriate miscellaneous service charges?

Citizens' Position: No position.

Discussion: The Citizens have historically not made recommendations concerning the appropriateness of miscellaneous service charges.

Issue 41: Should a charge be established for gray water used by the golf course? If so, what is the appropriate charge?

Citizens' Position: No.

Discussion: The Citizens agree with the Sailfish Point Property Owners Representatives that a charge for use of the gray water would be inappropriate. Without this method of disposal the utility could not discharge its wastewater. Interconnection of ownership interests and method of disposal evidence the developer's intent that the various elements of the development should compliment and support each other.



SAILFISH POINT UTILITY CORPORATION

Net Operating Income  
Test Year Ended June 30, 1992

Docket No. 900816-WS  
OPC Briefs-Schedule 2

	Requested Annual Amount (1)	OPC Adjustments (2)	As Adjusted	Calculated Increase	N.O.I. As Adjusted
<b>WATER</b>					
1 Operating Revenue	\$572,814	(\$371,755)	\$201,059	\$105,080	\$306,139
2 O & M	238,287	(15,472)	222,815		222,815
3 Depreciation (Net)	62,346	(31,201)	31,145		31,145
4 Tax Other than Income	59,448	(25,904)	33,544	4,729	38,273
5 Income Taxes	53,871	(53,871)	0	0	0
6 Total Oper. Expenses	\$413,952	(\$126,448)	\$287,504	\$4,729	\$292,233
7 Operating Income	\$158,862	(\$245,307)	(\$86,445)	\$100,351	\$13,906
8 Rate Base	\$1,609,064	(1,064,432)	\$544,632		\$544,632
9 Rate of Return	9.87%				2.55%
<b>SEWER</b>					
10 Operating Revenue	\$477,580	(\$361,910)	\$115,670	\$122,732	\$238,402
11 O & M	166,245	(9,172)	157,073		157,073
12 Depreciation (Net)	66,907	(37,446)	29,461		29,461
13 Tax Other than Income	56,540	(25,941)	30,599	5,523	36,122
14 Income Taxes	47,427	(47,427)	0	0	0
15 Total Oper. Expenses	\$337,119	(\$119,986)	\$217,133	\$5,523	\$222,656
16 Operating Income	\$140,461	(\$241,924)	(\$101,463)	\$117,209	\$15,746
17 Rate Base	\$1,422,665	(805,974)	\$616,691		\$616,691
18 Rate of Return	9.87%				2.55%

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

(2) Schedule 8

SAILFISH POINT UTILITY CORPORATION

Rate Base  
Test Year Ended June 30, 1992

Docket No. 900816-WS  
OPC Briefs-Schedule 1

	Projected Test Year (1)	O.P.C Adjustments (2)	O.P.C Adjusted Rate Base	
<u>WATER</u>				
1	Utility Plant In Service	\$2,825,175	(\$39,122)	\$2,786,053
2	Land and Land Rights	19,500		19,500
3	Less - Non Used and Useful	(184,985)	(666,096)	(851,081)
4	Less - Accumulated Depreciation	(596,452)	(173,362)	(769,814)
5	Less - CIAC	(753,403)		(753,403)
6	Amortization of CIAC	113,377		113,377
7	CIAC Deferred Tax Debit	156,066	(156,066)	0
8	Working Capital Allowance	29,786	(29,786)	0
9	Rate Base	<u>\$1,609,064</u>	<u>(\$1,064,432)</u>	<u>\$544,632</u>

	Projected Test Year	O.P.C Adjustments	O.P.C Adjusted Rate Base	
<u>SEWER</u>				
10	Utility Plant In Service	\$2,444,511	(\$10,122)	\$2,434,389
11	Land and Land Rights	19,500		19,500
12	Less - Non Used and Useful	(298,966)	(574,235)	(873,201)
13	Less - Accumulated Depreciation	(429,337)	(107,063)	(536,400)
14	Less - CIAC	(509,800)		(509,800)
15	Amortization of CIAC	82,203		82,203
16	CIAC Deferred Tax Debit	93,773	(93,773)	0
17	Working Capital Allowance	20,781	(20,781)	0
18	Rate Base	<u>\$1,422,665</u>	<u>(\$805,974)</u>	<u>\$616,691</u>

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

SAILFISH POINT UTILITY CORPORATION

Capital Structure  
 Test Year Ended June 30, 1992

Docket No. 900816-WS  
 OPC Briefs-Schedule 3

		Amount	Percentage of Total	Cost	Weighted Cost
1	Mortgage Payable	835,938	23.21%	11.00%	2.55%
2	Intercompany Accounts Receivable	2,117,793	58.81%	0.00%	0.00%
3	Intracompany Accounts Payable	1,300,035	36.10%	0.00%	0.00%
4	Common Equity:				
	Common Stock Issued	1,000	0.03%	0.00%	0.00%
5	Retained Earnings	(1,443,223)	-40.07%	0.00%	0.00%
6	Accumulated Deferred Income Taxes	509,867 (1)	14.16%	0.00%	0.00%
7	Investment Tax Credits	279,962 (2)	7.77%	0.00%	0.00%
8	CIAC Deferred Tax Debit:				
	Water	0	0.00%	0.00%	0.00%
9	Sewer	0	0.00%	0.00%	0.00%
	Total	<u>\$3,601,373</u>	<u>100.00%</u>		<u>2.55%</u>

(1) See Schedule 7

(2) See Schedule 8

## SCHEDULE OF ADJUSTMENTS TO RATE BASE &amp; NOI

ADJUSTMENTS	WATER	SEWER	SOURCE
<u>Utility Plant in Service</u>			
To Remove Contingency Costs	(29,000)		Stipulation #1, Order 24682
To Remove improperly capitalized plant	(10,122)	(10,122)	Stipulation #2, Order 24682
	<u>(39,122)</u>	<u>(10,122)</u>	
<u>Non-Used and Useful Plant</u>			
To adjust to amount using OPC Witness used and useful percentages:			
Plant in Service	(863,395)	(718,622)	
Accumulated Depreciation	197,298	144,387	
	<u>(666,096)</u>	<u>(574,235)</u>	DeWard Testimony & Sched 5 & 6
<u>Accumulated Depreciation</u>			
To adjust for contingency costs	1,320		
To recognize benefit of Tax Depreciation for 1981-1982	(174,682)	(107,063)	Schedule 9
	<u>(173,362)</u>	<u>(107,063)</u>	
<u>CIAC Deferred Tax Debits</u>			
To remove from rate	(156,066)	(93,773)	Briefs Issue 15
<u>Working Capital Allowance</u>			
Remove Company's Request in Total	(29,786)	(20,781)	DeWard Testimony, Page 8
<u>Operating Revenues</u>			
Rate Case Expense	(9,172)	(9,172)	Schedule 10
Adjust cost of membrane replacement	(6,300)		Demeza Supplemental Testimony
	<u>(15,472)</u>	<u>(9,172)</u>	
<u>Depreciation, Net of Amortization</u>			
To adjust for contingency costs	(\$1,320)		Stipulation #1, Order 24682
To adjust for non-used and useful %'s	(29,881)	(37,446)	Schedules 5 & 6
	<u>(31,201)</u>	<u>(37,446)</u>	

SAILFISH POINT UTILITY CORPORATION

Docket No. 900816-WS  
OPC Briefs-Schedule 4  
Page 2 of 2

Taxes Other Than Income

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>(9,175)</u> <u>(25,904)</u>	<u>(9,655)</u> <u>(25,941)</u>	DeWard Testimony & Schedule 11
<u>Provision for Income Taxes</u>			
Remove Company's Requested Amount	<u>(53,871)</u>	<u>(47,427)</u>	DeWard Testimony, Page 13



SAILFISH POINT UTILITY CORPORATION

Non Used and Useful  
 Projected Test Year Ended June 30, 1992

Docket No. 900816-WS  
 OPC Briefs-Schedule 5

Account	Description	Plant In Service			Accumulated Depreciation		Depreciation Expense	
		Test Year Average (1)	Non Used & Useful % (5)	Non Used & Useful Amount	Test Year Average (2)	Non Used & Useful Amount	Test Year Amount (3)	Non Used & Useful Amount
303	Land and Land Rights	19,500	41.00%	7,995				
304	Structures & Improvements	759,275	41.00%	311,303	237,003	97,171	22,008	9,433
307	Wells & Springs	267,502	41.00%	109,676	72,463	29,710	8,917	3,656
311	Pumping Equipment	70,780	41.00%	29,020	19,072	7,820	3,539	1,451
320	Water Treatment Equipment	550,970	41.00%	225,898	82,735	33,921	25,044	10,268
330	Dist Res & Standpipes	296,640	36.00%	106,790	47,030	16,931	8,017	2,886
331	T & D Mains	806,820	36.00%	290,455	122,933	44,256	18,763	6,755
334	Meter & Meter Installations	40,660	0.00%	0	11,404	0	2,033	0
335	Hydrants	15,597	36.00%	5,615	2,896	1,043	347	125
339	Pther Plant	790	36.00%	284	79	28	32	12
340	Office Furniture & Equipment	1,959	41.00%	803	327	134	131	54
341	Transporation Equipment	13,179	41.00%	5,403	356	146	2,197	901
343	Tools, Shop & Garage Equip	842	41.00%	345	132	54	53	22
348	Other Tangible Plant	161	41.00%	66	24	10	16	7
	Correct ACCT 320 For Contingency (4)	(29,000)	41.00%	(11,890)	(1,320)	(541)	(1,320)	(541)
		<u>2,815,675</u>		<u>1,081,764</u>	<u>595,134</u>	<u>230,682</u>	<u>90,777</u>	<u>35,027</u>
	Amount Per Company							
				218,369 (1)		33,384 (2)		5,146 (3)
	Adjustment			<u>863,395</u>		<u>197,298</u>		<u>29,881</u>

(1) MFR Page 21, Schedule A-5 page 1 of 1

(2) MFR Page 28, Schedule A-9 page 1 of 1

(3) MFR Page 83, Schedule B-10 page 1 of 1

(4) Stipulation #1, Order 24682

(5) Non used and useful percentages from OPC witness DeMeza

SAILFISH POINT UTILITY CORPORATION

Non Used and Useful  
 Projected Test Year Ended June 30, 1992

Docket No. 900816-WS  
 OPC Briefs-Schedule 6

Account	SEWER Description	Plant In Service			Accumulated Depreciation		Depreciation Expense	
		Test Year Average (1)	Non Used & Useful % (4)	Non Used & Useful Amount	Test Year Average (2)	Non Used & Useful Amount	Test Year Amount (3)	Non Used & Useful Amount
353	Land and Land Rights	19,500	25.00%	4,875				
354	Structures & Improvements	3,512	25.00%	878	274	69	110	28
360	Collect Sewers - Force & Gravity	1,099,511	25.00%	274,878	152,764	38,191	27,488	6,872
370	Receiving Wells	7,933	25.00%	1,983	2,714	679	264	66
371	Pumping Equipment	29,893	25.00%	7,473	11,450	2,863	1,661	415
380	Treatment & Disposal Equipment	1,075,450	60.00%	645,270	220,332	132,199	59,747	35,848
381	Plant Sewers	208,910	60.00%	125,346	40,328	24,197	5,969	3,581
389	Other Plant	1,032	60.00%	619	143	86	57	34
390	Office Furniture & Equipment	1,959	60.00%	1,175	327	196	131	79
391	Transportation Equipment	13,179	60.00%	7,907	358	215	2,197	1,318
393	Tools, Shop, & Garage Equip	842	60.00%	505	132	79	53	32
395	Power Operated Equipment	1,351	60.00%	811	281	169	113	68
398	Other Tangible Plant	939	60.00%	563	235	141	94	56
		<u>2,464,011</u>		<u>1,072,284</u>	<u>429,338</u>	<u>199,062</u>	<u>97,884</u>	<u>48,397</u>
	Amount Per Company			<u>353,662</u> (1)		<u>54,695</u> (2)		<u>10,951</u> (3)
	Adjustment			<u>718,622</u>		<u>144,387</u>		<u>37,446</u>

(1) MFR Page 23, Schedule A-6 page 1 of 1  
 (2) MFR Page 30, Schedule A-10 page 1 of 1  
 (3) MFR Page 84, Schedule B-11 page 1 of 1  
 (4) Non used and useful percentages from OPC witness DeMeza

SAILFISH POINT UTILITY CORPORATION

Adjustments to Deferred Taxes  
 Test Year Ended June 30, 1992

Docket No. 900816-WS  
 OPC Briefs-Schedule 7

	<u>Year</u>	<u>Differences</u>	<u>Tax Rate</u>	<u>Calculated Deferred Taxes</u>
1	1983	181,372 (1)	46.00%	83,431
2	1984	122,028 (1)	46.00%	56,133
3	1985	98,673 (1)	46.00%	45,390
4	1986	98,432 (1)	46.00%	45,279
5	1987	71,415 (1)	40.00%	28,566
6	1988	71,414 (1)	34.00%	24,281
7	1989	141,245 (1)	34.00%	48,023
8	Total Deferred Taxes 1981-1989			<u>\$331,102</u>
9	1990			61,580 (2)
10	1991			70,619 (2)
11	1992			93,132 (2)
12		Adjust for average 1992		(46,566) (2)
13	Total Deferred Taxes 1981-1992			<u>\$508,867</u>
14	Per Company			<u>\$456,001 (2)</u>
15	Increase to test year deferred taxes			<u><u>\$53,866</u></u>

(1) Re: Composite Exhibit #3 from hearing on 6/26-27/91; (Cross examination of Frank Seidman)

(2) MFR Page 97, Schedule C-6, Page 1 of 3

SAILFISH POINT UTILITY CORPORATION

Calculation of Investment Tax Credits  
Projected Test Year Ended June 30, 1992

Docket No. 900816-WS  
OPC Briefs-Schedule 8

Plant Transferred to S.P.U.C. (1)	\$2,701,612
ITC rate	10.00%
Investment Tax Credits on Transferred Assets	<u>\$270,161</u>
Amortization of ITC's @ 2.5% through 6/92 (10.5 years)	70,917
Unamortized Balance @ 6/30/92	<u>\$199,244</u>

Additions to Plant in 1984 (2)	\$1,016,057
ITC Rate	10.00%
Investment Tax Credits on 1984 Additions	<u>\$101,606</u>
Amortization of ITC's @ 2.5% through 6/92 (8.5 years)	21,591
Unamortized Balance @ 6/30/92	<u>\$80,014</u>

Additions to Plant in 1985 (3)	\$8,664
ITC Rate	10.00%
Investment Tax Credits on 1985 Additions	<u>\$866</u>
Amortization of ITC's @ 2.5% through 6/92 (7.5 years)	162
Unamortized Balance @ 6/30/92	<u>\$704</u>

Total Unamortized Balance @ 6/30/92	<u><u>\$279,962</u></u>
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- (1) MFR page 18, Schedule A-4, Page 1 of 2 line 13
- (2) MFR page 18, Schedule A-4, Page 1 of 2 line 18
- (3) MFR page 18, Schedule A-4, Page 1 of 2 line 22

**SAILFISH POINT UTILITY CORPORATION**

Adjustment to recognize Benefit of Tax  
Depreciation Prior to Asset Transfer  
Projected Test Year Ended June 30, 1992

Docket No. 900816-WS  
OPC Briefs-Schedule 9

1	Depreciation Expense Taken on Salfish Point Inc's Books (1)	\$405,245
2	Depreciation Expense Taken on S.P.U.C.'s Books (2)	<u>123,500</u>
3	Benefit Due Salfish Point Utility Corporation	<u>\$281,745</u>
4	Allocate to Water Accumulated Depreciation @ 62% (2)	<u>\$174,682</u>
5	Allocate to Sewer Accumulated Depreciation @ 38% (2)	<u>\$107,063</u>

(1) Re: Composite Exhibit #3 from hearing on 6/26-27/91; (Cross examination of Frank Siedman)

(2) MFR page 25, Schedule A-8, Page 1 of 2, line 13

SAILFISH POINT UTILITY CORPORATION

Rate Case Expense  
Projected Test Year Ended June 30, 1992

Docket No. 900816-WS  
OPC Briefs-Schedule 10

Disallow amortization of prior rate case expense	68,374 (1)
Remove legal fees (estimated) associated with motions opposing intervention of homeowners' association	
40 hours @ \$125	<u>5,000</u>
Total	<u>\$73,374</u>
Amortization over 4 years	<u>\$18,344</u>
Allocation	
Water	<u>\$9,172</u>
Sewer	<u>\$9,172</u>

(1) MFR Schedule B-7

SAILFISH POINT UTILITY CORPORATION

Property Tax Expense  
 Projected Test Year Ended June 30, 1992

Docket No. 900816-WS  
 OPC Briefs-Schedule 11

	<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	38.42% (1)	43.52% (2)
Non used and useful amount	\$13,096	\$16,865
Property tax expense less non used and useful amount	\$20,991	\$21,889
Amount per Company - MFR Schedule B-12	<u>30,166</u>	<u>31,544</u>
Adjustment	<u>(\$9,175)</u>	<u>(\$9,655)</u>

S. P. O. R.



SAILFISH POINT UTILITY CORPORATION

Rate Base  
Test Year Ended June 30, 1992

Docket No. 900816-WS  
S.P.O.R. - Schedule 1

	Projected Test Year (1)	S.P.O.R Adjustments (2)	S.P.O.R Adjusted Rate Base	
<u>WATER</u>				
1	Utility Plant In Service	\$2,825,175	(\$2,825,175)	\$0
2	Land and Land Rights	19,500	(19,500)	0
3	Less - Non Used and Useful	(184,985)	184,985	0
4	Less - Accumulated Depreciation	(596,452)	596,452	0
5	Less - CIAC	(753,403)	753,403	0
6	Amortization of CIAC	113,377	(113,377)	0
7	CIAC Deferred Tax Debit	156,066	(156,066)	0
8	Working Capital Allowance	29,786	(29,786)	0
9	Rate Base	<u>\$1,609,064</u>	<u>(\$1,609,064)</u>	<u>\$0</u>

	Projected Test Year	O.P.C Adjustments	O.P.C Adjusted Rate Base	
<u>SEWER</u>				
10	Utility Plant In Service	\$2,444,511	(\$2,444,511)	\$0
11	Land and Land Rights	19,500	(19,500)	0
12	Less - Non Used and Useful	(298,966)	298,966	0
13	Less - Accumulated Depreciation	(429,337)	429,337	0
14	Less - CIAC	(509,800)	509,800	0
15	Amortization of CIAC	82,203	(82,203)	0
16	CIAC Deferred Tax Debit	93,773	(93,773)	0
17	Working Capital Allowance	20,781	(20,781)	0
18	Rate Base	<u>\$1,422,665</u>	<u>(\$1,422,665)</u>	<u>\$0</u>

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

(2) Schedule 3

SAILFISH POINT UTILITY CORPORATION

Net Operating Income  
Test Year Ended June 30, 1992

Docket No. 900816-WS  
S.P.O.R. - Schedule 2

	Requested Annual Amount (1)	S.P.O.R. Adjustments (2)	As Adjusted	Calculated Increase/ (Decrease)	S.P.O.R. N.O.I. As Adjusted
<b>WATER</b>					
1 Operating Revenue	\$572,814	(\$389,954)	\$182,860	\$87,093	\$269,953
2 O & M	238,287	(14,972)	223,315		223,315
3 Depreciation (Net)	62,346	(62,346)	0		0
4 Tax Other than Income	59,448	(16,729)	42,719	3,919	46,638
5 Income Taxes	53,871	(53,871)	0		0
6 Total Oper. Expenses	\$413,952	(\$147,918)	\$266,034	\$3,919	\$269,953
7 Operating Income	\$158,862	(\$242,036)	(\$83,174)	\$83,174	\$0
8 Rate Base	\$1,609,064	(1,609,064)	\$0		\$0
9 Rate of Return	9.87%		0.00%		0.00%
<b>SEWER</b>					
10 Operating Revenue	\$477,580	(\$374,344)	\$103,236	\$99,048	\$202,284
11 O & M	166,245	(8,672)	157,573		157,573
12 Depreciation (Net)	66,907	(66,907)	0		0
13 Tax Other than Income	56,540	(16,286)	40,254	4,457	44,711
14 Income Taxes	47,427	(47,427)	0		0
15 Total Oper. Expenses	\$337,119	(\$139,292)	\$197,827	\$4,457	\$202,284
16 Operating Income	\$140,461	(\$235,052)	(\$94,591)	\$94,591	\$0
17 Rate Base	\$1,422,665	(1,422,665)	\$0		\$0
18 Rate of Return	9.87%		0.00%		0.00%

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

(2) Schedule 3

SCHEDULE OF ADJUSTMENTS TO RATE BASE & NOI

<u>ADJUSTMENTS</u>	<u>WATER</u>	<u>SEWER</u>	
<u>Revenues</u>			
To remove Company's Request	(371,755)	(361,910)	MFR Schedules B-1 & B-2
To reflect guaranteed revenues	(18,199)	(12,434)	Late Filed Exhibit #11
	<u>(389,954)</u>	<u>(374,344)</u>	
<u>Operation &amp; Maintenance Expense</u>			
To remove prior period Rate Case Expense	(8,672)	(8,672)	DeWard Testimony
To reduce membrane replacement cost	(6,300)		DeMeza Supplemental Testimony
	<u>(14,972)</u>	<u>(8,672)</u>	
<u>Depreciation Expense (Net)</u>			
To remove depreciation expense on contributed property	(62,346)	(66,907)	
<u>Taxes Other Than Income</u>			
To remove gross receipts tax on Company's requested rate increase	(16,729)	(16,286)	MFR Schedules B-1 & B-2
<u>Income Tax Expense</u>			
To remove income tax expense	(53,871)	(47,427)	

**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 or facsimile to the following parties this 22nd day of July, 1991.

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