

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a Rate)
Increase in Franklin County by)
St. George Island Utility)
Company, Ltd.)
_____)

Docket No. 940109-WU
Filed: May 25, 1994



Direct Testimony

of

Kimberly H. Dismukes

On Behalf of the Citizens of the State of Florida

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TESTIMONY
OF
KIMBERLY H. DISMUKES

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On Behalf of the
Florida Office of the Public Counsel

Before the
FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 940109-WU

1 Q. What is your name and address?

2 A. Kimberly H. Dismukes, 111 West Madison Street, Room 812, Tallahassee,
3 Florida, 32399-1400.

4 Q. Do you have an appendix that describes your educational and occupational
5 history and your qualifications in regulation?

6 A. Yes. Appendix I, attached to my testimony, was prepared for this purpose.

7 Q. Do you have an exhibit in support of your testimony?

8 A. Yes. Exhibit __ (KHD-1) contains 27 schedules which support my testimony.

9 Q. What is the purpose of your testimony?

10 A. The purpose of my testimony is to respond to certain portions of St. George
11 Island Utility Company, Ltd., (SGU, the Utility, or the Company) request to
12 increase rates by \$428,201, or 136%.

13

14 My testimony is organized into seven sections. In the first section of my
15 testimony I address the Company's instant rate request relative to the request
16 made in the recently dismissed case, Docket No. 930770-WU. In the second
17 section of my testimony I examine the Company's relationship with its affiliates
18 and adjustments necessary to recognize these relationships. In the third part of my
19 testimony I address several adjustments that should be made to the Company's
20 requested test year revenues and expenses. In the fourth section, I address rate
21 base issues. In the fifth section, I discuss capital structure issues. In the sixth
22 section, I present the calculation of the Company's revenue requirements taking

1 into consideration my recommendations. Finally, in the seventh section of my
2 testimony, I address the Public Service Commission Staff's (Staff's) audit of St.
3 George Island Utility Company, Ltd.

4 **Q. Do you have any comments you would like to make before addressing the**
5 **first issue?**

6 A. Yes. Due to several discovery problems that arose throughout the course of this
7 proceeding, it is the expectation of the Office of the Public Counsel that
8 additional supplemental testimony may be filed as discovery is completed and the
9 issues developed further. For example, substantial discovery concerning the
10 Company's affiliates and the original cost of the Company's water assets was still
11 outstanding at the time my testimony was completed.

12 **Q. Let's turn to the first section of your testimony. Would you compare the**
13 **instant rate request to the one requested by the Company in Docket 930770-**
14 **WU?**

15 A. Certainly. I have made this comparison on schedule 1 of my exhibit. As shown
16 on this schedule, in Docket No. 930770-WU the Company requested a rate
17 increase of \$203,512. In the instant case, the Company has requested a rate
18 increase of \$428,201. This represents an increase of \$224,689, or 110%, over the
19 request made just a few months earlier. A comparison between the two cases
20 shows that the Company's requested rate base has decreased by \$12,047, its
21 revenues have stayed the same, and its operation and maintenance expenses have
22 increased by \$207,125.

1 Q. Did something extraordinary happen to cause the Company's rate request to
2 increase by so much?

3 A. No. The test year in both cases is the same--December 31, 1992. The rate base
4 is largely the same and the test year revenue level did not change. The major part
5 of the increase can be attributed to numerous proforma adjustments made to the
6 Company's test year operating expenses.

7
8 Schedule 2 of my exhibit sets forth the detail of the expense increases requested
9 by the Company. As shown on this schedule, the largest increase, \$85,091, is in
10 the category contractual services-other. Most of this increase relates to expenses
11 the Company alleges it will incur to comply with the Department of
12 Environmental Protection (DEP) requirements. For example, the Company alleges
13 that DEP has mandated that immediate arrangements be made for a ground
14 storage maintenance program. The Utility has estimated that its storage
15 maintenance program will cost \$22,409 a year. Likewise, SGU has increased its
16 water testing expenses by \$23,909 because of alleged DEP requirements for
17 increased and more reliable water quality testing.

18
19 The next largest increase, \$48,000, is in the category contractual services-
20 management. This increase represents a management fee for the services of Gene
21 Brown.

22

1 The Company has also increased expenses for the amortization of several studies,
2 which SGU claims are necessitated by the requirements of the DEP or the
3 Northwest Florida Water Management District. The Company has estimated that
4 another system analysis will cost approximately \$15,852 per year, that a revised
5 system map, plus amortization of the initial system map, will cost about \$6,310
6 per year, that an aerator analysis will cost \$4,290 per year, and that a hydrology
7 study will cost \$9,000 per year. In addition, the Company is requesting \$6,000
8 per year to conduct a \$30,000 fire protection study. In total these adjustments are
9 \$34,674 higher than they were in the case that was dismissed.

10

11 Another notable increase, \$27,824, is in the category of pensions and benefits.
12 This expense increase is claimed for health insurance, the addition of a pension
13 plan, and for employee education and training.

14

15 The differences between the instant rate request and the one that was dismissed
16 by the Commission is largely, if not entirely, related to the Company's additional
17 proforma adjustments.

18 **Q. This seems excessive. Have you evaluated any other information which**
19 **suggests that the Company's expense levels are extravagant?**

20 **A.** Yes, I have. I have made two comparisons of the Company's expense levels to
21 those of other Class B utilities in the State of Florida. The first comparison,
22 shown on schedule 3, compares the O&M expenses requested by the Company

1 to the O&M expenses allowed by the Commission in two recent Class B rate
2 cases--Jasmine Lakes Utilities Corporation (Jasmine Lakes) and Mad Hatter
3 Utility, Inc. (Mad Hatter). Since these two utilities are of a size similar to the
4 Company and the Commission just recently evaluated their operation and
5 maintenance expenses for reasonableness, a comparison of their expense levels
6 to that of SGU is informative. As shown on this schedule, even though SGU is
7 the smallest of the three utilities examined, its requested level of expenses is
8 considerably higher than Mad Hatter or Jasmine Lakes. For example, on a per-
9 ERC basis, the Commission allowed Jasmine Lakes to recover total O&M
10 expenses of \$209 per ERC. The Commission allowed Mad Hatter to recover \$162
11 per ERC. These compare to the Company's request of \$547 per ERC.

12
13 Most expenses requested by SGU are noticeably higher than the amounts allowed
14 for Jasmine Lakes and Mad Hatter. In particular, salaries and wages (\$125/ERC
15 versus \$21/ERC and \$46/ERC, respectively), salaries and wages - officers¹
16 (\$49/ERC versus \$15/ERC and \$16/ERC, respectively), pensions and benefits
17 (\$35/ERC versus \$9/ERC and \$2/ERC, respectively), contractual services -
18 accounting (\$23/ERC versus \$1/ERC and \$11/ERC, respectively), contractual
19 services - legal (\$24/ERC versus \$2/ERC and \$6/ERC, respectively), contractual
20 services - other (\$99/ERC versus \$14/ERC and \$10/ERC respectively), general

21 ¹The Company classified the management fee paid to Mr. Brown through Armada Bay Company as
22 contractual services - management. For comparative purposes, this expense was reclassified to salaries and
23 wages - officers.

1 liability insurance (\$17 versus \$2/ERC and \$2/ERC, respectively), property
2 insurance (\$16/ERC versus \$1/ERC and \$2/ERC, respectively), bad debt expense
3 (\$6/ERC versus \$1/ERC and \$2/ERC, respectively), and miscellaneous expenses
4 (\$25/ERC versus \$6/ERC and \$7/ERC, respectively), are all at least twice as
5 high per ERC as allowed by the Commission for these other two companies.

6 **Q. What is the next comparison that you made?**

7 A. The next comparison is shown on schedule 4. This analysis examines SGU's
8 requested level of O&M expenses compared to the O&M expenses incurred by
9 all other Class B utilities regulated by the Commission. Pages 1 through 3 of this
10 schedule show the dollar level of expenses incurred by each utility compared to
11 SGU. As depicted on this schedule, of the 19 utility companies shown, SGU
12 ranks first in total operation and maintenance expenses. In contrast, SGU ranks
13 only sixteenth in size--when the number of customers is used as the size variable.

14
15 Pages 4 through 6 of this schedule make the same comparison, but on a per-
16 customer basis. As can be seen from reviewing this schedule, SGU's requested
17 expenses are significantly higher than almost all of the Class B utilities regulated
18 by the Commission. The last column on page 6 of this schedule shows the
19 average for all of the Class B utilities listed. Again, SGU's requested expenses
20 are significantly higher than the expenses incurred by the average Class B utility.
21 In total, SGU has requested O&M expenses of \$541 per customer. This compares
22 to only \$183 per customer for the average Class B utility.

1 Expenses that are exceptionally high when compared to the average Class B water
2 utility include: salaries and wages at \$118 per customer versus \$41 per customer;
3 pensions and benefits at \$33 per customers versus \$6 per customer; contractual
4 services - accounting at \$22 per customer versus \$5 per customer; contractual
5 services - legal at \$23 per customer versus \$3 per customer; contractual services -
6 other at \$93 per customer versus \$17 per customer; general liability insurance
7 at \$16 per customer versus \$2 per customer; other insurance at \$15 per customer
8 versus \$2 per customer; bad debt expense at \$6 per customer versus \$2 per
9 customer and miscellaneous expenses at \$23 per customer versus \$8 per
10 customer.

11 **Q. Aren't there differences between the utilities that would explain these large**
12 **discrepancies?**

13 A. While there are certainly differences between the utilities that would explain
14 some variation between the SGU figures and the figures for the industry average,
15 such large discrepancies should be carefully examined by the Commission. The
16 sheer magnitude of the difference in cost per customer between the average Class
17 B water utility and St. George Island Utility Company, Ltd. should alarm the
18 Commission. The Commission should carefully and thoroughly evaluate those
19 expense categories which are significantly above the industry average, and
20 question the Company concerning these large discrepancies.

21 **Q. Let's turn to the next section of your testimony. Would you please discuss the**
22 **issue of affiliate transactions?**

1 A. Yes. Mr. Gene Brown, the manager and effective owner of St. George Island
2 Utility Company, Ltd., is associated with numerous (eight) other entities. Most,
3 if not all of these companies, operate out of the same administrative office as
4 SGU. These other companies currently appear to have no paid staff, other than
5 possibly Mr. Brown and his assistant Ms. Chase.

6
7 The two companies which appear to have the most significant operations, other
8 than SGU, are Armada Bay Company and Gene D. Brown, P.A. The former
9 company is a management services company, of which Mr. Brown is president,
10 secretary, director and management consultant. This company supposedly
11 manages SGU. During the test year, the Company is requesting that Armada Bay
12 Company be paid \$48,000 for the management services provided by Mr. Brown.

13
14 The second company is Mr. Brown's law practice of which Mr. Brown is
15 president, secretary, and director. The Company is requesting that Mr. Brown
16 be compensated for \$24,000 of non-rate case related legal services to be rendered
17 to the Company. In addition, the Company has requested recovery of \$20,000
18 associated with legal services provided by Mr. Brown in connection with
19 litigating the instant rate case.

20
21 The other companies which operate out of SGU's Tallahassee administrative
22 offices include the Tallahassee Yacht Club, Inc., which is apparently inactive;

1 Plantation Realty, Inc., a real estate marketing company, which is supposedly
2 inactive; G. Brown & Company, which is supposedly inactive; St. George's
3 Plantation, Inc., which is the corporate general partner of Leisure Properties,
4 Ltd.; Leisure Development, Inc., which is also a corporate general partner of
5 Leisure Properties, Ltd.; and Leisure Properties, Ltd., which is the general
6 partner of St. George Island Utility Company, Ltd. [Response to OPC's
7 Interrogatory 12.]

8 **Q. Are there any costs shared between SGU and these other companies?**

9 A. SGU has no formal mechanism to either allocate or assign costs between the
10 Utility and these other companies. The Company, however, did assign a few costs
11 to the nonutility entities. Specifically, SGU assumed that Ms. Chase, Mr.
12 Brown's assistant, worked 11.25 hours for Mr. Brown and his other affiliates,
13 and 33.75 hours for the Utility. Based upon this assumption, the Utility paid
14 \$24,000 of Ms. Chase's salary and Mr. Brown's law office paid \$8,240. In
15 addition to this assignment of costs, as a proforma adjustment, SGU assigned
16 50% of the cost of the electricity to SGU and 50% to the law office. This split
17 may be based upon the fact that SGU's office accounts for 750 square feet and
18 the law office, which is directly above SGU office, also accounts for 750 square
19 feet.

20

21 The Company also has assigned some of the lease cost of the office space to Mr.
22 Brown's other affiliates. Currently, the Utility's office is leased from Armada Bay

1 Company for \$750 a month. There is no written lease agreement between the
2 Utility and Armada Bay Company. Mr. Brown, apparently through Armada Bay
3 Company, has a lease/purchase agreement with Three Over, Inc. for both the
4 office space occupied by the Utility as well as Mr. Brown's law office and other
5 businesses. According to the lease agreement, the monthly rental rate is \$625.00,
6 plus \$150 per month for ad valorem taxes, and \$125 per month for association
7 dues. [Gene Brown Late Filed Deposition Exhibit 3.] Using these figures implies
8 that 83%² of the cost of the total office space is charged to SGU and 17% is
9 charged to Mr. Brown's other affiliates.

10 **Q. Do you believe these cost assignments are adequate?**

11 A. No, I do not. The administrative staff of SGU and Mr. Brown assist with the
12 management and operation of Mr. Brown's other companies. For example, the
13 Utility receptionist and other support staff answer the phone for SGU as well as
14 other companies. Likewise, his staff runs errands for Mr. Brown and his other
15 companies. They make copies and send and receive faxes for Mr. Brown's other
16 companies. Despite this, all salaries, wages, and benefits for SGU's
17 administrative support staff (except Ms. Chase) are paid by the Utility. There is
18 no allocation of costs between the Utility and Mr. Brown's affiliates.

19
20 These other companies also use the same telephone line, fax machine, copier, and

21 ²\$625.00 + \$150.00 + \$125.00 = \$900.00. \$750 / \$900 = 83%.
22

1 cellular phone as the Company. With the exception of the cellular phone, all are
2 used free of charge. It is interesting to note that the copier and fax machine were
3 previously owned by Armada Bay Company. They were sold to SGU in 1992--the
4 test year. Prior to the test year, the management fee of \$48,000 per year charged
5 to the Utility included the use of the copier, fax machine, and some billing
6 software. These assets are now owned by SGU, but there was no reduction in the
7 management fee charged to SGU.

8
9 SGU is also charged for 100% of storage space rented at Fort Knox, despite the
10 fact that there are records from Mr. Brown's other businesses stored at this
11 facility. [Mr. Brown's Deposition, pp. 43-44.]

12 **Q. Does the Company keep records to properly account for the sharing of**
13 **facilities and personnel?**

14 A. No. There is no maintenance of time records, copying logs, or fax logs which
15 would allow the Commission to objectively determine how much time is spent on
16 SGU operations versus the non-utility operations.

17 **Q. What adjustment do you recommend?**

18 A. I recommend that some of the common costs which are entirely charged to the
19 Utility be allocated to Mr. Brown's affiliates. The Commission has several
20 options in this regard, since SGU provided no documentation supporting its
21 implicit assertion that 100% of most costs should be charged to SGU. The
22 Commission for example, could use a 50%/50% sharing, as this is how the

1 Company chose to split its electric bill. The Commission could use a sharing of
2 75% to the utility/25% to other affiliates, as was done with Ms. Chase's salary.
3 While either of these allocations would be defensible, I believe that it would be
4 appropriate to allocate a larger share of costs to the utility operations.

5
6 My initial recommendation is to allocate 10% of most common costs to Mr.
7 Brown's affiliated companies. The two exceptions include the health and pension
8 benefits assigned to Ms. Chase which I have allocated 25% to Mr. Brown's
9 nonutility affiliates, and the office rent, which I have allocated 50% to Mr.
10 Brown's non-utility affiliates.

11
12 I have allocated 25% of Ms. Chase's health benefits to the nonaffiliates because
13 this is the same allocation percentage used by SGU to allocate Ms. Chase's
14 salary. Her health benefits should follow her salary.

15
16 I have allocated 50% of the office rent ($\$10,800 \times 50\% = \$5,400$) to Mr.
17 Brown's affiliates because approximately 50% of the office space is occupied by
18 Mr. Brown's law office which is upstairs from SGU's office. Although Ms.
19 Chase occupies a portion of the law office space, she does perform work for
20 SGU, I believe that there is space for Ms. Chase to function out of the downstairs
21 office. In addition, Mr. Brown's office upstairs is much nicer than the office

22

1 downstairs--with a fire place and dormer windows. Presumably, even through
2 both spaces have the same square footage, the upstairs office could rent for more
3 than the downstairs office. For these reasons, I believe that a 50% allocation of
4 the rent expense to Mr. Brown's affiliates is reasonable.

5
6 As shown on schedule 5, this results in allocating salaries and wages of \$3,214,
7 payroll taxes of \$332, pensions and benefits of \$1,260, office rent of \$3,717, and
8 miscellaneous expenses (telephone expenses, office supplies, etc.) of \$2,165 to
9 Mr. Brown's affiliates.

10
11 As shown on this schedule, I have also allocated 10% of the cost of office
12 furniture and equipment and the related accumulated depreciation and depreciation
13 expense to Mr. Brown's affiliates. It is appropriate to allocate a portion of this
14 plant and equipment to Mr. Brown's affiliates, because this equipment was used
15 by Mr. Brown's other businesses during the test year.

16 **Q. Let's turn to the third section of your testimony. What adjustments have you**
17 **made to the Company's test year revenues and expenses?**

18 A. I recommend several adjustments. Specifically, I recommend increasing test year
19 revenues and expenses to bring them up to a 1993 level, reducing salaries and
20 wages, reducing pensions and benefits, reducing contractual services, reducing
21 insurance expenses, reducing transportation expense, reducing bad debt expense,
22 reducing miscellaneous expense, reducing the Company's amortization proforma

1 adjustment, reducing expenses for unaccounted for water, reducing rate case
2 expense, reducing maintenance expense, and increasing taxes other than income
3 taxes.

4 **Q. Let's discuss these separately. Would you begin with your adjustment to test**
5 **year revenue and expenses for growth?**

6 A. Yes. Although SGU has requested the use of a 1992 historical test year, data for
7 1993 is available to use as a test year. The Commission has the option of
8 updating the test year to the more recent 1993 test year, or making adjustments
9 to the 1992 test year to make it more comparable to 1993. The Company's
10 requested test year level of expenses are designed to bring the Company's expense
11 level to a 1993 or 1994 level. Many of the Company's proforma adjustments are
12 for expenses that were not incurred during the historical 1992 test year, but for
13 expenses anticipated to be incurred during 1993 or in most instances in 1994. For
14 this reason, I believe the Commission should update the Company's test year
15 level of revenue, expenses and rate base to be more consistent with a 1993 test
16 year.

17

18 I chose to make adjustments to the 1992 test year for the 1993 growth in revenue,
19 expenses, and rate base, rather than completely revise the test year for two
20 reasons. First, this approach is easier to understand and compare to the
21 Company's request and avoids the problem of eliminating proforma adjustments
22 that were booked by the Company in 1993. For example, one of the Company's

1 proforma adjustments is to recognize \$6,276 of bad debt expense. The Company
2 booked this bad debt expense in 1993. Likewise, the Company is requesting a
3 proforma adjustment for contractual services - accounting. The Company booked
4 this expense in 1993. To avoid the confusion of ascertaining which expenses in
5 1993 were proforma adjustments in 1992, I believe that it would be easier to just
6 adjust the 1992 data to bring it up to a 1993 level.

7
8 Second, this approach avoids the problem of reviewing all of the 1993 expenses
9 for reasonableness. Both the Staff and I have focused on 1992 expenses because
10 this was the test year filed by the Company. The Staff, through its audit, has
11 recommended several adjustments to SGU's expenses. Likewise, I have proposed
12 adjustments to the Company's 1992 expenses. To be consistent with these
13 adjustments, it is necessary to use the 1992 level of expenses, but adjust them up
14 to a 1993 level.

15
16 Unless the Commission adopts the growth adjustments that I propose, it will set
17 the Company's revenue increase effectively using the 1992 levels of revenues and
18 investment with the 1993/94 level of expenses. If the Commission sets rates using
19 the method proposed by the Company, a mismatch will result which will
20 significantly overstate the Company's revenue requirement.

21 **Q. What is the first growth adjustment that you recommend?**

22 **A.** Page 1 of schedule 6 summarizes the adjustments that I propose. The first

1 adjustment is for revenue growth. The Company had considerable revenue growth
2 during 1993. As shown on page 2 of schedule 6, during 1993 the Company's
3 revenues increased by \$35,094. Accordingly, I have increased the Company's
4 1992 historical test year revenue by \$35,094. This adjustment will put the
5 Company's revenues at a level more consistent with the requested level of test
6 year expenses.

7 **Q. What adjustment did you make to expenses?**

8 A. I have made adjustments to four expenses to recognize the increase in customers
9 and usage between 1992 and 1993. All other expenses have been adjusted by the
10 Company to bring them to a 1993 or 1994 level. As such, it was not necessary
11 to adjust these other expenses. According to the Company's response to OPC's
12 interrogatory 22, the Company's customers increased by 5% from 1992 to 1993.
13 In addition, I took into consideration the 3% inflation rate that took place in
14 1993. Accordingly, I increased three 1992 expense accounts by 8% and one by
15 5%. Specifically, I increased purchased power by 5%³ which results in an
16 increase to expenses of \$908; I increased chemical expenses by 8% which results
17 in an increase to expenses of \$271; I increased materials and supplies by 8%
18 which results in an increase to expenses of \$1,246; and I increased miscellaneous
19 expenses by 8% which results in an increase to expenses of \$940. In total I
20 increased expenses by \$3,365. A summary of these adjustments is depicted on

21 ³Purchased power was increased by only 5% because the rates charged by electric utility which serves
22 the Company are largely fixed.

1 page 2 of schedule 6.

2

3 In addition to adjustments to operation and maintenance expenses, I also adjusted
4 the level of depreciation expense to be consistent with the level of 1993 plant that
5 I will discuss in the next section of my testimony. My adjustment to depreciation
6 expense recognizes the Company's average 1993 level of investment. My
7 adjustment also takes into consideration the correct depreciation rates as set forth
8 in Chapter 25-30.140 of the Commission's rules. The depreciation rates used by
9 the Company appear to be those of a Class C utility. The ones that I have used
10 are for a Class B utility. Since the latter depreciation rates are lower than the
11 former, my adjustment to depreciation expense is a reduction of \$9,801.

12 **Q. What adjustment have you made to the Company's salaries and wages?**

13 A. I have made two adjustments, as shown on Schedule 7. The first adjustment is to
14 reduce the overall level of salaries requested by the Company. The Company
15 gave its employees considerable pay increases effective the December 1, 1993,
16 and has requested recovery of this level of expense. As shown on schedule 7, the
17 Company increased the salary of Mr. Garrett by 39%, the salary of Mr. Shiver
18 by 5%, the salary of Ms. Hills by 7% and the salary of Ms. Chase by 51%. For
19 these four employees, the average increase in salaries is 26%. In my opinion,
20 these pay increases are excessive and unnecessary given today's economic
21 environment. In at least two recent water and wastewater cases, the Commission
22 voted to hold the level of pay increases to less than 5%. The adjustment that I

1 propose holds the level of pay increase for the Company's employees to 5%. As
2 shown on schedule 7, this adjustments reduces the Company's requested salary
3 expenses by \$15,586.

4
5 I also reduced the proposed salary for the second field assistant. Prior to the rate
6 request the Company was operating with 1.75 to 2 persons in the field--Mr.
7 Hank Garrett and Mr. Kenneth Shiver. The Company's requested level of salaries
8 includes the full-time employment of a second field assistant. Although the
9 Company claims that this person will become full-time, he only worked part-time
10 for the first part of 1994. It would seem reasonable to assume that this additional
11 field person might be needed on a full-time basis during the tourist season, but
12 that during the off-peak period he would not be needed at all, or on a much more
13 limited basis. Accordingly, I have included the salary of this field assistant, but
14 only on a part-time basis. This adjustment reduces the Company's test year
15 salaries by \$8,320. In total my adjustment to salaries and wages is \$23,906.

16 **Q. You have not proposed an adjustment to the \$48,000 management fee**
17 **charged for the management services provided by Mr. Brown. Would you**
18 **explain why?**

19 **A.** Yes. Later in my testimony I propose some adjustments which reduce the level
20 of compensation paid to Mr. Brown which effectively reduces this management
21 fee. If the Commission does not adopt these later adjustments, then it may be
22 necessary to directly adjust the management fee.

1 My adjustment to the Company's salaries and wages to some degree reduces the
2 overall level of salaries and wages, and can be viewed as having an impact on the
3 management fee paid to Armada Bay Company. In particular, Ms. Chase was
4 paid by Armada Bay Company in 1990, 1991, and 1992. The \$48,000
5 management fee charged during those years apparently included the salary paid
6 to Ms. Chase. During 1990, 1991, and 1992, Armada Bay Company paid Ms.
7 Chase \$7,408, \$30,160, and \$20,912, respectively. For purposes of determining
8 its test year level of salaries, the Company moved the payment of the major
9 portion of Ms. Chase's salary from Armada Bay Company to SGU.
10 Consequently, a portion of the percentage pay increase reflected on schedule 7
11 is associated with this shift payment of Ms. Chase's salary. Accordingly, a
12 portion of the salary disallowed by my 5% limitation on pay increases reflects this
13 shift in payment and can be viewed as lowering the compensation paid for
14 management services provided by both Mr. Brown and Ms. Chase.

15
16 If the Commission does not adopt my proposed salary adjustments and the
17 subsequent adjustments that I propose, then it should consider making an
18 adjustment to the management fee charged by Armada Bay Company. As I
19 understand the situation, the management fee is primarily paid to Mr. Brown for
20 his management services. In my opinion, there are several reasons why the
21 Commission can and should adjust this fee. First, until 1994 Mr. Brown did not
22 keep time records of the time that he spent working for Armada Bay Company

1 on tasks related to the Utility. Under the circumstances, this failure in and of
2 itself should be reason enough to disallow all management fees. Second, Mr.
3 Brown, through Armada Bay Company did not bill the Utility for services
4 rendered. Thus, there is no record of what services were performed. Third, a
5 portion of Mr. Brown's time is spent dealing with problems that were caused by
6 poor management practices in the past. In my opinion, customers should not be
7 charged for the time needed to solve problems that resulted from the Utility's
8 failures. These costs should be absorbed by the stockholders, not ratepayers.
9 Fourth, a review of Mr. Brown's time records indicates that he spends time on
10 efforts that are not directly related to SGU--like going to court on matters
11 dealing with his mother's estate. Fifth, if Mr. Brown's management fee is
12 combined with his legal fees and other benefits, his total compensation package
13 is excessive for a utility the size of St. George Island Utility Company, Ltd.

14 **Q. What is Mr. Brown's total compensation and what adjustment would you**
15 **propose if the Commission does not adopt your other recommendations?**

16 A. Mr. Brown's requested total compensation plus benefits is \$80,700, plus an
17 additional \$20,000 to process the instant rate case. Amortizing the latter expense
18 over 4 years indicates that Mr. Brown's total compensation including rate case
19 expense is \$85,700. In my opinion, this level of compensation is excessive for a
20 utility which has consistently been in violation of the Department of
21 Environmental Protection's regulations and the Commission's rules and
22 regulations, and for a water utility the size of SGU.

1 Given the obvious problems with this utility, its repeated violations, and its size,
2 I believe it would be reasonable for the Commission to reduce this total overall
3 level of compensation by 50%--or by \$42,850.

4 **Q. Would you discuss the Company's requested test year legal expenses?**

5 **A.** Yes. The Company is requesting a proforma adjustment to legal expenses of
6 \$24,000. According to the Company this adjustment is to compensate Mr. Brown
7 for anticipated legal services based upon a \$2,000 per month retainer. Mr. Brown
8 gave the following explanation about his requested legal expenses:

9 ...the utility has entered into a retainer agreement
10 with my professional association, Gene D. Brown,
11 P.A., under which the utility is obligated to pay
12 \$2,000 per month. This covers all legal services
13 that the utility may require, except extraordinary
14 matters such as this rate case and substantial
15 litigation that cannot be handled by me alone. As
16 part of this retainer agreement, I keep detailed time
17 records covering all legal matters which I handle
18 for the utility company. This time is billed to the
19 utility at \$150 per hour which is my standard hourly
20 rate, but I have agreed to waive all fees in excess of
21 \$24,000 per year. [Brown Testimony, pp. 31-2.]

22 Mr. Brown goes on to state that based upon a his time records, which he kept for

1 only four to six weeks in 1992, at \$150 an hour, his fees would substantially
2 exceed his retainer of \$24,000.

3 **Q. Has Mr. Brown always charged SGU a retainer of \$24,000?**

4 A. No. According to a retainer agreement between Gene D. Brown, P.A. and the
5 Company, prior to January 1, 1993, Mr. Brown charged SGU \$1,000 per month.
6 Effective January 1, 1993, Mr. Brown revised his retainer agreement and is now
7 charging SGU \$2,000 per month. (It is unclear when this retainer agreement was
8 revised, however, it was effective January 1, 1993.)

9 **Q. What is the basis of Mr. Brown's assertion that SGU requires legal services
10 that amount to \$24,000 annually?**

11 A. Apparently Mr. Brown's support for this lies with the time records he maintained
12 for a period of just four to six weeks during 1993. During the remainder of 1993
13 and all of 1992, Mr. Brown kept no records of the legal services that he provided
14 to the Company. Furthermore, Mr. Brown rendered no bills to the Company for
15 legal services rendered. Therefore, it is virtually impossible for this Commission
16 to evaluate the reasonableness of the Company's requested legal expenses of
17 \$24,000.

18

19 It is interesting to note that in his deposition, Mr. Brown indicated that while he
20 did not keep detailed time records for work performed for SGU, he did keep

21

22

1 detailed time records for his other clients. [Brown Deposition, p. 126.]

2 **Q. Have you reviewed the time records maintained by Mr. Brown in 1993 and**
3 **1994?**

4 A. Yes, I have. Several of the items which Mr. Brown included in his 1993 time
5 records did not necessarily require the expertise of a lawyer. As such it is
6 difficult to determine precisely how much time was really spent by Mr. Brown
7 acting as a lawyer on behalf of SGU. A review of the time records for 1994
8 indicate that, of the time claimed for working on utility legal matters, a great
9 percentage dealt with the attempted settlement of the DEP problems. As I stated
10 earlier, I do not believe that the costs associated with these problems should be
11 passed on to customers. The problems SGU encountered with respect to DEP
12 were largely the result of prior failures of the Utility's management. During
13 1994, Mr. Brown also spent time working on the Commission's show cause order
14 concerning the Company's failure to pay its regulatory assessment fees in a timely
15 manner. If the Utility had paid its regulatory assessment fees on time, this legal
16 service would not have been incurred. Again, I do not believe that the cost
17 associated with this service should be charged to ratepayers.

18

19 In my opinion, a review of the tasks performed by Mr. Brown in 1994 in his
20 capacity as a lawyer, do not support his request for a retainer of \$24,000 per year
21 for legal services.

22 **Q. What about the legal fees incurred during the test year by outside lawyers.**

1 **Do these support the Company's requested level of expenses?**

2 A. No, they do not. Most of the legal fees charged during the test year can be
3 considered nonrecurring or not appropriate for recovery from ratepayers. For
4 example, Mr. Brown hired outside counsel to represent the Company before the
5 Commission concerning the Commission revocation proceeding. If Mr. Brown
6 had better managed SGU during the late 1980's and early 1990's he might not
7 have been faced with the revocation hearing. In addition, it is unlikely that the
8 Company will continually be faced with such proceedings in the future. Mr.
9 Brown also hired outside counsel to represent his mother concerning a judgment
10 and second mortgage which was in jeopardy due to the Commission's actions to
11 remove Mr. Brown as manager of SGU. It is not clear why SGU should pay for
12 counsel to represent Mr. Brown's mother.

13 **Q. Do you believe that Mr. Brown's request for \$24,000 in legal fees is**
14 **reasonable?**

15 A. No, I do not. His hourly fees equate to an annual salary of \$312,000. Mr. Brown
16 should be viewed as in-house counsel, not outside, expert legal counsel, since he
17 has no experience representing any other utilities. This equivalent annual salary
18 is considerably more than the salary of in-house legal counsel of other much
19 larger water and wastewater utilities.

20

21 The expense the Company is requesting is also considerably more than what the
22 Commission allowed in the most recent Class B water and wastewater rate

1 proceeding. In that proceeding, the Commission found that legal expenses of
2 \$2,854 per year was a reasonable amount of recurring legal expenses. This
3 amount would cover the legal cost of a pass-through or index filing. [Order No.
4 920148, p. 17.]

5

6 Comparing the Company's request to the amount spent by other Class B water
7 utilities as depicted on page 6 of schedule 4 also indicates that the amount
8 requested by the Company is excessive. As shown, the average Class B utility
9 incurred legal expenses of \$3 per customer. This would equate to legal expenses
10 for SGU of \$3,141 per year.

11

12 I recommend that the Commission allow the Company to recover legal expenses
13 of \$3,000 annually. As shown on schedule 8, this reduces the Company's request
14 by \$21,000.

15 **Q. Would you please discuss the next adjustment you recommend?**

16 **A.** Yes. This adjustment is reflected on schedule 9 and deals with the Company's
17 request for \$34,356 for pensions and benefits. The Company's request is
18 comprised of \$25,200 for health benefits to employees, at \$300 per employee;
19 \$6,156 for a pension plan which is based upon a utility contribution of 5% of
20 salaries; and \$3,000 for educational expenses.

21

22

1 The Company's \$300 per employee for health benefit is a monthly amount paid
2 to employees for insurance. The Company does not require any written proof that
3 the employee actually used the money to pay for health insurance. The
4 Company's requested expense is based upon paying seven employees \$300 per
5 month. I have adjusted this amount to \$300 per month for four employees. These
6 four employees are the full-time salaried employees of the Company. In my
7 opinion, it is only necessary for the Company to provide health benefits to its
8 full-time salaried employees. It is unusual for a small business, such as this
9 utility, to pay health benefits to hourly and part-time employees. It is interesting
10 to note that the workpapers supporting the Company's adjustment only show
11 health insurance for five persons--Mr. Garrett, Ms. Hills, Mr. Shiver, Ms.
12 Chase, and Mr. Brown, not the seven shown on the Company's MFRs.

13
14 My adjustment removes the health benefits for SGU's office assistant who is an
15 hourly employee, although she allegedly works 40 hours a week, and the new
16 field assistant employed by the Company. The latter employee has only been
17 working on a part-time basis and as such I do not believe that it is necessary to
18 pay a health benefit to this individual. Finally, I have excluded the health benefit
19 paid to Mr. Brown. Since he is not an employee of SGU, the Company should
20 not pay for his health insurance. This expense is more properly paid by Armada
21 Bay Company.

22

1 With respect to the pension benefit, I have not allowed any of this expense. The
2 Company's pension plan, like many of its other proforma expenses, was not
3 effective until January 1, 1994. As I understand the plan, the Company has
4 committed to its employees (through a written memo) that it will contribute 5%
5 of their salaries to the Company's proposed pension plan. There is, however, no
6 legal or contractual obligation for the Company to make this contribution.
7 Furthermore, the Company has been operating for many years without offering
8 a pension plan to its employees. In addition, one of SGU's full-time employees
9 who is eligible for the pension plan had little knowledge of the plan. During her
10 deposition, Ms. Hills answered the following questions:

11 Q. Tell me if this is consistent with your
12 understanding. Mr. Brown has established some
13 sort of retirement account, or profit sharing
14 account, or something of that nature, are you aware
15 of that?

16 A. A little.

17 Q. I want you to tell me all that you know
18 about it and how it benefits you, if it does?

19 A. I know very little about it. I do know it
20 covers the employees and I didn't handle setting
21 that up.

22 Q. Some money is put aside for you?

1 A. I don't know, because I didn't handle that.
2
3 Q. Do you know whether it has begun yet or
4 not?
5 A. I don't know.
6 Q. How did you happen to know anything about
7 it, was it explained to you by anyone in the office
8 or did you happen to run across it?
9 A. Both.
10 Q. What was explained to you about it, what
11 were you told about it?
12 A. That we were getting one.
13 Q. But you don't know what the one was that
14 you were getting?
15 A. I saw paperwork.
16 Q. And was it explained to you that it would
17 continue for as long as you were an employee of
18 the company?
19 A. I don't know that.
20
21 Q. I'm trying to get something of a handle on
22 how much information was provided to you. Now,

1 to hear you say that you don't know leads me to
2 believe that you were not told, is that a fair
3 assumption?

4 A. Well --

5 Q. You weren't told a whole lot?

6 A. Right. [Deposition of Ann Hills, pp. 33-5.]

7

8 If this pension plan was such a valuable benefit to the Company's employees I
9 would have expected Ms. Hills to be much more familiar with the plan and its
10 benefits, since management would have thoroughly informed its employees of this
11 added benefit.

12

13 Like other expenses that I will discuss later in my testimony, I am concerned that
14 the Commission will allow recovery of this pension expense through customer
15 rates but the Company will never make the contributions. Under the
16 circumstances the contingent nature of this pension plan should concern the
17 Commission. Any contribution is totally within the control of Mr. Brown. If the
18 Commission finds it appropriate to grant the Company recovery of this expense,
19 then I recommend that it allow collection of this money only if the money is put
20 in an appropriate escrow account.

21

22 In summary, as depicted on schedule 9, my adjustments reduce the Company's

1 requested proforma expense for pensions and benefits by \$16,956.

2 **Q. What adjustment do you recommend for contractual services - accounting?**

3 A. As shown on schedule 10, I recommend that the Commission disallow \$6,000 for
4 expenses related to services allegedly to be provided by Ms. Withers, a tax
5 accountant.

6
7 Mr. Brown's sole justification for the \$6,000 expense for Ms. Withers' services
8 is that she provides tax advice and other complicated or more sophisticated
9 accounting matters. The \$6,000 expense is based upon a retainer of \$500 per
10 month which was "effective January 1, 1993." Although the retainer was effective
11 January 1, 1993, it is important to recognize that SGU did not pay or use Ms.
12 Withers in 1993--the Utility made its first payment to Ms. Withers on January 30,
13 1994, for \$3,000. This payment was for 1/2 of the 1993 retainer. Although the
14 retainer agreement was effective January 1, 1993, the agreement has no date,
15 and, in fact, was not prepared until February 1994. [Withers Deposition, p. 16.]

16
17 Despite the fact that Ms. Withers has been associated with Mr. Brown and his
18 companies since the 1970's the Company did not use her services during 1992 or
19 1993. [Gene Brown Late Filed Deposition Exhibit 6.] Ms. Withers testified in
20 her deposition that the 1993 retainer was used to pay old outstanding bills of the
21 Utility that had never been paid--she actually rendered no services to the Utility
22 in 1993. [Withers Deposition, p. 9.] This leads to the question of whether or not

1 on a going-forward basis there is a need for the \$6,000 retainer SGU alleges will
2 be paid to Ms. Withers. It also raises the question of whether or not the retainer
3 is designed to recover prior period expenses. Clearly, the Commission should not
4 allow SGU to raise rates for purposes of paying out-of-period expenses.

5
6 The Company, in my opinion, has not adequately supported its request for this
7 expenses. The circumstances of the retainer agreement and payment are
8 questionable and do not in my opinion support approval of this expense.
9 Accordingly, I recommend that the Commission disallow the \$6,000 expense
10 associated with the retainer for Ms. Withers.

11 **Q. What is the next adjustment that you examined?**

12 A. The next adjustment that I examined was the Company's request for \$85,091 for
13 contractual services - other. The Company's requested expenses are broken down
14 into four components: \$22,409 for a tank maintenance program; \$37,493 for a
15 pipe cleaning program; \$23,909 for testing services; and \$1,280 for employee
16 uniforms.

17
18 With the exception of testing expenses, none of these expenses or any portion
19 thereof, was incurred by the Company during the test year or 1993. These
20 requested expenses are all new expenses which the Company maintains must be
21 incurred to properly operate and maintain the system.

22

1 I have evaluated the adjustments proposed by the Company and I have made some
2 changes, based upon what I believe to be errors in the Company's calculations.

3
4 Concerning the tank maintenance program, the Company alleges that the DEP
5 mandated immediate arrangements for a ground storage maintenance program and
6 that ongoing maintenance is necessary to preserve the integrity of the elevated
7 tank. The need for maintenance of the ground storage tank was addressed by the
8 DEP in a letter to Mr. Brown dated November 30, 1993 and resulted from an
9 inspection which took place in August 1993. The DEP identified eleven
10 deficiencies with the Company's water system, one of those being the ground
11 storage tank. The DEP wrote:

12 Leaks are becoming more and more apparent in the
13 sides of the Ground Storage Reservoir, Rule 17-
14 555.350(1), FAC. Seek a suitable NSF approved
15 sealant. Submit a description of this sealant to the
16 Department for approval prior to its application.
17 This must be scheduled as soon as possible so that
18 drawing down the reservoir does not interfere with
19 peak water usage periods.

20 In support of its requested proforma adjustment the Company provided a bid

1 submitted by Eagle Tank Technology Corporation⁴.

2

3 It is clear from reviewing the bid that a portion of the cost attributed to the
4 proposed maintenance program is to rehabilitate the tank. Eagle Tank Technology
5 Corporation wrote: "As we discussed before, we have to return these tanks to a
6 certain order to place them on our maintenance program." My reading of this
7 sentence indicates that certain remedial work needs to be preformed so that Eagle
8 Tank Technology Corporation can properly maintain these tanks.

9

10 In my opinion, the cost of this remedial work should not be charged to customers.
11 The need for this extra maintenance was apparently caused by the poor
12 management and failure of the Company to properly maintain this equipment in
13 the past. I do not believe that the Company's customers should bear this cost.
14 Such costs are more properly charged to the Company's stockholders. According
15 to Eagle Tank Technology Corporation the cost of this remedial work is \$51,958,
16 or \$8,660 over a six year period. I have removed this cost from the Company's
17 requested proforma expense adjustment.

18

19 I also recommend that if the Commission approves this expense, which I do not
20 necessarily endorse, that it require the monies be collected and placed into an

21 ⁴The Company also apparently obtained another bid to maintain the elevated storage tank. This estimate
22 was \$45,000 and obtained from Jack Ethridge Tank Company. The Company apparently provided this bid
23 to the Staff, but it was not submitted as support for its proforma adjustment.

1 escrow account with an independent escrow agent. As the Company incurs the
2 expense, it can be paid from the escrow account. I am concerned that, as with
3 other expenses, the Commission may approve the requested expense, but SGU
4 will never incur and/or pay the expense.

5 **Q. Would you address the pipe cleaning program?**

6 A. Yes. According to the Company a "continuous distribution cleaning program is
7 necessary to maximize pressure, detect leaks and control turbidity." [Minimum
8 Filing Requirements, p. 36.] The Company accordingly increased test year
9 expenses by \$37,493. The Company's estimate is based upon a bid for these
10 services from Professional Piping Services, Inc. The Company apparently
11 obtained no other quotes for this service. My primary recommendation is to not
12 allow this expense because the Company only obtained one bid and has no signed
13 contract.

14
15 My alternative recommendation is to allow a portion of the expense. According
16 to the bid, over a 10-year period the cost of the pipe cleaning would amount to
17 \$350,880, or \$35,040 annually. To this amount the Company added \$2,453 to
18 clean the transmission line across the bridge. I have reduced this latter amount by
19 50%. Mr. Brown stated in his deposition that the Utility was attempting to obtain
20 a grant to pay for half of this expense.

21

22 Again, I recommend that if the Commission approves this expense, which I do

1 not necessarily endorse, it should only allow the Company to collect increased
2 rates for this expense if the money is put in an appropriate escrow account. Once
3 the services are rendered the fees can be paid from the escrow account.

4 **Q. Would you discuss the Company's \$23,909 adjustment for testing services?**

5 A. Yes. The Company stated that:

6 DEP requirements for increased and more reliable
7 water quality testing necessitated contracting for
8 testing services with a different laboratory and
9 arranging for pickup and transportation of samples.

10 [Ibid.]

11 A review of the bid submitted by Savannah Laboratories and the testing schedule
12 indicates that the Company included in its cost estimate as an annual expense
13 testing for six items that are only required triennially. As shown on schedule 11,
14 in my alternative recommendation I have reduced this estimate by \$1,870 to
15 account for this discrepancy. My primary recommendation is to disallow this
16 expense because the Company obtained only one quote for this service and has
17 no signed contract. Like the other expenses in this category, I recommend that
18 any increased rates associated with this expense be put in an appropriate escrow
19 account.

20 **Q. Your next adjustment is to reduce the Company's proforma insurance
21 expense by \$36,502. Would you address this adjustment?**

22 A. Yes. The Company submitted only one bid for general liability, workmen's

1 compensation, and property insurance. That bid totaled \$36,502 as depicted on
2 schedule 12. I recommend that the Commission disallow all of this proposed
3 expense because the Company only received one bid for this insurance, the
4 Company has not maintained this type of insurance in the past, and the Company
5 has failed to obtain this insurance since its historical test year.

6
7 If the Commission does approve this expense, I recommend that the money be
8 placed in an escrow account.

9 **Q. Would you discuss your adjustment to transportation expenses?**

10 A. Yes. My adjustment to this category of expense is shown on schedule 13.
11 According to the Company. SGU has no vehicles and the proforma expense
12 adjustment provides a weekly allowance for employees to perform required
13 duties.

14
15 The Company proposes to pay Mr. Garrett \$100 per week, or \$5,200 per year;
16 Ms. Hills \$25 per week, or \$1,300 per year; Mr. Shiver \$50 per week or \$2,600
17 per year; Ms. Chase \$50 per week, or \$2,600 per year, and Mr. Brown \$75 per
18 week, or \$3,900 per year. The Utility checked the reasonableness of its request
19 by examining the number of miles these expenses represented at 28 cents a mile.

20
21 As shown on schedule 13, in total, at 28 cents a mile SGU's request amounts to
22 55,714 miles per year. Using 20 cents a mile, which is what the State of Florida

1 allows for travel, equates to 78,000 miles per year: 26,000 for Mr. Garrett, 6,500
2 for Ms. Hills, 13,000 for Mr. Shiver, 13,000 for Ms. Chase, and 19,500 for Mr.
3 Brown. In my opinion, these mileage estimates appear unnecessarily high,
4 especially for the office workers. I find it hard to believe that these individuals
5 use their vehicles to this extent just to run errands to the bank, post office, PSC,
6 and to pick up materials and supplies. Mr. Brown maintains that he must
7 occasionally travel to the Island, meet with developers, lenders and regulators.

8 **Q. Has the Company provided any support for its estimate?**

9 A. No, it has not. Ms. Chase, Ms. Hills, and Mr. Brown all testified in their
10 depositions that they maintained no records of the miles that they drove on behalf
11 of SGU. The Company admitted that it has no records to document or substantiate
12 its mileage estimates. [Response to OPC's Request for Admissions No. 20.]

13 **Q. What do you recommend?**

14 A. I recommend that the Commission disallow the proposed mileage expenses for
15 Ms. Chase, Ms. Hills, and Mr. Brown. In my opinion, the Commission should
16 not endorse this kind of extravagant behavior. I see no reason why the employees
17 of SGU should not be required to keep detailed records of their mileage and
18 submit for reimbursement of actual miles driven on a weekly or monthly basis.
19 I do not believe that the Commission should grant this expense without any
20 documentation. To do so would be to endorse poor management practices.
21 Furthermore, with respect to Mr. Brown, since he is not an employee of SGU,
22 I see no need for the Utility to pay for his alleged travel expense. This expense

1 is more properly borne by Armada Bay Company from the \$48,000 it already
2 pays Mr. Brown.

3
4 Maintenance of travel records is the established norm in government and in the
5 private sector. Neither the employees nor the Commissioners themselves are
6 permitted reimbursement of travel expenses without justification. Any lesser
7 standard for the Company should be rejected.

8
9 It should also be noted that the travel payments to employees, taken with the total
10 lack of substantiating travel records, could render the payments to the employees
11 liable to federal income taxation. In addition, the payments could render the
12 Company liable for failure to withholding social security payments.

13
14 With respect to the employees stationed on the Island, I am also hesitant to allow
15 expenses for which the Company has no documentation or support. However, it
16 is easier to envision the need for a travel allowance for these employees. Since
17 the Company has failed to make any attempt to estimate this expense, I
18 recommend that the Commission only allow one-half of the Company's request.
19 This should induce the Company to properly document such expenses in the
20 future.

21

22

1 Accordingly, as shown on schedule 13, I have reduced the Company's adjustment
2 by \$11,700.

3 **Q. What adjustment do you recommend with respect to the Company's bad debt**
4 **expense?**

5 A. As shown on schedule 14, the Company has requested recovery of \$6,276 for bad
6 debt expense. The analysis performed by the Company to substantiate its bad debt
7 expense adjustment is confusing at best. I have included this support as pages 2
8 and 3 of schedule 14. A review of this document shows that the Company
9 apparently listed each customer that had a bad debt outstanding as of 12/31/92
10 and as of 12/31/93. A reasonable reading of this document is that between 1992
11 and 1993 the Company had no additional bad debt expense. This indicates that the
12 Company significantly overstated its annual recurring bad debt expense. In
13 addition, the bad debt analysis listed for 1992 appears to be a cumulative amount
14 and not just the bad debt expense that was incurred during the test year.

15
16 Mr. Brown, Ms. Chase, and Ms. Hills were questioned about this document
17 during their depositions. It became blatantly evident that the Utility could not
18 support the \$6,276 expense based upon the limited information provided in this
19 document. Mr. Brown indicated in his deposition that if this item became an issue
20 in the rate case, he would present additional information to support SGU's bad
21 debt request. During his deposition, Mr. Brown was asked if an analysis such as
22 the one presented on pages 2 and 3 of schedule had been performed for 1990 and

1 1991. His response was "no, not to my knowledge". [Brown Deposition, p. 125.]

2

3 In response to OPC's interrogatory 19, the Company responded that no bad debt
4 expense was separately booked in 1988, 1989, 1990, 1991, and 1993. The
5 Company, however, noted in its response that there was a bad debt expense in
6 every year.

7

8 While I do not disagree with the Company that it incurs bad debt expense, I do
9 not believe that its analysis supports a recurring bad debt expense of \$6,276.
10 Since the Company was unable to adequately explain what this number represents,
11 the Commission, in my opinion, would be justified in disallowing the entire
12 expense. Nevertheless, I recommend that the Commission allow the Company
13 one-fourth of the amount requested. I chose one-fourth because the resulting bad
14 debt expense equals an amount similar to the average bad debt expense for Class
15 B water utilities. As shown on schedule 14, I have reduced the Company's
16 request by \$4,707.

17 **Q. What is your adjustment to miscellaneous expenses?**

18 A. As shown on schedule 15, I have reduced the Company's requested miscellaneous
19 expenses by \$6,831. My adjustment is comprised of three components. First, I
20 reduced the Company's request for a cellular phone for Mr. Brown. I do not
21 believe that this expense is necessary for Mr. Brown to function in a effective and

22

1 efficient manner. Furthermore, since Mr. Brown is not employed by SGU, this
2 expense is more properly paid for by Armada Bay Company, not SGU. In
3 addition, the Company has no basis for assuming that Mr. Brown's use of the
4 cellular phone is devoted 50% to SGU and 50% to other activities. Accordingly,
5 I recommend that the Commission disallow \$1,200 of miscellaneous expenses
6 associated with Mr. Brown's cellular phone.

7
8 Second, I reduced the Company's expense to recover increased corporate filing
9 fees associated with Leisure Properties, Ltd. According to the Company, in the
10 past, it had not charged the cost of filing the Leisure Properties, Ltd., annual
11 report to SGU. Apparently, the Company now believes these fees should be
12 charged to SGU. I disagree. I do not see the efficiency of the organization as it
13 is now structured. I see no advantage to the ratepayers of having Leisure
14 Properties, Ltd., be the general partner of St. George Island Utility Company,
15 Ltd. Since the Company has not been able to attribute any benefit to the
16 customers of SGU for the current organizational structure which results in added
17 costs, I do not believe that the additional cost of filing the annual report should
18 be passed onto ratepayers. Accordingly, I have reduced the Company's
19 adjustment by \$576.

20
21 Third, I have removed from the test year the nonutility, nonrecurring, and not
22 supported miscellaneous expenses. These expenses are set forth in the Staff's

1 audit at page 46. An example of the expenses included in this category includes,
2 bridge tolls which no longer exist, a newspaper advertisement for a piece of
3 property (nonutility), repair of Marilyn D. Brown's automobile (nonutility), and
4 Federal Express charges that were unsupported. As shown on schedule 15, I have
5 reduced the Company's expense expenses by \$3,544.

6
7 Fourth, I have reduced miscellaneous expenses by \$1,511 for non-recurring and
8 non-utility telephone charges. In the Company's response to OPC's POD No. 17
9 in Docket No. 930770-WU, the Company provided the telephone bills for which
10 it is requesting recovery in this proceeding. Of those bills, \$918 was for the law
11 office's telephone line. These expenses should not be recovered from ratepayers.
12 In addition, the Company incurred \$741 for non-recurring installation charges.
13 These expenses should be amortized over five-years. Accordingly, I have reduced
14 the Company's expenses by \$1,511.

15 **Q. What is the next group of adjustments that you propose?**

16 A. As shown on schedule 16, I recommend that the Commission reduce the
17 Company's request to recover \$41,452 in deferred expenses by \$27,745.

18
19 The Company's amortization adjustment is comprised of five components:
20 \$15,852 for a system analysis, \$6,310 for a system map, \$4,290 for an aerator
21 analysis, \$9,000 for a hydrological study, and \$6,000 for a fire protection study.

22 **Q. Would you address the system analysis request?**

1 A. Certainly. According to the Company the DEP required the Company to perform
2 a system analysis in 1992. The Company now claims that the DEP is again
3 requiring it to prepare a complete revision in 1994. Based upon this experience,
4 the Utility claims that the initial cost of the first system analysis should be
5 amortized over two years.

6 **Q. Do you agree with the Company?**

7 A. No, I do not. The Company claims that DEP is requiring a complete, revised
8 system analysis in 1994. As such the Company anticipates preparing a system
9 analysis every 2 years. I believe that it is premature to assume that the DEP will
10 require a complete system analysis every two years. In addition, I question why
11 a revision to the existing system analysis should cost as much as the initial
12 analysis. I would expect a revised system analysis to cost considerably less than
13 the initial system analysis due to the fact that much of the data and analysis has
14 already been gathered and performed by the engineer. The Company has obtained
15 no bids for the performance of this work. [Response to OPC's Document
16 Request 56.]

17
18 In response to the Staff's Audit Request No. 20, the Company produced the DEP
19 correspondence which it asserts requires it to update the 1992 system analysis.
20 My reading of this correspondence indicates that some revision to the system
21 analysis has been requested by the DEP, but not an entirely revised analysis.

22

1 In my opinion, the Company has failed to support this proposed adjustment or the
2 amortization period. Accordingly, I recommend that the Commission require the
3 Company to amortize this expense over a five-year period not two-years. I believe
4 that under the circumstances, the five-year amortization, which is the
5 Commission's rule, is more reasonable than the two-year amortization period
6 requested by the Company. I also recommend that if the Commission allows this
7 expense, it should be collected and deposited into an appropriate escrow account
8 for distribution when the services are rendered.

9 **Q. Would you please discuss your recommendation concerning the aerator**
10 **analysis?**

11 **A.** Yes. In 1992 the DEP required the Company to perform an aerator analysis. The
12 Company claims that the DEP is now requiring a complete revision in 1994.

13
14 My interpretation of the DEP requirements is somewhat different than the
15 Company's. Specifically, on November 30, 1993, the DEP wrote Mr. Brown and
16 indicated that there was a deficiency with respect to the report on hydrogen
17 sulfide removal.

18 The Report on Hydrogen Sulfide Removal required
19 by the Partial Final Judgement has been reviewed.

20 The conclusions presented in the report are not
21 adequately documented and cannot at this time be
22 substantiated.

1 On December 23, 1993, Mr. Brown responded to this part of the DEP's letter.
2 ...[W]e are negotiating with our engineers,
3 Baskerville-Donovan, regarding a number of items,
4 including the need to revise, supplement, and
5 finalize the hydrogen sulfide report.

6 My reading of this correspondence indicates that there were deficiencies with the
7 original report that need to be rectified. In my opinion, the Company's ratepayers
8 should not be required to bear the additional cost to correct these deficiencies.
9 Furthermore, I do not believe that the circumstances support a two year
10 amortization for the cost of the original study. If the study had been conducted
11 properly in the first place, it appears that there would be no need to conduct a
12 revised study. Accordingly, I recommend that the Commission amortize the cost
13 of the initial study over five years, not two years.

14 **Q. What is your recommendation with respect to the hydrological study?**

15 **A.** In Production of Document Request No. 58, the Office of the Public Counsel
16 requested that the Company provide all quotes obtained from engineers to
17 perform this study. The Company responded that it had no written quotes. Since
18 the Company was unable to produce any documents to support this cost estimate,
19 I recommend that the Commission not allow the expense. I do not believe that it
20 would be a good policy for the Commission to accept unsupported and
21 undocumented proforma adjustments. I have accordingly reduced the Company's
22 request by \$9,000. This is one-fifth of the requested cost of the hydrology study.

1 If the Commission does approve this expense, I recommend that it be subjected
2 to the escrow requirements that I have mentioned earlier.

3 **Q. What is your recommendation with respect to the fire protection study?**

4 A. In Production of Document Request No. 60, the Office of the Public Counsel
5 asked the Company to provide all documents substantiating the \$30,000 cost of
6 the fire protection study. The Company's response was that it had no written
7 estimates. Since the Company was unable to produce any documents to support
8 this cost estimate, I recommend that the Commission disallow the expense.
9 Again, I do not believe that the Commission should accept unsupported and
10 undocumented proforma adjustments. I have accordingly reduced the Company's
11 request by \$6,000. If the Commission does approve this expense, I recommend
12 that it be subjected to the escrow requirements that I have mentioned earlier.

13 **Q. Would you discuss your adjustment for unaccounted for water?**

14 A. Yes. According to the Company's Minimum Filing Requirements the Company
15 experienced 15.27% of unaccounted for water during 1992. It is my
16 understanding that the Commission usually finds that unaccounted for water in
17 excess of 10% as unacceptable. In response to the Staff's interrogatory 7, the
18 Company gave the following reasons for exceeding 10% unaccounted for water:

19 The utility's unaccounted for water is not greater
20 than 10%. According to a recent independent study
21 and analysis by the Florida Rural Water
22 Association, the utility's lost water figure is

1 approximately 2% after full implementation of the
2 leak detection program implement jointly by Florida
3 Rural Water Association and the utility. [Response
4 to Staff Interrogatory 7.]

5 Since the Company has reduced its unaccounted for water to just 2% I believe
6 that for consistency the Commission should reduce chemical and purchased power
7 expenses to reflect the lower amount of water that must be pumped or treated on
8 a going-forward basis. In addition, during the test year the Company had three
9 tank overflows which caused the loss of 435,000 gallons. According to the
10 Company the problems that caused these tank overflows have been corrected and
11 are not expected to occur in the future. [Response to Staff Interrogatories 10 and
12 11.] Since the Company knew about these leaks they were not recorded as
13 unaccounted for water. Accordingly, I believe that chemical and purchased power
14 expenses should be adjusted to remove the costs associated with this lost water.

15
16 Schedule 17 of my exhibit shows the calculations for adjusting chemical and
17 purchased power expenses for unaccounted for water in excess of 2% and for the
18 435,000 gallons of water lost due to tank overflows. As depicted on this schedule,
19 I recommend that chemical expenses be reduced by \$538 and that purchased
20 power expenses be reduced by \$2,888.

21 **Q. Would you explain your adjustment to rate case expense?**

22 **A.** Yes. As shown on schedule 18, the Company is requesting recovery of \$105,039

1 in rate case expenses. The Company's request includes the cost of the case which
2 was dismissed, the cost of using a consultant to prepare MFRs which were
3 subsequently not used, as well as the estimated cost to litigate the instant case. I
4 recommend for several reasons that the Commission only allow the Company to
5 recover \$49,238 of its requested rate case expense.

6
7 First, I have reduced the Company's request to recover \$50,000 for fees for
8 Management & Regulatory Consultants, Inc. to \$25,000. In the Company's case
9 that was dismissed the Company indicated that the fees for this consultant would
10 be \$25,000. The Company described the services as follows:

11 Prepare Final MFR - Rate Base, Net Operating
12 Income, Cost of Capital, Rate Engineering (part);
13 coordinate filing; direct & rebuttal testimony;
14 respond to discovery; assist with and attend pre -
15 and post - hearing proceedings and filing.
16 [Minimum Filing Requirements, Docket No.
17 930770-WU, p. 39.]

18 For the instant case the Company is requesting \$50,000. The services are
19 described as follows. For \$30,000 this consultant's services were described as:

20 Prepare Final MFR - Rate Base, Net Operating
21 Income, Cost of Capital, Rate, Engineering (part);
22 coordinate filing, prepare direct testimony.

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[Minimum Filing Requirements, p. 48.]

For an additional \$20,000 this consultant's services were described as:

Prepare rebuttal testimony; respond to staff &
intervenor discovery; assist with and attend pre -
and post - hearing proceedings and filing; testify at
hearing. [Ibid.]

Comparing the descriptions between the dismissed case and the instant case indicates that the services to be provided are the same, the fee just increased by \$25,000. The Company has not explained why it was necessary or prudent for this consultant's fees to double. Undoubtedly, some of the additional cost is related to the fact that after the first case was dismissed the Company substantially revised its MFRs and refiled testimony. Despite Public Counsel's request, the Company has failed to provide information concerning what portion of the cost of the dismissed case will be removed from the Company's request for rate case expense. In response to OPC's interrogatory 13, the Company indicated that it will

...seek recovery for part of the expenses incurred in connection with the prior rate case, but only to the extent that such expenses reduced the expenditures that would otherwise have to have been made in connection with the instant proceeding. [Response to OPC Interrogatory 13.]

1 In response to this same interrogatory the Company indicated that rate case
2 expense through December 2, 1992 for Management & Regulatory Consultants
3 was \$21,114. This would be the portion of Management & Regulatory
4 Consultant's fee expended on the dismissed case.

5 **Q. Why have you reduced rate case expense by \$25,000 when only \$21,114 was**
6 **expended on the dismissed case?**

7 A. My recommendation is only partly based on my belief that the Commission
8 should not allow the Company to recover the rate case expense associated with
9 the dismissed case. I also believe that the Commission should hold the Company
10 to its first estimate of the rate case expense for this consultant. This apparently
11 was the Company's or its consultant's best estimate of what it would cost to
12 litigate a rate case before the Commission. Absent the cost of the dismissed case,
13 there have been no unusual circumstances that would warrant a doubling of rate
14 case. I believe that the Company should have obtained an estimate and firm bid
15 for the services to be rendered by its consultants. The Company, however, failed
16 to obtain such information. [Response to OPC's Document Request 23.] Failure
17 to obtain firm bids and estimates, barring unusual events, does nothing to
18 encourage consultants to hold down their fees. If it is understood in the industry
19 that consultants routinely recover all expenses and fees billed to a utility, there
20 is no incentive for the Company to negotiate tough contracts with its consultants.

21
22 In my opinion, the Commission should hold the Company to its original \$25,000

1 estimate of the rate case expense for Management & Regulatory Consultants. The
2 Company and its consultant should have known the approximate cost of litigating
3 a rate case for this utility. The Company has failed to demonstrate that doubling
4 the fees for this consultant is reasonable. The Company did not obtain an estimate
5 or bid from this consultant for services to be performed. In addition, the fees
6 requested for this consultant include expenses associated with a rate case that was
7 dismissed. For these reasons, I recommend that the Commission disallow \$25,000
8 of rate case expense related to the estimate for Management & Regulatory
9 Consultants.

10 **Q. What is your recommendation with respect to the fees for Rhema Business**
11 **Service Associates (Rhema)?**

12 A. As depicted on schedule 18, I recommend that the Commission only allow
13 recovery of \$3,601 of the \$14,402 requested. Rhema was originally hired by the
14 Company to prepare the Company's MFRs and to provide expert accounting
15 testimony. At some point, Mr. Brown changed his mind and hired Management
16 & Regulatory Consultants. The work performed by Rhema was primarily for the
17 preparation of draft MFRs for a test year period ending September 30, 1992.
18 These MFRs were apparently provided to Management & Regulatory Consultants
19 for their use in putting together the MFRs for the test year ending December 31,
20 1992.

21

22 According to Mr. Seidman, president of Management & Regulatory Consultants,

1 he did use the information provided in the MFRs prepared by Rhema.
2 Nevertheless, there was clearly considerable information that would not have been
3 usable due to the different test periods involved. In addition, Mr. Seidman
4 testified at his deposition that although he was provided with an electronic version
5 of the MFRs prepared by Rhema, he did not use it because he preferred to use
6 his own format and style. Accordingly, all data had to be reentered into a
7 spreadsheet program.

8
9 In my opinion, much of the work that was prepared by Rhema was duplicated by
10 Management & Regulatory Consultants. These duplicative costs should not be
11 borne by ratepayers. I have estimated that three-fourths of the fees charged by
12 Rhema were duplicated by costs incurred by Management & Regulatory
13 Consultants. Accordingly, I recommend that the Commission disallow \$10,801
14 of the fees and expenses requested for Rhema Business Service Associates.

15 **Q. What do you recommend with respect to the \$20,000 of legal fees requested**
16 **for the services provided by Mr. Brown?**

17 **A.** I recommend that the Commission disallow these fees in total. Through
18 November 10, 1993, Mr. Brown billed SGU \$10,860 associated with the
19 dismissed rate case. Clearly this expense should not be passed onto ratepayers.
20 In addition, a review of the description of services rendered indicates that it was
21 not necessary for an attorney to render them. They could have easily have been
22 provided by Mr. Brown in his management capacity, which would have caused

1 no incremental rate case expense to be charged to customers. The following is a
2 sample of work descriptions which Mr. Brown billed as legal at \$150/hour, rather
3 than management time. In my opinion these services did not require the expertise
4 and additional expense of a lawyer.

5

6 Review of old files from '89 rate case -- research --
7 work with Frank Seidman Re: MFRs;

8

9 Work with Staff & Frank S. Re: MFRs --
10 work on prefiled testimony;

11

12 Work on rate case;

13

14 Work with Frank S. and Staff Re: MFRs -- work
15 on prefiled testimony;

16

17 Work on MFRs with Frank S. and Staff;

18

19 Final review & filing of rate case -- including
20 compilation of maps, exhibit, etc.

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22 Meeting with PSC auditor re: rate case. [Response

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to OPC Document Request 26.]

Q. So far your reasoning accounts for \$10,000 of the \$20,000 requested. Why do you believe the remaining \$10,000 should not be allowed?

A. Generally, with small Class B utilities such as St. George Island, the manager or owner brings some expertise, other than management, to SGU which serves to reduce costs relative to what it would cost if this skill were not available through the manager/owner. For example, the owner might be a licensed plant operator in which case he or she would not need to hire an operator for the Utility. Or, the manager might work in the office and in the field answering customer's questions, reading meters, operating the plant, and performing minor repairs.

In the case of St. George Island Utility Company, Ltd., Mr. Brown's non-management skill that can be used to reduce costs to SGU is his legal expertise. In my opinion, compensation for this expertise should be included in the overall compensation package provided to the owner/manager. Accordingly, I recommend that the Commission not allow any additional rate case expense for the legal services provided by Mr. Brown, but include this in his total compensation package, which under my recommendation amounts to approximately \$48,000 per year.

In summary, as shown on schedule 18, I recommend that the Commission reduce

1 the Company's requested rate case expense by \$55,801.

2

3 I would also note that other adjustments to the Company's requested rate case
4 expense may be necessary as the Company submits additional invoices to support
5 its request.

6 **Q. Would you discuss your next adjustment?**

7 A. Yes. As shown on schedule 19, I recommend that the Company reduce test year
8 expenses by \$2,665 incurred by the Company to repair an old generator. [Brown,
9 Late Filed Deposition Exhibit 4.] The Company's test year rate base includes the
10 cost of a new generator. During the test year the Company incurred \$2,665 to
11 repair its old generator. With the new generator, this expense should not be
12 recurring.

13 **Q. Would you address your adjustment to taxes other than income taxes?**

14 A. Yes. My adjustment to taxes other than income taxes takes into consideration my
15 adjustment to salaries and wages and my adjustment to test year revenue. I
16 reduced payroll taxes by \$2,470 and I increased regulatory assessment fees by
17 \$2,872. As shown on schedule 20, the combined effect of these two adjustments
18 is to increase taxes by \$403.

19 **Q. Let's turn to the fourth section of your testimony. What rate base issues are
20 you addressing?**

21 A. I will address three issues: the original cost of the St. George Island Utility
22 Company's water system, the rate base effect of my proposed growth adjustment,

1 and an adjustment to Contributions in Aid of Construction (CIAC).

2 Q. The first issue you mentioned concerned the original cost of the Company's
3 water plant. Wasn't this issue decided by the Commission in the Company's
4 last case, Docket No. 871177-WU?

5 A. The Commission had to reach some decision in the last case in order to set the
6 Company's rate base. However, in that case, the Commission expressly indicated
7 that if other evidence was presented which contradicted its decision, it would
8 readdress the issue of the original cost of the Company's water assets.

9
10 In Docket No. 871177-WU, the Commission established the value of the
11 Company's rate base using an original cost study. The Commission did not favor
12 use of the original cost study, but felt that using it was better than allowing a rate
13 base of zero.

14
15 In its decision the Commission noted the appropriate method to determine the
16 original cost of a system and why this method could not be used for St. George
17 Island Utility Company, Ltd.

18 The appropriate method to determine the original
19 cost of a system is by analysis of the utility's books
20 and records and the original source documentation
21 in support thereof. During the audit of SGI, the
22 Staff auditor was informed that the original records

1 had been lost, thrown away or had simply
2 disappeared. Since SGI could not locate its books
3 and records and supporting documentation, it
4 submitted instead an original cost study in support
5 of its proposed rate base. [Order No. 21122, p. 6.]

6 In its order the Commission explained that it historically has been cautious in
7 using an original cost study to determine the amount of plant investment. Such
8 situations have usually applied to very small systems where extreme
9 circumstances existed. The Commission elaborated on its dissatisfaction with
10 SGU:

11 Given the size of SGI, the fact that its owner is also
12 a developer and that it has consistently remained
13 under the same ownership, its failure to maintain
14 original source documentation for review by this
15 Commission or any other governmental agency is
16 unacceptable. We cannot help but wonder how the
17 records were available for independent accounting
18 firms to perform annual audits and consistently
19 issue unqualified opinions, when the same records
20 are unavailable for this proceeding. [Ibid., p. 7.]

21 Despite its warnings and concerns the Commission used the Company's original
22 cost study to determine the level of investment to include in rate base in the last

1 case. Nevertheless, the Commission warned that this finding did not prevent it
2 from using other evidence in the future to set the level of investment.

3 ... although we will use SGI's original cost study,
4 we stress that our action should not be construed to
5 imply that a utility can justify investment
6 unsupported by original source documentation with
7 an original cost study. Further, if at any time in the
8 future, evidence is produced which reflects that our
9 analysis of SGI's investment is incorrect, we may,
10 of course, readdress the issue of SGI's level of
11 investment. [Ibid.]

12
13 The Commission's order in the last case expressly indicated that the issue of the
14 original cost of the water system was not foreclosed from adjustment in future
15 rate cases.

16
17 Even with the plain language in the Commission's order, the Company has
18 consistently objected to the Citizens' document requests and interrogatories
19 pertaining to information that might prove fruitful in evaluating this issue.

20 **Q. Has the Company located the documents needed to determine the level of**
21 **plant investment using original source documentation?**

22 **A. No.** In fact, in response to the Citizens' Request for Admissions the Company

1 admitted that the Utility does not have the records to establish the total original
2 cost of the Utility's investment in the water system at the time it was devoted to
3 public service. [Response to OPC's Request for Admissions, Item 1.]

4 **Q. Do you believe that some adjustment is necessary relative to what the**
5 **Commission allowed in the last case?**

6 A. Yes. I have reviewed several documents which indicate that the cost of the water
7 system was significantly less than the amount claimed by the Company and less
8 than the amount approved by the Commission in the Company's last rate case.

9 **Q. Would you please give some background information about how the water**
10 **system was purchased**

11 A. Yes. Leisure Properties, Ltd., a major developer on the island, built the water
12 system from 1976 to 1978. In 1979, Mr. Brown and Mr. Stocks created St.
13 George Island Utility Company, Ltd. for purposes of owning and operating the
14 water utility. In 1979, Leisure Properties, Ltd., sold the water system to St.
15 George Island Utility Company, Ltd. for \$3,000,000.

16
17 For tax and book purposes SGU recorded the value of its assets at \$3,000,000.
18 This sale apparently caused the IRS to audit the tax returns for SGU and Leisure
19 Properties for the tax years 1979 through 1982. The IRS prepared an appraisal
20 of the water system as of 12/31/79 and concluded that its value was only
21 \$1,500,000 compared to the Company's reported value of \$3,000,000. Prior to
22 trial the Company and the IRS reached a settlement setting the tax basis of SGU

1 assets at \$2,212,482 as of December 31, 1979.

2 **Q. What did the Company claim in the last case and what did the Commission**
3 **allow?**

4 A. In the last case the Company claimed that the current replacement cost of SGU
5 plant was \$3,109,689 and that the original cost was \$2,551,010. The
6 Commission, after making several adjustments to the Company's original cost
7 study, determined that the level of investment that should be allowed in rate base
8 for the year ending December 31, 1987 was \$2,167,138.

9 **Q. What information have you examined which indicates that the plant in**
10 **service allowed in the last case was too high?**

11 A. Leisure Properties, Ltd. financial statements for the year ending 1979, as well as
12 other years, set forth the investment in the water system at an amount much lower
13 than the amounts claimed by SGU. Leisure Properties, Ltd.'s 1979 financial
14 statements show that as of December 1979 the investment in the water system was
15 only \$830,145 with accumulated depreciation of \$22,660. These figures were
16 also substantiated by Ms. Barbara Withers who was the controller for Leisure
17 Properties from 1976 to 1986. In an affidavit filed by Ms. Withers in Docket No.
18 871177-WU, she indicated that the \$807,485 figure on Leisure Properties'
19 balance sheet was the "investment in the water system and represent[ed] the
20 financial cost basis Leisure had in the water system as 12/31/79 according to its
21 audited financial statements." [Barbara Withers, Affidavit, filed March 16, 1989,
22 Docket No. 871177-WU.]

1 In addition to this information, the Company apparently solicited an engineering
2 appraisal of the water system in July 1978. I have attached this study as schedule
3 22 to my exhibit. According to Mr. Brown, this appraisal was prepared for
4 purposes of selling the water system. The engineering study showed that the
5 estimated replacement cost of the water system as of July 1978 was \$908,000.

6 This cost estimate was broken down as follows:

7		
8	Production Well	\$ 20,000
9		
10	Raw Water Transmission Line	348,794
11		
12	Water Storage Reservoir,	
13	Pumping Station and Office	202,177
14		
15	Water Distribution System	232,712
16		
17	Engineering Service	58,065
18		
19	Owner Administration	<u>46,200</u>
20		
21	Replacement Cost	\$908,000
22		

23 **Q. The estimate provided in the engineering study is higher than what was on**
24 **Leisure Properties' books as of December 1979. Can you explain this**
25 **difference?**

26 **A.** Yes, in part. First, the engineering study was an estimate, in which case, one
27 would not expect it to match precisely with the cost data on the books of Leisure
28 Properties. Second, the engineering study estimated the replacement cost of the
29 plant, not the original cost of the plant. Replacement cost is generally higher than

1 original cost due to inflation and other factors. If the figures in the engineering
2 study are adjusted to remove the impact of inflation and other factors which
3 caused the cost of the plant to increase from the time the facilities were installed
4 until July 1978, a lower original cost estimate is obtained.

5
6 Specifically, the engineering study used the change in the Engineering New
7 Record Construction Cost Index to adjust the 1976 contract amounts to a June
8 1978 level. If this adjustment is removed, the estimated original cost of the
9 system is \$851,180. This figure is remarkably close to the original cost data
10 contained in Leisure Properties financial statements. In my opinion, it
11 corroborates the original cost information shown in Leisure Properties' financial
12 statements.

13 **Q. How can the Commission use this information to adjust the Company's**
14 **investment in the instant case?**

15 **A.** Schedule 21 of my exhibit sets forth the calculations to adjust the Company's rate
16 base in the instant proceeding. The level of investment the Company is requesting
17 in this case, used as a base, the December 1987 amount allowed by the
18 Commission in Docket No. 871177-WU. Thus, using the plant investment data
19 as of 1979 and bringing it up to a December 1987 level, will result in an
20 adjustment needed in the instant case.

21

22 Specifically, as shown on schedule 21, I started with the book cost of the system

1 as of December 31, 1979 as depicted on Leisure Properties' financial statements.
2 As shown, the booked cost was \$830,145. To this amount I made additions to
3 plant as set forth by Ms. Withers in her affidavit filed in the last case. As shown
4 on this schedule, Ms. Withers indicated that between year-end 1979 and 1987
5 SGU added \$543,705⁵ of new plant.

6
7 I performed the same calculations for the year ending 1986 so that I could arrive
8 at an average plant in service figure which could be readily compared to the
9 analogous figures allowed by the Commission in Order No. 21122.

10
11 As shown on schedule 21, the original cost information provided in the financial
12 statements of Leisure Properties and in the affidavit of Ms. Withers indicate that
13 the average original cost of the plant in 1987 was \$1,371,582. The average
14 balance of accumulated depreciation was \$259,501. The average net book value
15 of the Utility's plant in service as of December 1987 was \$1,112,081. These
16 compare to the Commission's allowed amounts of: \$2,167,138 for plant in
17 service, \$410,019 for accumulated depreciation, and \$1,757,119 for net plant.

18
19 As shown on this schedule, the Commission needs to reduce the Company's plant

20 ⁵Ms. Withers' affidavit shows additions to plant from January 1, 1979 to December 1987 to be
21 \$612,948. Exhibit 1 to her affidavit shows additions to plant from December 1979 to December 1987 to
22 be \$543,705.
23

1 in service by \$795,557, increase accumulated depreciation by \$150,518, for a
2 reduction to net plant and rate base of \$645,038. In addition, test year
3 depreciation expense should be reduced by \$21,480. The analysis that I have
4 performed indicates that the amount of plant in service allowed by the
5 Commission in the Company's last case was overstated. The Company has
6 provided documentation which substantially refutes the information relied upon
7 by the Commission in Docket No. 871177-WU. Accordingly, it would be
8 appropriate for the Commission to reduce the Company's rate base by \$645,038.

9 **Q. Why should the Commission rely on the information that you presented to**
10 **adjust rate base to its original cost when you have not relied upon original**
11 **source documentation?**

12 A. As the Commission made clear in the last case, the Company does not have the
13 documents needed to reconstruct the original cost of the water system. The
14 documents were lost or thrown away. Nevertheless, there are some reliable
15 contemporaneous Company documents which indicate that the cost of the plant
16 is much less than what the Company claimed and what the Commission allowed
17 in the last case. In my opinion, since the Company cannot produce the documents
18 necessary to establish the original cost of the water system, the Commission
19 should resolve this question in favor of the consumer when setting the Company's
20 rate base. To do otherwise, would be to reward the Company for losing or
21 disposing of documents which it is required to maintain. In my opinion, this
22 would not be a good policy for the Commission to establish. It would only serve

1 to encourage companies to dispose of documents which show a low original cost
2 system. Utilities could then prepare an original cost study and earn a return on
3 an inflated rate base. Clearly, such behavior should not be encouraged by the
4 Commission.

5 **Q. Would you discuss your rate base adjustment for growth?**

6 A. Yes. My adjustment is reflected on page 4 of schedule 6. As shown, my
7 adjustment reduces the Company's test year rate base by \$190,062.

8

9 To be consistent with my adjustment to increase test year revenues and expenses
10 to a 1993 level, I developed an average 1993 rate base using the Company's final
11 1993 general ledger. My recommended adjustments take into consideration two
12 adjustments that the Commission would need to make if the Commission does not
13 adopt my 1993 rate base.

14

15 First, the Company booked \$10,875 of investment to account 330.4 in 1992,
16 associated with some sheet metal for a possible future storage tank. In response
17 to OPC's interrogatory 10, the Company indicated that this cost should not be
18 included in its rate base. The Company removed this investment from its 1993
19 plant balances, but it remains in the 1992 balances. Accordingly, if the
20 Commission does not adopt my recommendation to adjust the Company's rate
21 base to the 1993 level, then it should reduce the Company's rate base by \$10,875.

22

1 Second, my recommended adjustments take into consideration the new
2 depreciation rates which I addressed earlier in my testimony. These rates affect
3 the balance of accumulated depreciation. If the Commission does not adopt my
4 recommendation, then it would need to accordingly adjust the 1992 rate base to
5 take into consideration the correct depreciation rates.

6 **Q. If you adjusted the rate base to bring it up to the 1993 level, why is your
7 adjustment negative?**

8 A. As can be seen from reviewing this schedule, the primary reason for the negative
9 adjustment is the increase in CIAC. From 1992 to 1993 the Company's CIAC
10 exceeded their additions to plant. Accordingly, while my adjustment does
11 recognize an increase in plant investment in excess of \$100,000 this is offset by
12 an increase in CIAC in excess of \$200,000.

13 **Q. What is your next adjustment?**

14 A. My next adjustment is shown on schedule 23. It is a two-pronged adjustment
15 depending upon the rate base selected by the Commission. If the Commission
16 uses a 1992 rate base, then the Company's CIAC should be increased by
17 \$109,440. If the Commission uses the growth-adjusted rate base, then CIAC
18 should be increased by \$65,000.

19 **Q. Would you explain each of these adjustments?**

20 A. Yes. The first adjustment which is applicable to either rate base concerns a
21 \$65,000 contribution made by the St. George Island Homeowners Association
22 (Homeowners) in 1992 to settle two lawsuits between the Homeowners and Gene

1 Brown. The settlement stated:

2 The Association will pay Brown and affiliates the
3 sum of \$100,000 as follows....These funds will be
4 used as follows: (a) \$35,000 will be paid to Stanley
5 Bruce Powell for his legal fee in representing
6 Brown and affiliates in the above-referenced
7 litigation; and (b) \$65,000 will be advanced to the
8 St. George Island Utility Company, Ltd. to be used
9 strictly for capital improvements to enhance and
10 increase the flow and pressure of the St. George
11 Island water system, including the installation of a
12 new altitude valve and high speed turbine pump
13 pursuant to the recommendations of Baskerville-
14 Donovan, the utility's engineers. [Settlement
15 Agreement, September 3, 1992.]

16 In his deposition, Mr. Brown testified that he did not treat these funds either as
17 advances for construction or as a contribution in aid of construction. According
18 to Mr. Brown he did not treat this as a contribution because is was not a
19 contribution, but a loan from affiliates.

20 I agreed, as part of this settlement agreement in the
21 final negotiations, to make it more acceptable to the
22 membership who was meeting the next day. I said,

1 "Don't feel like I'm going to take this money and
2 go to Las Vegas, but I'm having to put large sums
3 of my personal money and money from these
4 affiliated companies into the utility company, which
5 some day will benefit everybody on the island." So,
6 since I was already putting more than 65,000 into
7 the utility as a loan or advance, I threw that in to
8 make it more acceptable. It was my idea, and they
9 approved it and said great. [Brown Deposition, pp.
10 241-42.]

11 Unlike Mr. Brown, my reading of the settlement agreement suggests that the
12 money given to Mr. Brown was for the sole purpose of improving the water
13 system and that such funds should be treated either as cost free capital and
14 included in the capital structure at a zero cost, or as a contribution in aid of
15 construction. I recommend that the Commission treat this \$65,000 as a
16 contribution. My interpretation of the settlement agreement is consistent with the
17 findings of the Staff in their Audit. In Audit Exception 19, the Staff auditor's
18 opinion was: "The \$65,000 is to be considered CIAC and should have been
19 recorded as reflected. CIAC should be increased by \$65,000."

20 **Q. What is the next adjustment to CIAC that you recommend?**

21 A. The next adjustment is only necessary if the Commission does not adopt my
22 growth-adjusted rate base. The adjustment to increase CIAC by \$44,440 was

1 booked by the Company in 1993 and taken into consideration in developing my
2 recommended rate base.

3
4 In December 1991, the Company received a contribution of \$44,440 from
5 Covington. This contribution, however, was not recorded on the Company's
6 books until May 1993. Accordingly, it is not reflected in the Company's 1992
7 average rate base. According to Mr. Brown, who thought that the \$44,400 was
8 reflected in the Company's 1992 average rate base, it should be, if it was not.

9 Yes. I mean, I'm assuming it is. I haven't gone
10 through and analyzed it, but it's supposed to be,
11 and I feel certain that it is. If it hasn't, it should be.
12 I mean, it's money that we received prior to the test
13 year, and it is clearly CIAC, and it should come off
14 of rate base. [Brown Deposition, p. 271.]

15 Accordingly, if the Commission does not use my recommended 1993 rate base,
16 then it should reduce the Company's test year rate base by \$44,440.

17 **Q. Let's turn to the fifth section of your testimony. What is your recommended**
18 **overall cost of capital?**

19 A. As shown on schedule 24, the capital structure that I recommend results in an
20 overall cost of capital of 7.82% compared to the Company's request of 8.07%.

21 **Q. What is the first adjustment that you recommend to the Company's capital**
22 **structure?**

1 A. The first adjustment that I recommend concerns the 12% note to Alice Melton
2 with an average outstanding balance of \$85,865. This indebtedness originally
3 arose out of monies owed by Leisure Properties to Pruitt, Humphress, Powers &
4 Monroe Advertising Agency (Pruitt, Humphress) for advertising services
5 performed by Pruitt Humphress for Leisure Properties. Leisure Properties could
6 not pay Pruitt Humphress so Leisure Properties issued a note to Pruitt Humphress
7 for the monies owed. Pruitt Humphress then pledged the note and a property
8 mortgage to Sun Bank. Pruitt Humphress defaulted on the note and the Sun Bank
9 sued Pruitt Humphress and Leisure Properties/Gene Brown for the default on the
10 promissory note of \$234,000. This lawsuit resulted in a settlement between Sun
11 Bank, Pruitt Humphress, and Leisure Properties/Gene Brown. The settlement
12 provided, in essence, that Leisure deed to Pruitt Humphress four lots on St.
13 George Island valued at \$250,000; that Leisure's debt owed to Pruitt Humphress
14 was \$287,500; that the transfer of lots to Pruitt Humphress would reduce the debt
15 owned to \$137,500; and that the note was to be in the name of Gene Brown, G.
16 Brown & Company, and St. George Island Utility Company, Ltd. The settlement
17 agreement was effective in July 1988.

18
19 Subsequently, Pruitt Humphress sued Gene Brown, G. Brown & Company, St.
20 George Island Utility Company, Ltd., St. George's Planation, Inc., Leisure
21 Properties, Ltd., and Leisure Development (Gene Brown, et. al.) for their failure
22 to make the first and subsequent monthly interest payments. This lawsuit resulted

1 in a judgement against Gene Brown, et. al. which was subsequently purchased by
2 Mr. Brown's mother, Alice Melton, on February 25, 1992.

3
4 From these transactions and events it is not at all clear why the debt owed to Ms.
5 Melton appears on the books of SGU. The debt originally arose from Leisure
6 Properties failure to pay for advertising services. According to Mr. Brown,
7 however, at some time in 1989 or 1990, SGU was assigned this indebtedness of
8 Leisure Properties, in exchange for which Leisure Properties reduced the debt the
9 Utility owed it.

10
11 For purposes of establishing the Company's capital structure, I have removed this
12 debt. While it is possible that Leisure Properties reduced the amount of debt SGU
13 owed it by the amount of Leisure Properties' debt assigned to SGU, there has
14 been no proof of this provided by SGU. In addition, the Company could provide
15 no promissory note or other debt instrument in support of the monies owned to
16 Ms. Melton. [Brown, Late Filed Deposition Exhibit 12.] Accordingly, unless the
17 Company provides uncontroverted evidence that this debt was properly exchanged
18 and that it properly belongs on the books of the Company, the Commission
19 should remove \$85,865 from the Company's capital structure.

20
21 If SGU does prove that it is appropriate to treat the Alice Melton debt as it has,
22 then the Commission should reduce the interest rate on the debt to 6%. This is

1 the interest rate on the debt owed by SGU to Leisure Properties. The interest rate
2 on the Alice Melton debt is 12%. Thus, the effect of what the Company did was
3 to exchange \$137,500 of 6% utility-owned debt for \$137,500 of 12% Leisure
4 Properties-owned debt. It would be patently unfair for this Commission to require
5 ratepayers to pay a higher overall cost of capital because SGU exchanged debt it
6 owed for debt owed by one of its affiliates. Accordingly, if the Commission does
7 not adopt my primary recommendation, it should substitute 6% for the 12%
8 interest rate used to determine the Company's embedded cost of debt. This
9 recommendation would reduce the Company's embedded cost of long-term debt
10 from 7.68% to 7.48%.

11 **Q. Do you have any other recommendations concerning the Company's capital**
12 **structure?**

13 A. Yes. I recommend that the Commission only include in the Company's capital
14 structure the short-term debt that currently exists on the Company's books.
15 According to the Company's response to OPC's Interrogatory 29, the Company
16 has retired several of short-term notes. Specifically, as shown on page 1 of
17 schedule 24, the Company has paid off its debt concerning Wallace Pump #1,
18 Rhema Business Services, Ardman, Pruitt Humphress, Wallace Pump #2, and
19 Harris 3M. Removing this debt and allowing 1993 average balance for the
20 remaining short-term debt reduces the cost of short-term debt from 12.17% to
21 11.81%.

22 **Q. What is the effect of your recommendations?**

1 A. As depicted on page 3 of schedule 24, my recommendation produces a long-term
2 debt ratio of 78.97%, a short-term debt ratio of 5.39%, and a customer deposit
3 ratio of 15.63%. Using these ratios that the cost rates that I recommend, indicates
4 that the Company's overall cost of capital is 7.82%. This compares to the
5 Company's request of 8.07%.

6 **Q. Let's turn to the next section of your testimony. Would you please summarize**
7 **your recommendations concerning the Company's revenue requirement?**

8 A. Yes. Schedule 25 of my exhibit summarizes the adjustments that I propose so far.
9 Schedule 26 of my exhibit depicts my recommended rate base. As shown, the
10 adjustments that I recommend produce a rate base of \$98,425. Schedule 27 of my
11 exhibit sets forth my recommended net operating income and the Company's
12 revenue requirement. As shown, the adjustments that I propose produce a
13 revenue decrease of \$13,539. This compares to the Company's request to increase
14 revenue by \$428,201.

15 **Q. Let's turn to the last section of your testimony. Would you discuss the Staff's**
16 **audit of the Company?**

17 A. Yes. In large part I endorse the conclusions and recommendations found in the
18 Staff's audit. Assuming that the facts are true as stated in the audit, I support
19 adoption of the following Audit Exceptions and the auditors' recommendations:
20 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 17, 19, 20, 21, 22, 23, 24, 25, 26, 27, and
21 28.

22 **Q. Does this complete your direct testimony prefiled on May 25, 1994?**

1 A. Yes, it does.

2

APPENDIX
OF
KIMBERLY H. DISMUKES

1 APPENDIX I

2 QUALIFICATIONS

3

4 Q. What is your educational background?

5 A. I graduated from Florida State University with a Bachelor of Science degree in
6 Finance in March, 1979. I received an M.B.A. degree with a specialization in
7 Finance from Florida State University in April, 1984.

8 Q. Would you please describe your employment history in the field of Public
9 Utility Regulation?

10 A. In March of 1979 I joined Ben Johnson Associates, Inc., a consulting firm
11 specializing in the field of public utility regulation. While at Ben Johnson
12 Associates, I held the following positions: Research Analyst from March 1979
13 until May 1980; Senior Research Analyst from June 1980 until May 1981;
14 Research Consultant from June 1981 until May 1983; Senior Research Consultant
15 from June 1983 until May 1985; and Vice President from June 1985 until April
16 1992. In May 1992, I joined the Florida Public Counsel's Office, as a
17 Legislative Analyst III.

18 Q. Would you please describe the types of work that you have performed in the
19 field of Public Utility Regulation?

20 A. Yes. My duties have ranged from analyzing and testifying on specific issues in
21 a rate proceeding to managing the work effort of a large staff in rate proceedings.
22 I have prepared testimony, interrogatories and production of documents, assisted

1 with the preparation of cross-examination, and assisted counsel with the
2 preparation of briefs, motions and pleadings. Since 1979, I have been actively
3 involved in more than 160 regulatory proceedings throughout the United States.

4

5 I have analyzed cost of capital and rate of return issues, revenue requirement
6 issues, public policy issues, and rate design issues, involving telephone, electric,
7 gas, water and wastewater, and railroad companies.

8

9 In the area of cost of capital, I have analyzed the following parent companies:
10 American Electric Power Company, American Telephone and Telegraph
11 Company, American Water Works, Inc., Ameritech, Inc., CMS Energy, Inc.,
12 Columbia Gas System, Inc., Continental Telecom, Inc., GTE Corporation,
13 Northeast Utilities, Pacific Telecom, Inc., Southwestern Bell Corporation, United
14 Telecom, Inc., and U.S. West. I have also analyzed individual companies like
15 Connecticut Natural Gas Corporation, Duke Power Company, Idaho Power
16 Company, Kentucky Utilities Company, Southern New England Telephone
17 Company, and Washington Water Power Company.

18 **Q. Have you previously assisted in the preparation of testimony concerning**
19 **revenue requirements?**

20 **A.** Yes. I have assisted on numerous occasions in the preparation of testimony on a
21 wide range of subjects related to the determination of utilities' revenue
22 requirements and related issues.

1 I have assisted in the preparation of testimony and exhibits concerning the
2 following issues: abandoned project costs, accounting adjustments, affiliate
3 transactions, allowance for funds used during construction, attrition, cash flow
4 analysis, construction monitoring, construction work in progress, contingent
5 capacity sales, cost allocations, decoupling revenues from profits, cross-
6 subsidization, demand-side management, depreciation methods, divestiture, excess
7 capacity, feasibility studies, financial integrity, financial planning, incentive
8 regulation, jurisdictional allocations, non-utility investments, fuel projections,
9 mergers and acquisitions, pro forma adjustments, projected test years, prudence,
10 tax effects of interest, working capital, off-system sales, reserve margin, royalty
11 fees, separations, settlements, and resource planning.

12
13 Companies that I have analyzed include: Alascom, Inc. (Alaska), Arizona Public
14 Service Company, Arvig Telephone Company, AT&T Communications of the
15 Southwest (Texas), Blue Earth Valley Telephone Company (Minnesota),
16 Bridgewater Telephone Company (Minnesota), Carolina Power and Light
17 Company, Central Maine Power Company, Central Power and Light Company
18 (Texas), Central Telephone Company (Missouri and Nevada), Consumers Power
19 Company (Michigan), C&P Telephone Company of Virginia, Continental
20 Telephone Company (Nevada), C&P Telephone of West Virginia, Connecticut
21 Light and Power Company, Danube Telephone Company (Minnesota), Duke
22 Power Company, East Otter Tail Telephone Company (Minnesota), Easton

1 Telephone Company (Minnesota), Eckles Telephone Company (Minnesota), El
2 Paso Electric Company (Texas), Florida Cities Water Company, General
3 Telephone Company of Florida, Georgia Power Company, Idaho Power
4 Company, Jasmine Lakes Utilities, Inc. (Florida), Kentucky Power Company,
5 Kentucky Utilities Company, KMP Telephone Company (Minnesota), Kansas Gas
6 & Electric Company (Missouri), Kansas Power and Light Company (Missouri),
7 Lehigh Utilities, Inc. (Florida), Oklahoma Gas and Electric Company
8 (Arkansas), Mad Hatter Utilities, Inc. (Florida), Mankato Citizens Telephone
9 Company (Minnesota), Michigan Bell Telephone Company, Mid-Communications
10 Telephone Company (Minnesota), Mid-State Telephone Company (Minnesota),
11 Mountain States Telephone and Telegraph Company (Arizona and Utah),
12 Northwestern Bell Telephone Company (Minnesota), Potomac Electric Power
13 Company, Public Service Company of Colorado, Puget Sound Power & Light
14 Company (Washington), South Central Bell Telephone Company (Kentucky),
15 Southern Union Gas Company (Texas), Southern Bell Telephone & Telegraph
16 Company (Florida, Georgia, and North Carolina), Southern States Utilities, Inc.,
17 Southern Union Gas Company, Southwestern Bell Telephone Company
18 (Oklahoma, Missouri, and Texas), St. George Island Utility Company, Ltd.,
19 Tampa Electric Company, Texas-New Mexico Power Company, Tucson Electric
20 Power Company, Twin Valley-Ulen Telephone Company (Minnesota), United
21 Telephone Company of Florida, Virginia Electric and Power Company,
22 Washington Water Power Company, and Wisconsin Electric Power Company.

1 **Q. What experience do you have in rate design issues?**

2 A. My work in this area has primarily focused on issues related to costing. For
3 example, I have assisted in the preparation of class cost-of-service studies
4 concerning Arkansas Energy Resources, Cascade Natural Gas Corporation, El
5 Paso Electric Company, Potomac Electric Power Company, Texas-New Mexico
6 Power Company, and Southern Union Gas Company. I have also examined the
7 issue of avoided costs, both as it applies to electric utilities and as it applies to
8 telephone utilities.

9 **Q. Have you testified before regulatory agencies?**

10 A. Yes. I have testified before the Arizona Corporation Commission, the
11 Connecticut Department of Public Utility Control, the Florida Public Service
12 Commission, the Georgia Public Service Commission, the Missouri Public
13 Service Commission, the Public Utility Commission of Texas, and the
14 Washington Utilities and Transportation Commission. My testimony dealt with
15 revenue requirement, financial, and class cost-of-service issues concerning AT&T
16 Communications of Southwest (Texas), Cascade Natural Gas Corporation
17 (Washington), Central Power and Light Company (Texas), Connecticut Light and
18 Power Company, El Paso Electric Company (Texas), Florida Cities Water
19 Company, Houston Lighting & Power Company (Texas), Jasmine Lakes Utilities,
20 Inc. (Florida), Kansas Gas & Electric Company (Missouri), Kansas Power and
21 Light Company (Missouri), Lehigh Utilities, Inc. (Florida), Mad Hatter Utilities,
22 Inc. (Florida), Mountain States Telephone and Telegraph Company (Arizona),

EXHIBITS
OF
KIMBERLY H. DISMUKES

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St. George Island Utility Company, Ltd.
Comparison of Prior Case to Present Case

Rate Base	Prior Case	Present Case	Difference
Utility Plant in Service	\$2,566,280	\$2,585,342	\$19,062
Utility Land and Land Rights	57,761	54,818	(2,943)
Less: Non-Used and Useful Plant	0	0	0
Construction Work in Progress	0	0	0
Accumulated Depreciation	(743,503)	(736,624)	6,879
CIAC	(999,852)	(999,852)	0
Accumulated Amortization of CIAC	138,824	138,833	9
Advances for Construction	(78,862)	(78,862)	0
Working Capital	100,676	65,622	(35,054)
Total Rate Base	\$1,041,324	\$1,029,277	(\$12,047)

	Prior Case	Present Case	Difference
Net Operating Income			
Operating Revenues			
Water Sales	\$307,763	\$307,763	\$0
Other Revenue	6,754	6,754	0
Total Revenue	\$314,517	\$314,517	\$0
Operation & Maintenance Expense	\$326,858	\$498,713	\$171,855
Depreciation	39,243	39,874	631
Amortization	6,778	41,452	34,674
Taxes Other Than Income	34,112	34,077	(35)
Total Operating Expenses	\$406,991	\$614,116	\$207,125
Net Operating Income	(\$92,474)	(\$299,599)	(\$207,125)
Requested Rate Increase	\$203,512	\$428,201	\$224,689

Source: St. George Island Utility Company, Ltd., Minimum Filing Requirements.
compare.wk1

St. George Island Utility Company, Ltd.
Comparison of Prior Case to Present Case
Operation and Maintenance Expense Detail

Operating & Maintenance Detail	Prior Case	Present Case	Difference
Salaries and Wages	\$123,459	\$123,120	(\$339)
Employee Pensions & Benefits	6,532	34,356	27,824
Purchased Power	20,414	20,926	512
Chemicals	3,899	3,899	0
Materials and Supplies	15,573	15,573	0
Contractual Services - Engineering	6,000	6,000	0
Contractual Services - Accounting	12,000	22,640	10,640
Contractual Services - Legal	21,818	24,000	2,182
Contractual Services - Mgt	0	48,000	48,000
Contractual Services - Other	12,344	97,435	85,091
Rents - Building/Property	9,092	10,168	1,076
Rental Equipment	9,478	9,796	318
Transportation Expenses	28,600	15,600	(13,000)
Insurance - General Liability	17,000	17,000	0
Insurance - Workers Compensation	4,000	4,000	0
Insurance - Property	15,000	15,502	502
Bad Debt Expense	0	6,276	6,276
Miscellaneous Expenses	21,649	24,422	2,773
Total Operating & Maintenance	\$326,858	\$498,713	\$171,855
Amortization Expense	\$6,778	\$41,452	\$34,674

Source: St. George Island Utility Company, Ltd., Minimum Filing Requirements.

compare.wk1

St. George Island Utility Company, Ltd.
Comparison of Operation and Maintenance Expenses
Mad Hatter and Jasmine Lakes to St. George Island Utility

Operation & Maintenance Detail	Jasmine Lakes Utilities Commission Allowed	Mad Hatter Utility Commission Allowed	St. George Island Utility Company Request	Jasmine Lakes Utilities Expense Per ERC	Mad Hatter Utility Expense Per ERC	St. George Island Utility Expense Per ERC
Salaries and Wages	\$34,128	\$60,738	\$123,120	\$21	\$46	\$125
Salaries and Wages - Officers	24,833	21,000	48,000	15	16	49
Employee Pensions & Benefits	15,700	2,082	34,356	9	2	35
Purchased Water	214,779	0	0	129	0	0
Purchased Power	0	18,393	20,926	0	14	21
Fuel for Purchased Power	0	50	0	0	0	0
Chemicals	0	4,782	3,899	0	4	4
Materials and Supplies	3,859	33,595	15,573	2	25	16
Contractual Services - Engineering	0	1,551	6,000	0	1	6
Contractual Services - Accounting	1,965	14,386	22,640	1	11	23
Contractual Services - Legal	2,854	8,417	24,000	2	6	24
Contractual Services - Mgt	0	(810)	0	0	(1)	0
Contractual Services - Other	24,022	12,879	97,435	14	10	99
Rents - Building/Property	1,012	6,464	10,168	1	5	10
Rental Equipment	1,225	3,832	9,796	1	3	10
Transportation Expenses	10,029	6,620	15,600	6	5	16
Insurance - Vehicle	1,023	1,674	0	1	1	0
Insurance - General Liability	2,599	2,309	17,000	2	2	17
Insurance - Workers Compensation	4,841	1,185	4,000	3	1	4
Insurance - Property	2,000	2,608	15,502	1	2	16
Regulatory Comm. Exp. - Other	25	892	0	0	1	0
Bad Debt Expense	1,304	3,026	6,276	1	2	6
Miscellaneous Expenses	9,770	9,498	24,422	6	7	25
Other - Amortization Expenses	0	0	41,452	0	0	42
Other - Allocation to Non-Utility	(9,117)	0	0	(5)	0	0
Total	\$346,851	\$215,171	\$540,165	\$209	\$162	\$547
Average ERCs				1,660	1,326	988

Class B Water Utilities
Comparison of 1992 Operation and
Maintenance Expense Per Customer

Operation & Maintenance Detail	Beaulerc Utilities Inc.	Broadview Park Water Co.	Ferncrest Utilities Inc.	Forest Hills Utilities	Jasmine Lakes Utilities	Lighthouse Utilities Company	Lindrick Service Corp.	Mad Hatter Utility
Salaries and Wages	\$88,714	\$137,253	\$117,417	\$82,437	\$34,465	\$3,600	\$29,341	\$63,339
Salaries and Wages - Officers	8,934	22,568	30,656	59,250	37,485	22,646	28,187	39,750
Employee Pensions & Benefits	0	33,807	9,327	0	50	0	4,979	6,142
Purchased Water	0	285,331	0	33,800	170,115	0	358,400	0
Purchased Power	23,381	2,175	27,961	17,632	7,869	7,040	1,217	16,748
Fuel for Purchased Power	0	0	0	0	0	0	0	40
Chemicals	643	0	19,210	19,913	1,513	935	127	3,371
Materials and Supplies	10,752	17,197	27,214	65,087	1,868	9,246	9,524	6,417
Contractual Services - Engineering	352	1,516	0	7,875	188	2,083	5,839	1,669
Contractual Services - Accounting	10,045	7,666	8,325	2,972	4,394	2,600	27,231	16,926
Contractual Services - Legal	82	206	64	10,635	793	0	165	11,289
Contractual Services - Mgt	8,190	0	0	8,000	0	0	5,861	0
Contractual Services - Other	9,972	13,782	6,907	11,287	34,864	31,265	41,194	20,336
Rents - Building/Property	2,818	0	0	12,720	9,548	1,500	4,151	6,312
Rental Equipment	0	0	426	31,109	2,275	0	2,238	598
Transportation Expenses	2,214	4,774	3,051	21,511	6,025	2,138	5,805	6,723
Insurance - Vehicle	2,228	1,738	3,163	0	1,159	0	763	1,115
Insurance - General Liability	3,190	6,291	9,180	0	3,493	0	0	3,013
Insurance - Workers Compensation	2,878	7,853	5,214	2,746	2,069	0	2,304	1,765
Insurance - Other	0	0	0	0	1,692	0	71	1,798
Advertising Expense	0	0	0	2505	0	0	0	11
Amort. of Rate Case Expense	23,771	0	3,986	0	0	0	0	5,869
Regulatory Comm. Exp. - Other	767	0	0	0	0	0	0	14,717
Bad Debt Expense	0	6,919	5,040	0	0	53	0	2,538
Other - Amortization	0	0	0	0	0	0	0	0
Miscellaneous Expenses	972	8,864	14,212	21,595	5,170	3,092	740	21,849
Total	\$199,903	\$557,940	\$291,353	\$411,074	\$325,035	\$86,198	\$528,137	\$252,335
Average Customers								

Class B Water Utilities
Comparison of 1992 Operation and
Maintenance Expense Per Customer

Operation & Maintenance Detail	Miles Grant Water	Ocala Oaks Utilities	Ortega Utility Company	Park Manor Waterworks	Regency Utilities Inc.	Rolling Oaks Utilities	Royal Utility Company	Sailfish Point Utility
Salaries and Wages	\$37,698	\$54,966	\$56,879	\$25,251	\$38,870	\$86,756	\$39,797	\$49,697
Salaries and Wages - Officers	0	62,000	38,197	5,788	44,903	65,135	0	0
Employee Pensions & Benefits	10,095	0	17,432	9,088	7,805	27,189	2,284	5,814
Purchased Water	0	0	6,100	0	7,070	0	0	0
Purchased Power	7,984	14,690	37,950	16,336	35,469	68,768	3,802	30,153
Fuel for Purchased Power	0	0	334	0	0	0	0	0
Chemicals	5,037	1,824	6,312	4,048	5,609	4,850	8,511	27,669
Materials and Supplies	7,039	4,933	9,926	32,826	3,035	5,312	1,034	21,445
Contractual Services - Engineering	24	0	0	2,140	6,157	0	6,764	500
Contractual Services - Accounting	0	4,620	3,475	2,229	9,884	17,059	7,990	0
Contractual Services - Legal	0	383	15,518	2,271	6,139	12,427	6,415	448
Contractual Services - Mgt	0	0	0	0	12,465	90,838	16,500	0
Contractual Services - Other	13,560	6,126	12,368	0	73,407	41,097	15,691	49,284
Rents - Building/Property	2,597	0	5,251	0	5,395	0	0	0
Rental Equipment	0	0	2,053	0	57	38	0	289
Transportation Expenses	2,092	8,976	5,472	2,240	3,076	9,978	190	6,321
Insurance - Vehicle	1,242	652	6,427	1,394	635	19,446	1,540	358
Insurance - General Liability	1,171	3,075	5,557	1,854	871	352	9,455	0
Insurance - Workers Compensation	924	1,344	3,498	0	1,587	5,122	1,844	0
Insurance - Other	990	9,059	5,419	1,510	769	9,135	121	0
Advertising Expense	0	0	70	0	0	0	0	0
Amort. of Rate Case Expense	1,958	2,222	11840	0	0	0	0	8,863
Regulatory Comm. Exp. - Other	0	0	111	759	0	0	0	0
Bad Debt Expense	323	0	2,040	718	168	15,674	10,532	386
Other - Amortization	0	0	0	0	0	0	0	0
Miscellaneous Expenses	9,614	14,803	2,882	1,670	21,681	51,899	29,980	1,713
Total	\$102,348	\$189,673	\$255,111	\$110,122	\$285,052	\$531,075	\$162,450	\$202,940
Average Customers								

Class B Water Utilities
Comparison of 1992 Operation and
Maintenance Expense Per Customer

Operation & Maintenance Detail	South Broward Utility	St. George Island Utility	Sunshine Utilities of Central FL	Total
Salaries and Wages	\$113,032	\$123,120	\$120,936	\$1,303,568
Salaries and Wages - Officers	4,043	48,000	82,264	599,806
Employee Pensions & Benefits	120	34,356	11,321	179,809
Purchased Water	0	0	0	860,816
Purchased Power	32,797	20,926	25,825	398,723
Fuel for Purchased Power	1,090	0	0	1,464
Chemicals	20,684	3,899	7,808	141,963
Materials and Supplies	5,041	15,573	21,733	275,202
Contractual Services - Engineering	28,609	6,000	0	69,716
Contractual Services - Accounting	2,263	22,640	2,500	152,819
Contractual Services - Legal	9,426	24,000	3,601	103,862
Contractual Services - Mgt	33,000	0	0	174,854
Contractual Services - Other	40,736	97,435	36,681	555,992
Rents - Building/Property	6,468	10,168	9,334	76,262
Rental Equipment	1,718	9,796	900	51,497
Transportation Expenses	6,636	15,600	11,206	124,028
Insurance - Vehicle	2,297	0	6,238	50,395
Insurance - General Liability	2,751	17,000	0	67,253
Insurance - Workers Compensation	1,000	4,000	10,251	54,399
Insurance - Other	8,704	15,502	122	54,892
Advertising Expense	0	0	0	2,586
Amort. of Rate Case Expense	31,722	26,260	48,657	165,148
Regulatory Comm. Exp. - Other	0	0	0	16,354
Bad Debt Expense	181	6,276	3,456	54,304
Other - Amortization	0	41,452	0	41,452
Miscellaneous Expenses	9,882	24,422	18,674	263,714
Total	\$362,200	\$566,425	\$421,507	\$5,840,878
Average Customers				

Class B Water Utilities
Comparison of 1992 Operation and
Maintenance Expense Per Customer

Operation & Maintenance Detail	Beauclerc Utilities Inc.	Broadview Park Water Co.	Ferncrest Utilities Inc.	Forest Hills Utilities	Jasmine Lakes Utilities	Lighthouse Utilities Company	Lindrick Service Corp.	Mad Hatter Utility
Salaries and Wages	\$52	\$81	\$76	\$38	\$22	\$8	\$9	\$40
Salaries and Wages - Officers	5	13	20	27	24	48	8	25
Employee Pensions & Benefits	0	20	6	0	0	0	1	4
Purchased Water	0	167	0	16	109	0	108	0
Purchased Power	14	1	18	8	5	15	0	11
Fuel for Purchased Power	0	0	0	0	0	0	0	0
Chemicals	0	0	12	9	1	2	0	2
Materials and Supplies	6	10	18	30	1	20	3	4
Contractual Services - Engineering	0	1	0	4	0	4	2	1
Contractual Services - Accounting	6	4	5	1	3	6	8	11
Contractual Services - Legal	0	0	0	5	1	0	0	7
Contractual Services - Mgt	5	0	0	4	0	0	2	0
Contractual Services - Other	6	8	4	5	22	67	12	13
Rents - Building/Property	2	0	0	6	6	3	1	4
Rental Equipment	0	0	0	14	1	0	1	0
Transportation Expenses	1	3	2	10	4	5	2	4
Insurance - Vehicle	1	1	2	0	1	0	0	1
Insurance - General Liability	2	4	6	0	2	0	0	2
Insurance - Workers Compensation	2	5	3	1	1	0	1	1
Insurance - Other	0	0	0	0	1	0	0	1
Advertising Expense	0	0	0	1	0	0	0	0
Amort. of Rate Case Expense	14	0	3	0	0	0	0	4
Regulatory Comm. Exp. - Other	0	0	0	0	0	0	0	9
Bad Debt Expense	0	4	3	0	0	0	0	2
Other - Amortization	0	0	0	0	0	0	0	0
Miscellaneous Expenses	1	5	9	10	3	7	0	14
Total	\$117	\$327	\$187	\$189	\$208	\$183	\$159	\$161
Average Customers	1,705	1,705	1,555	2,171	1,562	470	3,330	1,568

Class B Water Utilities
Comparison of 1992 Operation and
Maintenance Expense Per Customer

Operation & Maintenance Detail	Miles Grant Water	Ocala Oaks Utilities	Ortega Utility Company	Park Manor Waterworks	Regency Utilities Inc.	Rolling Oaks Utilities	Royal Utility Company	Sailfish Point Utility
Salaries and Wages	\$33	\$52	\$48	\$20	\$80	\$16	\$29	\$125
Salaries and Wages - Officers	0	59	32	5	92	12	0	0
Employee Pensions & Benefits	9	0	15	7	16	5	2	15
Purchased Water	0	0	5	0	14	0	0	0
Purchased Power	7	14	32	13	73	13	3	76
Fuel for Purchased Power	0	0	0	0	0	0	0	0
Chemicals	4	2	5	3	11	1	6	70
Materials and Supplies	6	5	8	26	6	1	1	54
Contractual Services - Engineering	0	0	0	2	13	0	5	1
Contractual Services - Accounting	0	4	3	2	20	3	6	0
Contractual Services - Legal	0	0	13	2	13	2	5	1
Contractual Services - Mgt	0	0	0	0	26	17	12	0
Contractual Services - Other	12	6	10	0	150	8	11	124
Rents - Building/Property	2	0	4	0	11	0	0	0
Rental Equipment	0	0	2	0	0	0	0	1
Transportation Expenses	2	9	5	2	6	2	0	16
Insurance - Vehicle	1	1	5	1	1	4	1	1
Insurance - General Liability	1	3	5	1	2	0	7	0
Insurance - Workers Compensation	1	1	3	0	3	1	1	0
Insurance - Other	1	9	5	1	2	2	0	0
Advertising Expense	0	0	0	0	0	0	0	0
Amort. of Rate Case Expense	2	2	10	0	0	0	0	22
Regulatory Comm. Exp. - Other	0	0	0	1	0	0	0	0
Bad Debt Expense	0	0	2	1	0	3	8	1
Other - Amortization	0	0	0	0	0	0	0	0
Miscellaneous Expenses	8	14	2	1	44	10	22	4
Total	\$88	\$180	\$213	\$86	\$584	\$99	\$117	\$510
Average Customers	1,158	1,052	1,196	1,285	488	5,350	1,388	398

Class B Water Utilities
Comparison of 1992 Operation and
Maintenance Expense Per Customer

Operation & Maintenance Detail	South Broward Utility	St. George Island Utility	Sunshine Utilities of Central Fl.	Average Expense Per Customer
Salaries and Wages	\$54	\$118	\$50	\$41
Salaries and Wages - Officers	2	46	34	19
Employee Pensions & Benefits	0	33	5	6
Purchased Water	0	0	0	27
Purchased Power	16	20	11	12
Fuel for Purchased Power	1	0	0	0
Chemicals	10	4	3	4
Materials and Supplies	2	15	9	9
Contractual Services - Engineering	14	6	0	2
Contractual Services - Accounting	1	22	1	5
Contractual Services - Legal	4	23	1	3
Contractual Services - Mgt	16	0	0	5
Contractual Services - Other	19	93	15	17
Rents - Building/Property	3	10	4	2
Rental Equipment	1	9	0	2
Transportation Expenses	3	15	5	4
Insurance - Vehicle	1	0	3	2
Insurance - General Liability	1	16	0	2
Insurance - Workers Compensation	0	4	4	2
Insurance - Other	4	15	0	2
Advertising Expense	0	0	0	0
Amort. of Rate Case Expense	15	25	20	5
Regulatory Comm. Exp. - Other	0	0	0	1
Bad Debt Expense	0	6	1	2
Other - Amortization	0	40	0	1
Miscellaneous Expenses	5	23	8	8
Total	\$172	\$541	\$175	\$183
Average Customers	2,111	1,047	2,402	31,941

Source: Utilities, Annual Reports, 1992.

St. George Island Utility Company, Ltd.
Affiliate Transactions Adjustments

<u>Expenses</u>	<u>Recommended Expense</u>	<u>Allocation</u>	<u>Recommended Adjustment</u>
Salaries and Wages			
Bookkeeper	\$19,656	10%	(\$1,966)
Office Staff	12,480	10%	(1,248)
Health Benefits			
Bookkeeper	3,600	10%	(360)
Administrative Assistant	3,600	25%	(900)
Rent			
Tallahassee Office	9,000	40%	(3,600)
Storage	1,168	10%	(117)
Miscellaneous			
Per Books	21,649	10%	(2,165)
Total Operation and Maintenance	\$71,153		(\$10,355)
Payroll Taxes			
Bookkeeper	\$2,030	10%	(\$203)
Office Staff	1,280	10%	(129)
Total Payroll Taxes	\$3,320		(\$332)
<u>General Plant and Equipment</u>			
Office Furniture	\$10,264	0.1	(\$1,026)
Accumulated Depreciation	(\$804)	0.1	\$80
Depreciation Expense	\$684	0.1	(\$68)

St. George Island Utility Company, Ltd.
Growth Adjustment
Summary

<u>Adjustment</u>	<u>Amount</u>
Revenue Impact	\$35,094
O&M Expense Impact	\$3,364
Depreciation Expense Impact	(\$9,801)
Rate Base Impact	(\$190,062)

St. George Island Utility Company, Ltd.
Growth Adjustment
Revenue Impact

	1992 Adjusted	1993 Actual	Growth Adjustment
Water Sales Revenue	\$307,763	\$345,547	\$37,784
Miscellaneous Service Revenue	5,523	4,019	(1,504)
Other Water Revenue	1,231	45	(1,186)
Total	\$314,517	\$349,611	\$35,094

St. George Island Utility Company, Ltd.
Growth Adjustment
Expense Impact

<u>Adjustment</u>	<u>Amount</u>
Adjusted Purchased Power	\$18,150
5% Growth	5%
Adjustment to Purchased Power	<u>\$908</u>
Adjusted Chemicals	\$3,382
5% Growth and 3% inflation	8%
Adjustment to Chemicals	<u>\$271</u>
Materials and Supplies	\$15,573
5% Growth and 3% inflation	8%
Adjustment to Materials and Supplies	<u>\$1,246</u>
Adjusted Miscellaneous Expenses	\$11,752(1)
5% Growth and 3% inflation	8%
Adjustment to Miscellaneous Expenses	<u>\$940</u>
Total O&M Adjustments	<u>\$3,364</u>
Adjustment to Depreciation Expense	<u>(\$9,801)</u>

(1) Per Books O&M	\$21,649
Electric Reclassification	(1,477)
Affiliate Allocations	(2,165)
Adjustment to Books	(6,255)
	<u>\$11,752</u>

St. George Island Utility Company, Ltd.
Growth Adjustment
Rate Base Impact

Line No.	(1) Description	(2) Average 1993 Rate Base		(4) Adjusted Balance	(5) 1992 Rate Base		(6) Recommended Adjustments
		Balance per Books	Adjustments		Adjusted Utility Balance		
1	Utility Plant in Service	\$2,689,076	\$819	\$2,689,895	\$2,585,342	\$104,553	
2	Utility Land & Land Rights	42,628	23,276	65,904	54,818	11,086	
3	Less: Non-Used & Useful Plant	0	0	0	0	0	
4	Construction Work in Progress						
5	Less: Accumulated Depreciation	(794,317)	(12,177)	(806,494)	(736,624)	(69,870)	
6	Less: CIAC	(1,267,000)	0	(1,267,000)	(999,852)	(267,148)	
7	Accumulated Amortization of CIAC	160,454	6,922	167,375	138,833	28,542	
8	Acquisition Adjustments	0	0	0	0	0	
9	Accum. Amort. of Acq. Adjustments	0	0	0	0	0	
10	Advances for Construction	(76,087)	0	(76,087)	(78,862)	2,775	
11	Working Capital Allowance	35,113	30,508	65,622	65,622	(0)	
12	Total Water Rate Base	\$789,868	\$49,347	\$839,215	\$1,029,277	(\$190,062)	

Source: St. George Island Utility Company, Ltd., Minimum Filing Requirements and 1993 General Ledger, Response to OPC Interrogatory 22.

St. George Island Utility Company, Ltd.
Adjustment to Salaries

	1993	1994	Percent Increase	Limit Increase to 5%	Adjustment to Salaries
Hank Garrett	\$23,400	\$32,500	39%	\$24,570	
Kenneth Shiver	16,640	17,500	5%	17,472	
Ann Hills	18,720	20,000	7%	19,656	
Sandra Chase	15,920	24,000	51%	16,716	
	\$74,680	\$94,000	26%	\$78,414	(\$15,586)

	1993	Full-Time Employment	Part-Time Employment	Adjustment
Second Field Assistant	\$0	\$16,640	\$8,320	(\$8,320)

Total (\$23,906)

St. George Island Utility Company, Ltd.
Adjustment to Contractual Services - Legal

Company Request
Gene D. Brown, P.A. \$24,000 Retainer of \$2,000 a month

Recommendation
Gene D. Brown, P.A. \$3,000

Adjustment (\$21,000)

St. George Island Utility Company, Ltd.
Adjustment to Pensions and Benefits

<u>Company Request</u>		
Health Benefit	\$25,200	\$300 x 7 employees
Pension Benefit	6,156	5% of Salaries
Education	3,000	Utility Estimate
Total	<u>\$34,356</u>	

<u>Recommendation</u>		
Health Benefit	\$14,400	\$300 x 4 employees
Pension Benefit	0	
Education	3,000	Utility Estimate
Total	<u>\$17,400</u>	

Adjustment (\$16,956)

St. George Island Utility Company, Ltd.
Adjustment to Contractual Services - Accounting

<u>Company Request</u>	
J. Drawdy	\$16,640
B. Withers	<u>6,000</u>
Total	\$22,640

<u>Recommendation</u>	
J. Drawdy	\$16,640
B. Withers	<u>0</u>
Total	\$16,640

Adjustment	<u>(\$6,000)</u>
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St. George Island Utility Company, Ltd.
Adjustment to Contractual Services - Other

<u>Company Request</u>	<u>Primary</u>	<u>Alternative</u>
Tank Maintenance	\$22,409	\$22,409
Pipe Cleaning Program	37,493	37,493
Testing Services	23,909	23,909
Uniforms	1,280	1,280
Total	<u>\$85,091</u>	<u>\$85,091</u>
<u>Recommendation</u>		
Tank Maintenance	\$13,800	\$13,800
Pipe Cleaning Program	0	36,266 (1)
Testing Services	0	22,039 (2)
Uniforms	1,280	1,280
Total	<u>\$15,080</u>	<u>\$73,385</u>
Adjustment	<u>(\$70,011)</u>	<u>(\$11,706)</u>

(1) Removed \$1,227 associated with cleaning transmission pipes over the bridge.
Mr. Brown indicated that he was planning to get a grant for this work which would pay 50%.

(2) Testing Required Every Three Years

In-Organics	\$300
Turbidity	10
Secondary Contaminants	200
Pesticides & PCBs	1,600
Radionuclides	70
Unregulated Organics II	625

Total	\$2,805
3-year amortization	3
Annual Expense	\$935
Adjustment to Test Year	(\$1,870)

Source: St. George Island Utility Company, Ltd., Minimum Filing Requirements, Response to OPC's POD 22.

St. George Island Utility Company, Ltd.
Adjustment to Insurance Expense

<u>Company Request</u>	
General Liability	\$17,000
Workmen's Compensation	4,000
Property	<u>15,502</u>
Total	<u>\$36,502</u>
 <u>Recommended</u>	
General Liability	\$0
Workmen's Compensation	0
Property	<u>0</u>
Total	<u>\$0</u>
 Adjustment	 <u><u>(\$36,502)</u></u>

Source: St. George Island Utility Company, Ltd., Minimum Filing Requirements.

St. George Island Utility Company, Ltd.
Adjustment to Transportation Expense

Company Request	Per	Per	Equivalent Miles @ 28 cents			Equivalent Miles @ 20 cents		
	Week	Year	Annual	Monthly	Weekly	Annual	Monthly	Weekly
Garrett	\$100	\$5,200	18,571	1,548	357	26,000	2,167	500
Hills	25	\$1,300	4,643	387	89	6,500	542	125
Shiver	50	\$2,600	9,286	774	179	13,000	1,083	250
Chase	50	\$2,600	9,286	774	179	13,000	1,083	250
Brown	75	\$3,900	13,929	1,161	268	19,500	1,625	375
	<u>\$300</u>	<u>\$15,600</u>	<u>55,714</u>	<u>4,643</u>	<u>1,071</u>	<u>78,000</u>	<u>6,500</u>	<u>1,500</u>

Recommendation	Per	Per	Equivalent Miles @ 28 cents			Equivalent Miles @ 20 cents		
	Week	Year	Annual	Monthly	Weekly	Annual	Monthly	Weekly
Garrett	\$50	\$2,600	9,286	774	179	13,000	1,083	250
Hills	0	\$0	0	0	0	0	0	0
Shiver	25	\$1,300	4,643	387	89	6,500	542	125
Chase	0	\$0	0	0	0	0	0	0
Brown	0	\$0	0	0	0	0	0	0
	<u>\$75</u>	<u>\$3,900</u>	<u>13,929</u>	<u>1,161</u>	<u>268</u>	<u>19,500</u>	<u>1,625</u>	<u>375</u>

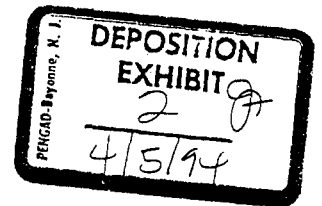
Adjustment (\$11,700)

St. George Island Utility Company, Ltd.
Adjustment to Bad Debt Expense

<u>Company Request</u>	
Bad Debt	\$6,276
<u>Recommendation</u>	
Bad Debt	\$1,569
Adjustment	<u>(\$4,707)</u>

Source: St. George Island Utility Company, Ltd., Minimum Filing Requirements.

ACCT NO	CUSTOMER	<-VARIANCE->	As of 12/31/92	As of 12/31/93
00000161	Ray Stanyard	64.25	78.3	78.3
00000351	Harould Rudd	84.3	140.5	140.5
90000039	Jeanelle Martin	0	92.09	92.09
90000152	Freddie Lyles	0	133.57	133.57
90000215	Sonny Marshall	0	60.91	60.91
90000223	Fenton Langston	0	55.32	55.32
90000224	Gary T. McCray	-26.74	0.55	0.55
90000257	Mark Stockton	0	75.93	75.93
90000270	Jimmy Dean	0	24.3	24.3
90000278	Fred Bono	0	14.05	14.05
90000356	Chuck Edwards	0	6.49	6.49
90000407	Warren Forrest	0	34.64	34.64
90000511	Sonis/Carter	0	8.91	8.91
90000516	Geral Briggs	0	26.02	26.02
90000532	AMEY Co. Inc.	0	26.89	26.89
90000591	Cool Change Charters, Inc	0	36.78	36.78
90000656	Tammy Gordie	0	3.47	3.47
90000700	Steven Rash	0	15.72	15.72
90000705	Don Piag	0	498.56	498.56
90000878	Bayne Collins	0	28.43	28.43
90000891	William Chesnut	0	42.42	42.42
90000967	Fenton Langston	0	244.27	244.27
91000251	Tom Pate	0	43.7	43.7
91111112	Ray Granstrom	0	362.89	362.89
91111113	Shumann Investments	0	30.87	30.87
91111535	SSI Beautification Com.	40.97	55.02	55.02
92000713	Johnnie Collins	0	160.42	160.42
90000028	Norman Peets	3.17	30.75	30.75
90000145	Cairo Ingra	0	14.05	14.05
90000156	Island Managers	-28.1	215.3	215.3
90000218	Jerry Osteryoung	1.1	29.2	29.2
90000253	Terry Adamski	0	21.26	21.26
90000366	Jean McMillian (Scott: Fal	56.44	73.66	73.66
90000382	Bruce Millender	0	51.36	51.36
90000425	Shorehouse Gulf Products	0	107.11	107.11
90000434	Carla Etheridge	-3.34	14.88	14.88
90000447	Joann Wingle	-5.12	8.93	8.93
90000472	Survivors	155.38	171.27	171.27
90000555	Vickie Cummings	1.06	16.95	16.95
90000576	Fras Thomas	0	48.19	48.19
90000673	Jeramy Neill	-15	233.87	233.87
90000679	Wilbur Hollis	-0.33	14.05	14.05
90000806	Paul Flynn C/P Resort	0	26.08	26.08
90000808	Peter Ripley	6.68	21.9	21.9
90000825	Jim Pennington	4.1	21.32	21.32
91000253	Karen M Hunt	25.01	51.58	51.58
91000656	Tammy Montgomery	-3.16	14.88	14.88



ACCT NO	CUSTOMER	<-VARIANCE->	As of 12/31/92	As of 12/31/93
91111114	Judy Wilson	0	16.43	16.43
91111115	Thomas Lynch	0	27.38	27.38
91111122	Fenton Langston	0	241.69	241.69
91111123	Pruitt, Humphress, Povers	0	40.17	40.17
91111124	Pruitt, Humphress, Povers	0	40.17	40.17
91111125	Pruitt, Humphress, Povers	0	7.94	7.94
91111126	Pruitt, Humphress, Povers	0	40.17	40.17
91111129	William Foss	0	133.66	133.66
91111131	James M. Keith	0	80.25	80.25
91111132	Gainey, Joseph, Brannon	0	160.14	160.14
91111133	Deborah Fulmer	0	160.59	160.59
91111134	Fred Troutman	0	134.11	134.11
91111135	Harry M. Shawl	0	199.86	199.86
91111136	Williams Mager	0	216.88	216.88
91111137	Carl Blanchard	0	80.25	80.25
91111138	Christopher Troutman	0	200.31	200.31
91111140	Hilton Kort	0	110.96	110.96
91111141	Robert Knight	0	257.05	257.05
91111142	Phillip Beegle Jr.	0	97.27	97.27
91111143	Thomas A. Adcock	0	53.41	53.41
91111144	Freddie Lyles	0	131.36	131.36
91111145	Mr. Palino	0	131.36	131.36
91111149	Joseph & Brenda Gold	168.6	168.6	168.6
92000825	Mark Bullard	56.51	56.51	56.51
			
		585.78	6276.13	6276.13

St. George Island Utility Company, Ltd.
Adjustment to Miscellaneous Expense

<u>Company Request</u>	
Reclassify Tallahassee	
Office Electric	(1,477)
Reclassify Education Expense	(425)
Cellular Phone	
Per Books	(1,376)
Annualized	3,600
Copy and Fax Machine at Island	1,874
Increase Corporate Filing Fees	576
Total	<u>\$2,772</u>
<u>Recommendation</u>	
Reclassify Tallahassee	
Office Electric	(1,477)
Reclassify Education Expense	(425)
Cellular Phone	
Per Books	(1,376)
Annualized	2,400
Copy and Fax Machine at Island	1,874
Increase Corporate Filing Fees	0
Other	
Non-utility/Non-recurring	(3,544)
Telephone Charges	(1,511)
Total	<u>(\$4,059)</u>
Adjustment	<u>(\$6,831)</u>

Source: St. George Island Utility Company, Ltd., Minimum Filing Requirements; Response to OPC's Document Request No. 17, Docket No. 930770-WU; Florida Public Service Commission Staff, Audit.

St. George Island Utility Company, Ltd.
Adjustment to Amortization Expense

<u>Company Request</u>		
System Analysis	\$15,852	2-year Amortization
System Map		
Initial Cost	\$3,630	5-year Amortization
Update Cost	\$2,680	Annual Expense
Aerator Analysis		
Study Cost	\$2,640	2-year Amortization
Revision Cost	\$1,650	2-year Amortization
Hydrological Study	\$9,000	5-year Amortization
Fire Protection Study	\$6,000	5-year Amortization
Total	<u>\$41,452</u>	
<u>Recommendation</u>		
System Analysis	\$6,341	5-year Amortization
System Map		
Initial Cost	\$3,630	5-year Amortization
Update Cost	\$2,680	Annual Expense
Aerator Analysis		
Study Cost	\$1,056	5-year Amortization
Revision Cost	\$0	Deficient
Hydrological Study	\$0	No support
Fire Protection Study	\$0	No support
Total	<u>\$13,707</u>	
Adjustment	<u>(\$27,745)</u>	

Source: St. George Island Utility Company, Ltd., Response to OPC Document Requests 46, 56, 58, and 60;
Minimum Filing Requirements.

St. George Island Utility Company, Ltd.
Adjustment for Unaccounted For Water

Gallons of Water Pumped	81,310,000
Unaccounted For Water-Percent	<u>15.3%</u>
Unaccounted For Water	12,412,735
Tank Leaks	435,000
Test Year Chemical Expense	\$3,899
Chemical Cost per 1,000 Gallons Sold	\$0.05
Test year Purchased Power	\$20,926
Purchased Power Cost per 1,000 Gallons Sold	\$0.26
Gallons of Water Pumped	81,310,000
Going Forward Level of Unaccount for Water-Percent	<u>2.0%</u>
Going Forward Level of Unaccount For Water	1,626,200
Difference	11,221,535
Adjustment to Test Year Chemical Expense	<u><u>(\$538)</u></u>
Adjustment to Test Year Purchased Power Expense	<u><u>(\$2,888)</u></u>

Source: St. George Island Utility Company, Ltd., Response to Staff Interrogatories 6, 7, 12, 13; and
Minimum Filing Requirements.

unaccount.wk1

St. George Island Utility Company, Ltd.
Adjustment to Rate Case Expense

<u>Company Request</u>			
<u>Vendor Name</u>	<u>Counsel, Consultant or Witness</u>	<u>Hourly Rate Per Person</u>	<u>Total Estimate</u>
Management & Regulatory Consultants, Inc.	Frank Seidman	\$25-\$85	\$50,000
Rhema Business Service Associates	Norman Mears	\$95	14,402
Baskerville-Donovan, Inc.	Firm - various		3,000
Coloney Company Consulting Engineers	Wayne Coloney	\$200	10,000
B. Withers/J.Drawdy	CPA	\$100	4,000
Rate Attorney	To be determined	\$125	20,000
FPSC			2,000
Postage, printing and notice publication			1,637
Total			\$105,039
4-year Amortization			\$26,260

<u>Recommendation</u>			
<u>Vendor Name</u>	<u>Counsel, Consultant or Witness</u>	<u>Hourly Rate Per Person</u>	<u>Total Estimate</u>
Management & Regulatory Consultants, Inc.	Frank Seidman	\$25-\$85	\$25,000
Rhema Business Service Associates	Norman Mears	\$95	3,601
Baskerville-Donovan, Inc.	Firm - various		3,000
Coloney Company Consulting Engineers	Wayne Coloney	\$200	10,000
B. Withers/J.Drawdy	CPA	\$100	4,000
Rate Attorney	To be determined	\$125	0
FPSC			2,000
Postage, printing and notice publication			1,637
Total			\$49,238
4-year Amortization			\$12,309
Adjustment			(\$13,950)

Source: St. George Island Utility Company, Ltd., Minimum Filing Requirements.

St. George Island Utility Company, Ltd.
Adjustment for Generator Maintenance Expense

<u>Expenses</u>	<u>Adjustment</u>
Per Books Maintenance of Generator	\$2,665
Adjusted Maintenance of Generator	0
Adjustment	(\$2,665)

St. George Island Utility Company, Ltd.
Adjustment to Taxes Other Than Income Taxes

Company Request	
Payroll Taxes	\$6,223
Regulatory Assessment	(1,473)
Total	\$4,750

Recommendation	
Payroll Taxes	\$3,753
Regulatory Assessment	1,399
Total	\$5,153

Adjustment	<u>\$403</u>
------------	--------------

St. George Island Utility Company, Ltd.
Original Cost of Plant

	Gross Plant in Service	Accumulated Depreciation	Net Plant in Service
Initial Cost of Water System at 12/31/79	\$830,145		
Initial Cost of Water System at 12/31/86	\$830,145		
Initial Cost of Water System at 12/31/87	\$830,145		
Additions to Plant through 12/31/86	\$539,168		
Additions to Plant through 12/31/87	\$543,705		
Balance as of 12/31/86	\$1,369,313		
Balance as of 12/31/87	\$1,373,850		
Average Balance as of 12/31/87	\$1,371,582	(\$259,501)	\$1,112,081
Commission Allowed Amount Docket No. 871177-WU			
Average Balance as of 12/31/87	\$2,167,138	(\$410,019)	\$1,757,119
Adjustment to Rate Base	(\$795,557)	\$150,518	(\$645,038)
Reduce Depreciation Expense	(\$21,480)(1)		

(1) \$795,557 * 2.70% = \$21,480

Source: Leisure Properties, Ltd., Financial Statements 12/31/79; Barbara Withers' Affidavit and Attachments, filed 3/16/89, Docket No. 871177-WU; and Commission Order No. 21122.

orgcost.wk1

St. George Island
Docket No. 940109-WU
Kimberly H. Dismukes Exhibit No. ____
Schedule 22
Cover Page

St. George Island Utility Company, Ltd.
1978 Engineering Appraisal

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Office of
Public Counsel

**ENGINEERING APPRAISAL
WATER SYSTEM
OF
ST. GEORGE ISLAND UTILITIES**

St. George Island (Franklin County), Florida

JULY 1978

William M. Bishop

Consulting Engineers, Inc.

TELEPHONE 222-0334
P. O. BOX 3407

317 EAST VIRGINIA STREET
TALLAHASSEE, FLORIDA 32303

ENGINEERING APPRAISAL
WATER SYSTEM
OF
ST. GEORGE ISLAND UTILITIES

St. George Island (Franklin County), Florida

JULY 1978

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SUMMARY OF
ENGINEERING APPRAISAL
Water System
of
St. George Island Utilities

<u>Item</u>		<u>Amount</u>
4.1	Production Well	\$ 20,000
4.2	Raw Water Transmission Line	348,794
4.3	Water Storage Reservoir, Pumping Station and Office Facilities	202,177
4.4	Water Distribution System	<u>232,712</u>
	Estimated Replacement Cost of Physical Facilities	\$803,684
5.0	Engineering Services - Actual	\$ 58,065
6.0	Owner Administration	<u>\$ 46,200</u>
	TOTAL ESTIMATED REPLACEMENT COST	<u><u>\$908,000</u></u>

JULY 1978

ENGINEERING APPRAISAL

WATER SYSTEM

OF

ST. GEORGE ISLAND UTILITIES

St. George Island (Franklin County), Florida

1.0 Method of Engineering Appraisal

1.1 Type of Appraisal

This engineering appraisal is based upon July 1978 replacement costs of physical facilities plus estimated land values. Current estimated pricing has been utilized where available and contract amounts for those parts of the project which were contracted have been escalated to current values by application of the Engineering News Record Construction Cost Index. Water system performance including financial or income characteristics, O & M costs, water production and sales or other features not specifically physical or property in character have not been considered in any respect in making the appraisal.

1.2 Depreciation

The certificate of authorization to operate the system is dated 1978 and construction occurred in the prior two years. A physical inspection of the above ground facilities of the system did not reveal evidence of deterioration or need for maintenance. As a consequence of the age and condition of the facilities, a factor for depreciation has not been applied.

2.0 Ownership and General Description

2.1 Ownership

The Utility is owned by Leisure Properties, Ltd. of St. George

Island, Florida and is operated by Leisure Properties, Ltd. d/b/a St. George Island Utilities. The operations are conducted from an office adjacent to the water storage facility and pumping station on the island.

2.2 Public Service Commission Authorization

The Utility is authorized by State of Florida Public Service Commission Certificate No. 302-W issued March 31, 1978.

2.3 General Description

The appraisal encompasses the total properties of the water system generally described as follows:

2.3.1 A 100'x110' (approximate) well site and 250 g.p.m. production well located on Avenue C on the mainland in East Point, Florida.

The description of the production well includes valves, meters and appurtenances installed between the pump and the connection with the off-site raw water transmission main in Avenue C.

2.3.2 Raw water transmission line from production well site on mainland to water storage reservoir and pumping station on Gulf Beach Drive, St. George Island. The line is comprised of 16,120 1. ft. of 8" PVC, 290 1. ft. of 8" D.I.P., 13,078 1. ft. of restrained joint 8" D.I.P. and 2,365 1. ft. 6" PVC water main. The raw water transmission line crosses the causeway and two bridges connecting the mainland with the Island. The 13,078 1. ft. of restrained joint 8" D.I.P water main is attached to hangers installed on the two bridge crossings.

2.3.3 292,000 gallon water storage reservoir, treatment facilities, pumping station, controls from reservoir to production well, chlorination equipment, associated appurtenances, office facilities and

150'x135' (approximate) site located on Gulf Beach Drive, St. George Island.

2.3.4 Water distribution system which extends easterly from the water reservoir throughout the original existing subdivision to the State of Florida Park and westerly from the water reservoir throughout the original existing subdivision to the new developments of Leisure Properties, Ltd. The distribution system has been installed in three new developments of Leisure Properties identified as Sea Dune Village, Sea Palm Village and Sea Pine Village. The distribution system is comprised of 155 f. ft. of 12" P.V.C., 24,394 l. ft. of 8" P.V.C. and 23,617 l. ft. of 6" P.V.C. water main, fire hydrants, valves and fittings.

3.0 Procedure Used for Estimating July, 1978 Replacement Cost

3.1 Production Well and Site

3.1.1 Production Well

The production well was constructed by Rowe Drilling Company, Inc. of Tallahassee, Florida. The scope of the project was limited to the drilling of the well, well casing, pump, pump column and motor. Construction forces of Leisure Properties, Ltd. installed the meter, valves and other fittings connecting the pump discharge to the raw water transmission main in Avenue C. Rowe Drilling Company was supplied a photograph and record drawings of the complete on-site installation and an estimated current installation value for the pump and well, gauges, valves and piping to the raw water transmission line in Avenue C was obtained from Rowe.

3.1.2 Production Well Site

The well is located on Lot 7, Block 1, David Brown Estates as shown on a Plat recorded in Plat Book 3, Page 4 of the public records of Franklin County, Florida. The lot faces on Avenue C near East Point, Florida. The lot fronts 100 ft. on Avenue C and is 110 ft. deep. Land sales in the vicinity of the lot are relatively static according to Franklin County records but one transaction was recorded for the sale of a 100 ft. x 150 ft. residential lot fronting on Avenue C in the immediate vicinity of the well site. The sale price was \$3,800 according to records in the Clerk of Circuit Court's Office. Since the use of land for a well site is not a typical land use, the one residential sale has been used to establish a value for the well site and because of depth factor, the site has been evaluated at \$3,500.

3.2 Raw Water Transmission Line

3.2.1 6" and 8" PVC Main From Production Well Site Across Causeway to Water Storage Reservoir on St. George Island (Exclusive of Two Bridge Crossings)

The pricing of the 6" and 8" PVC transmission main is based upon current values derived from competitive quotations on projects designed by William M. Bishop Consulting Engineers, Inc. of similar characteristics to the S.G.I. system. The exact procedure involved the averaging of unit price quotations of two water distribution projects (one in Quincy, Florida and one in Gretna, Florida). Solomon Construction Company of Quincy, Florida was the successful low bidder

on both of the projects and the prices of the second low bidder were used to compensate for the advantage of location held by Solomon Construction Company. Upon the advice of Solomon Construction Company the unit prices of the second low bidder were escalated by 10% to adjust for the additional travel time, freight costs and different construction conditions on the Island.

The advice of Solomon Construction Company was sought as an expert in water system installations because of their extensive experience in the construction of underground utilities. The organization has been the Contractor on approximately ten water and sewer projects designed by William Bishop Engineers during the immediate past five years and also participated in the development of cost estimates for the S.G.I. system during the design phase; thus, Solomon Construction Company has special knowledge of Island conditions.

3.2.2 Bridge Crossings

The two bridges which complete the causeway connection between the mainland and the Island are 7,116 l. ft. and 5,993 l. ft. long respectively totalling 13,109 l. ft. Leisure Properties, Ltd. contracted with W. S. Cifer's Construction Company of Jacksonville, Florida for the installation of the pipe and fittings across the two bridges. Leisure Properties, Ltd. purchased the pipe under separate agreement.

The final Change Order with Cifer's Construction Company was

dated August 30, 1976 and was in the total amount of \$127,859.44. The construction contract included furnishing all hangers, fittings, and other materials for the installation.

The agreement for the purchase of pipe was with McWane Cast Iron Pipe Company of Birmingham, Alabama and was dated February 6, 1976. 13,500 lin. ft. of 8" cast iron pipe at \$5.75 per ft. plus \$0.80 cwt. freight was quoted.

The method utilized to estimate July, 1978 replacement cost was to determine the total cost of installation and to apply the change in the Engineering News Record Construction Cost Index between June, 1976 and June 22, 1978 to adjust the 1976 contract amounts to current prices.

3.3 Waster Storage Reservoir, Treatment Facilities, Pumping Station, Controls, Chlorination Equipment and Other Appurtenances, Office Facilities and Site

3.3.1 Water Reservoir, Pumping Station, Treatment Facilites and Office Structure

The 292,000 gallon reinforced concrete water reservoir with 8" prestressed roof, aerator, and building structure for the pump house and office facilities were constructed by Marolf, Inc. of Clearwater, Florida. The contract was dated April 14, 1976 and was in the amount of \$63,332.00. The contract did not include the pumps, piping, electrical installation, chlorinator equipment, etc. in the pump room nor did it include interior office finish.

The slab for the tank bottom and building floor was constructed by G.A.P. Enterprises, Inc. of Tallahassee, Florida under contract dated April 21, 1976 in the amended amount of \$27,718.67.

Estimated replacement cost was established by totalizing the two preceding contracts and applying the ENR construction cost differential described in 3.2.1 to obtain a July, 1978 value.

3.3.2 Pumping Station and Chlorinator

The pumps were purchased from Rowe Drilling Company and the piping installation was made by the construction forces of Leisure Properties, Ltd. A record drawing and photographs of the installation, including chlorination equipment, was supplied to Rowe Drilling Company and current estimated installation costs obtained.

Rowe Drilling Company was selected because of recent experience with the Company on five new water production wells designed by William M. Bishop Engineers on which Rowe Drilling Company was the successful low bidder. The wells range in capacity from 60 g.p.m. to 3,500 g.p.m.

The electrical installation was performed by Thomas L. Cook, Electrical Contractor, of Tallahassee, Florida under an undated contract in the amount of \$12,000.00. The electrical installation was made coincident with pumping and piping installation in 1976. The ENR construction cost index has been applied to the contract amount to obtain July, 1978 replacement cost.

3.3.3 Interior Office Finish

The interior finish of the business offices was installed by

construction forces of Leisure Properties, Ltd. The scope included interior walls and wall finish; electrical and lighting; heating, ventilating and air conditioning; finished plumbing, tile and carpeting.

Leisure Properties, Ltd. accumulated the total of all invoices for materials and labor involved in finishing the office space. The total was \$17,093.28 to which the ENR construction cost index has been applied.

3.3.4 Controls - Water Reservoir to Production Well

Leisure Properties, Ltd. installed controls between the water reservoir and production well to control raw water pumping with demand on storage. The cost of the installation has been estimated at \$1,500 plus the cost of an altitude valve installed at the water reservoir and contained as a part of the Rowe estimate.

Messages from the two control positions are transmitted by leased telephone line. The cost of the leased line has been treated as an operating cost and is not included in this appraisal.

3.3.5 Water Storage Reservoir, Pumping Station and Office Facilities Site

The above facilities are located on Lots 7-12, Block 5 of the St. George Island Subdivision recorded in Plat Book 2, Page 7 of the public records of Franklin County, Florida. The only sale recorded in the Franklin County Clerk of Circuit Court's Office was for a commercial tract in the vicinity of the Utilities Building

but it is not comparable. A discussion with Leisure Properties, Ltd. personnel produced an estimated value of \$5,000 per 25 ft. x 135 ft. lot which was considered reasonable in view of prices being quoted on the Island and was used to compute the value of the subject site.

NOTE: Land values are less than 5% of the total Estimated Replacement Cost and have been estimated as described in this section and in 3.1.2 in lieu of a bona fide real estate appraisal because of the relatively small affect land value has on the total.

3.4 Water Distribution System

The pricing of the 12" P.V.C., 8" P.V.C. and 8" P.V.C. water mains, fire hydrants, valves and fittings comprising the water distribution system on St. George Island were derived as described in 3.2.1.

4.0 Estimated Replacement Value

4.1 Production Well and Site

263 ft. 8 in. dia. well cased to 175 ft., 250 g.p.m. at 107 T.D.H., drilled and tested	\$9,500.00	(27)
10 HP Vertical Turbine Pump	7,000.00	(7)
Well Site	<u>3,500.00</u>	(1)
TOTAL 4.1		\$20,000.00

4.2 Raw Water Transmission Line

Production Well Site to North End of Bridge

Item	Qty.	Unit	Unit Price	Amount
6" P.V.C. Pipe	2,365	1. ft.	@ \$ 3.25	= \$ 7,686.25
8" P.V.C. Pipe	3,911	1. ft.	@ \$ 5.35	= \$20,923.85
8" D.I. Pipe	58	1. ft.	@ \$ 14.50	= \$ 841.00
6" Gate Valve	1	ea.	@ \$220.00	= \$ 220.00
8" Gate Valve	2	ea.	@ \$291.50	= \$ 583.00
6" 45° Bend	1	ea.	@ \$107.25	= \$ 107.25
6" 90° Bend	1	ea.	@ \$123.75	= \$ 123.75
8" 90° Bend	2	ea.	@ \$181.50	= \$ 363.00

TOTAL

\$ 30,848.10 (13)

North End of Bridge to Water Storage Reservoir
(Exclusive of Two Bridge Crossings)

Item	Qty.	Unit	Unit Price	Amount
8" P.V.C. Pipe	12,209	1. ft.	@ \$ 5.35	= \$65,318.15
8" D.I. Pipe	232	1. ft.	@ \$ 14.50	= \$ 3,364.00
8" Gate Valve	3	ea.	@ \$ 291.50	= \$ 874.50
8" Dresser Coupling	4	ea.	@ \$1,400.00	= \$ 5,600.00
8" 45° Bend	2	ea.	@ \$ 156.75	= \$ 313.50

TOTAL

\$ 75,470.15 (15)

Two Bridge Crossings:

W. S. Cifer's Const. Co. Contract	\$127,859.44
Purchase of Pipe from McWane Cast Iron Pipe Co. - 13,078 1. ft.	
8" D.I.P. @ \$5.75	75,198.50
Freight - 6,793 C.W.T. x \$0.80	5,434.00

TOTAL

\$208,491.94 (28)

Change in ENR Construction Index: 1976-1978

June 1976 - 2410 [1913=100]

June 22, 1978 - 2803

Change in ENR C.I. = $\frac{2803}{2410} = 1.163$

\$208,491.94 x 1.163 = \$242,476.13

TOTAL 4.2

\$348,794.38

4.3 Water Storage Reservoir, Treatment Facilities, Pumping Station, Controls from Reservoir to Production Well, Chlorination Equipment and Other Appurtenances, Office Facilities and Site.

Marolf, Inc. Contract- Includes reservoir, treatment facilities & structure for pumping station & office facilities.	\$63,332.00	
G.A.P. Enterprises, Inc. Contract - concrete slab for reservoir, pumping station and office facility.	\$27,718.67	
	<u> </u>	(32)
	\$91,050.67	
	$\$91,050.67 \times 1.163 =$	\$105,891.93
Pumping Station - Labor Mat'ls. & equipment for piping valves & fittings inside P.S.	\$23,786.00	
20 H.P. High Service Pump	\$ 1,200.00	
Wallace & Tiernan A&C Gas Chlor.	<u>\$ 2,600.00</u>	
		\$ 27,586.00 (33)
Thomas L. Cook, Elec. Co. Contract - wiring installation in P.S.	\$12,000.00 (17)	
	<u> </u>	
	\$12,000.00	
	$\$12,000.00 \times 1.163 =$	\$ 13,956.00
Interior Office Finish - Leisure Properties, Ltd. Invoices	\$17,093.28 (34)	
	<u> </u>	
	\$17,093.28	
	$\$17,093.28 \times 1.163$	\$ 19,879.49
Controls	\$ 1,500.00	
Altitude Valve	<u>\$ 3,364.00</u>	
		\$ 4,864.00 (8)
Site - 6 lots at \$5,000 ea.		<u>\$ 30,000.00</u> (1)
 TOTAL 4.3		 \$202,177.42

4.4 Water Distribution System

Water Storage Reservoir To Intersection
of Gulf Beach Drive and Franklin Boulevard

Item	Qty.	Unit	Unit Price	Amount
8" P.V.C. Pipe	885	1. ft.	@ \$ 5.35	= \$ 4,734.75
12" P.V.C. Pipe	155	1. ft.	@ \$ 13.65	= \$ 2,115.75
6" Gate Valve	1	ea.	@ \$ 220.00	= \$ 220.00
8" Gate Valve	3	ea.	@ \$ 291.50	= \$ 874.50
12" Gate Valve	1	ea.	@ \$ 880.00	= \$ 880.00
8 45° Bends	2	ea.	@ \$ 156.75	= \$ 313.50

TOTAL

\$ 9,138.50 (19)

Intersection of Gulf Beach Drive and
Franklin Boulevard to 11th Street East

Item	Qty.	Unit	Unit Price	Amount
8" P.V.C. Pipe	10,115	1. ft.	@ \$ 5.35	= \$54,115.25
6" Gate Valve	5	ea.	@ \$ 220.00	= \$ 1,100.00
8" Gate Valve	1	ea.	@ \$ 291.50	= \$ 291.50

TOTAL

\$55,506.75 (20)

11th Street East to State Park

Item	Qty.	Unit	Unit Price	Amount
6" P.V.C. Pipe	11,200	1. ft.	@ \$ 3.25	= \$36,400.00
6" Gate Valve	4	ea.	@ \$ 220.00	= \$ 880.00
8"x6" Reducer	1	ea.	@ \$ 156.75	= \$ 156.75

TOTAL

\$37,436.75 (21)

Gulf Beach Drive and Franklin Boulevard
Intersection to 12th Street West

Item	Qty.	Unit	Unit Price	Amount
8" P.V.C. Pipe	10,435	1. ft.	@ \$ 5.35 =	\$55,827.25
6" Gate Valve	4	ea.	@ \$ 220.00 =	\$ 880.00
8" Gate Valve	3	ea.	@ \$ 291.50 =	\$ 874.50

TOTAL

\$57,581.75 (22)

Sea Dune Village

Item	Qty.	Unit	Unit Price	Amount
6" P.V.C. Pipe	3,011	1. ft.	@ \$ 3.25 =	\$ 9,785.75
6" Tie-in	1	ea.	@ \$ 150.00 =	\$ 150.00
8" Cut-in	1	ea.	@ \$1,016.40 =	\$ 1,016.40
6" Gate Valve	3	ea.	@ \$ 220.00 =	\$ 660.00
6" Tee	1	ea.	@ \$ 173.25 =	\$ 173.25
6" Plug	1	ea.	@ \$ 41.25 =	\$ 41.25
6" 22½° Bend	1	ea.	@ \$ 107.25 =	\$ 107.25
6" 11½° Bend	1	ea.	@ \$ 107.25 =	\$ 107.25
6" 45° Bend	1	ea.	@ \$ 107.25 =	\$ 107.25
8"x6" Tee	1	ea.	@ \$ 239.25 =	\$ 239.25

TOTAL

\$12,387.65 (23)

Sea Palm Village

Item	Qty.	Unit	Unit Price	Amount
8" P.V.C. Pipe	1,559	1. ft.	@ \$ 5.35 =	\$ 8,340.65
6" P.V.C. Pipe	5,706	1. ft.	@ \$ 3.25 =	\$18,544.50
Fire Hydrants	7	ea.	@ \$ 724.90 =	\$ 5,074.30
6" Tee	7	ea.	@ \$ 173.25 =	\$ 1,212.75
8"x8"x6" Reduc- ing Tee	2	ea.	@ \$ 275.50 =	\$ 551.00
8" Gate Valve	2	ea.	@ \$ 265.00 =	\$ 530.00
6" Gate Valve	7	ea.	@ \$ 220.00 =	\$ 1,540.00
6" Cross	1	ea.	@ \$ 180.50 =	\$ 180.50
6" 45° Bend	1	ea.	@ \$ 107.25 =	\$ 107.25
8" Plug	2	ea.	@ \$ 79.80 =	\$ 159.60
6" Plug	9	ea.	@ \$ 41.25 =	\$ 371.25

TOTAL

\$36,611.80 (23)

Sea Pine Village

Item	Qty.	Unit	Unit Price	Amount
8" P.V.C. Pipe	1,400	1. ft. @	\$ 5.35 =	\$ 7,490.00
6" P.V.C. Pipe	3,700	1. ft. @	\$ 3.25 =	\$12,025.00
6" 45° Bend	7	ea. @	\$ 107.25 =	\$ 750.75
6" Gate Valve	5	ea. @	\$ 220.00 =	\$ 1,100.00
6" Tee	4	ea. @	\$ 173.25 =	693.00
8"x6" Reducing Tee	1	ea. @	\$ 275.50 =	\$ 275.50
Fire Hydrants	2	ea. @	\$ 724.90 =	\$ 1,449.80
8" Gate Valve	1	ea. @	\$ 265.00 =	\$ 265.00

TOTAL

\$24,049.05 ⁽²³⁾

TOTAL 4.4

\$232,712.25

ESTIMATED REPLACEMENT COST OF PHYSICAL FACILITIES

\$803,684.05

5.0 Engineering Services - Actual

⁽³¹⁾

\$ 58,065.00

6.0 Owner Construction and Contract Administration

x

\$ 46,200.00

(Estimated at 6% of Physical Facilities Replacement Cost less property value of \$33,500.)

\$907,949.05

TOTAL ESTIMATED REPLACEMENT COST

(Round to) \$908,000.00

St. George Island Utility Company, Ltd.
CIAC Adjustment

<u>Adjustment to Growth-Adjusted Rate Base</u>	
Homeowners Association	
Contribution	<u>(\$65,000)</u>
<u>Adjustment to Non-Growth-Adjusted Rate Base</u>	
CIAC Not Booked in 1992	(\$44,440)
Homeowners Association	
Contribution	<u>(\$65,000)</u>
Total	<u>(\$109,440)</u>

St. George Island Utility Company, Ltd.
Capital Structure
Calculation of Test Year Short-Term Debt

-----Company Request-----

Lender	Interest Expense	Simple Avg. Amt Outstanding	Effective Cost Rate
Wallace Pump #1	\$1,082	\$6,053	17.88%
Fleett Financial	635	2,965	21.42%
Rhema Business Services	722	6,014	12.01%
Ardman	565	4,709	12.00%
Pruitt Humphress	9,403	82,115	11.45%
Regaional Land	20,328	203,279	10.00%
Wallace Pump #2	1,591	7,796	20.41%
Harris 3M	53	295	17.97%
Total	\$34,379	\$313,226	10.93%
Sailfish Enterprises	\$11,500	\$63,890	18.00%
Total Short-Term Debt	\$45,879	\$377,116	12.17%

-----OPC Recommendation-----

Lender	Interest Expense	Simple Avg. Amt Outstanding	Effective Cost Rate
Wallace Pump #1	\$0	\$0	0.00%
Fleet Financial	281	1,870	15.00%
Rhema Business Services	0	0	0.00%
Ardman	0	0	0.00%
Pruitt Humphress	0	0	0.00%
Regaional Land	20,328	203,279	10.00%
Wallace Pump #2	0	0	0.00%
Harris 3M	0	0	0.00%
Total	\$20,609	\$205,149	10.05%
Sailfish Enterprises	\$10,500	\$58,335	18.00%
Total Debt	\$31,109	\$263,484	11.81%

St. George Island Utility Company, Ltd.
Capital Structure
Calculation of Test Year Long-Term Debt

Lender	-----Company Request-----		
	Amount Outstanding	Interest Expense	Interest Rate
Leisure Properties #1	\$2,502,255	\$150,135	6.00%
Leisure Properties #2	384,000	38,400	10.00%
G. Brown & Company	75,000	10,500	14.00%
Alice Melton	85,865	10,304	12.00%
Capital City National	496,971	49,697	10.00%
Apalachicola	200,000	20,000	10.00%
Armistead	200,000	24,000	12.00%
Total	\$3,944,091	\$303,036	7.68%

Lender	-----OPC Recommendation-----		
	Amount Outstanding	Interest Expense	Interest Rate
Leisure Properties #1	\$2,502,255	\$150,135	6.00%
Leisure Properties #2	384,000	38,400	10.00%
G. Brown & Company	75,000	7,500	10.00%
Alice Melton	0	0	0.00%
Capital City National	496,971	49,697	10.00%
Apalachicola	200,000	20,000	10.00%
Armistead	200,000	24,000	12.00%
Total	\$3,858,226	\$289,732	7.51%

St. George Island Utility Company, Ltd.
Summary of Recommended Adjustments

Adjustments	Revenue	Expense	Rate Base
Affiliate Adjustments			
--Operation and Maintenance Expense		(\$10,355)	
--Payroll Taxes		(\$332)	
--Depreciation Expense		(\$68)	
--Office Furniture and Equipment			(\$1,026)
--Accumulated Depreciation			\$80
Growth Adjustment			
--Revenue Impact	\$35,094		
--O&M Expense Impact		\$3,364	
--Depreciation Expense Impact		(\$9,801)	
--Rate Base Impact			(\$190,062)
Salaries and Wages		(\$23,906)	
Contractual Services-Legal		(\$21,000)	
Pensions and Benefits		(\$16,956)	
Contractual Services-Accounting		(\$6,000)	
Contractual Services-Other		(\$70,011)	
Insurance Expense		(\$36,502)	
Transportation Expense		(\$11,700)	
Bad Debt Expense		(\$4,707)	
Miscellaneous Expense		(\$6,831)	
Amortization Expense		(\$27,745)	
Unaccounted For Water			
--Chemical Expense		(\$538)	
--Purchased Power		(\$2,888)	
Rate Case Expense		(\$13,950)	
Maintenance of Generator		(\$2,665)	
Taxes Other Than Income Taxes		\$403	
Original Cost of Plant			
--Net Plant			(\$645,038)
--Depreciation Expense		(\$21,480)	
CIAC			(\$65,000)
Working Capital			(\$29,805)
Total	\$35,094	(\$283,669)	(\$930,852)

St. George Island Utility Company, Ltd.
Recommended Rate Base

	Balance Per Books	Utility Adjustments	Utility Adjusted Rate Base	OPC Adjustments	Recommended Rate Base
Utility Plant in Service	\$2,475,081	\$110,261	\$2,585,342	(\$692,030)	\$1,893,312
Utility Land & Land Rights	31,542	23,276	54,818	11,086	65,904
Less: Non-Used & Useful Plant					
Construction Work in Progress	105,828	(105,828)	0		0
Less: Accumulated Depreciation	(736,847)	223	(736,624)	80,728	(655,896)
Less: CIAC	(988,742)	(11,110)	(999,852)	(332,148)	(1,332,000)
Accumulated Amortization of CIAC	132,277	6,556	138,833	28,542	167,376
Acquisition Adjustments				0	0
Accum. Amort. of Acq. Adjustments		0		0	0
Advances for Construction	(78,862)	0	(78,862)	2,775	(76,087)
Working Capital Allowance	35,113	30,508	65,622	(29,805)	35,817
Total Rate Base	\$975,390	\$53,886	\$1,029,277	(\$930,852)	\$98,425

St. George Island Utility Company, Ltd.
Recommended Net Operating Income

	Per Books	Utility Test Year Adjustments	Utility Adjusted Test Year	OPC Adjustments	OPC Adjusted Test Year	Revenue Increase (Decrease)	Revenue Requirement
OPERATING REVENUES							
Water Sales	\$307,089	\$674	\$307,763	\$35,094	\$342,857	(\$13,539)	\$329,319
Other Revenue	10,754	(4,000)	6,754		6,754	0	\$6,754
Total	\$317,843	(\$3,326)	\$314,517	\$35,094	\$349,611	(\$13,539)	\$336,073
Operation & Maintenance	\$280,907	\$217,806	\$498,713	(\$238,440)	\$260,273	\$0	\$260,273
Rate Case Expense	0	0	26,260	(13,950)	12,310	0	12,310
Depr, net of CIAC Amort.	39,026	848	39,874	(31,349)	8,524	0	8,524
Amortization	0	41,452	41,452	(27,745)	13,707	0	13,707
Taxes Other Than Income	29,326	4,751	34,077	71	34,147	(583)	33,564
Provision for Income Taxes	0	0	0	0	0	0	0
OPERATING EXPENSES	\$349,259	\$264,856	\$640,375	(\$311,414)	\$328,961	(\$583)	\$328,378
NET OPERATING INCOME	(\$31,416)	(\$268,182)	(\$325,858)	\$346,508	\$20,651	(\$12,956)	\$7,695
RATE BASE	\$975,390	\$53,886	\$1,029,277	(\$930,852)	\$98,425		\$98,425

CERTIFICATE OF SERVICE
DOCKET NO. 940109-WU

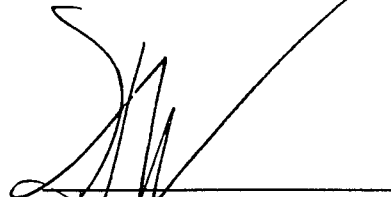
I HEREBY CERTIFY that a correct copy of the foregoing has been furnished
by U.S. Mail or hand-delivery to the following parties on this 25th day of May, 1994.

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A handwritten signature in black ink, appearing to read 'Harold McLean', is written over a horizontal line. The signature is stylized and extends upwards and to the right.

Harold McLean
Associate Public Counsel