

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Interim and) DOCKET NO. 940109-WU
Permanent Rate Increase in) Filed: August 29, 1994
Franklin County, Florida by)
ST. GEORGE ISLAND UTILITY)
COMPANY, LTD.)
_____)

ORIGINAL
OF COPY

PROPOSED FINDINGS OF FACT
OF ST. GEORGE ISLAND UTILITY CO., LTD.

Petitioner St. George Island Utility Company, Ltd. in accordance with Rules 22.056(1)(a) and 22.056(2), Florida Administrative Code, submits these proposed findings of fact.

As used herein, the Petitioner, St. George Island Utility Company, Ltd. will be referenced as "SGIU." The Florida Public Service Commission will be referenced as "the Commission." References to the transcript of the final hearing shall be designated "Tr." followed by the volume and page number. For example the opening of the hearing would be referenced "Tr. v.1, p.5."

SGIU will rely upon its position statements with regard to Issues 28, 34, 37, and 38. No findings of fact are offered with regard to these issues.

Proposed Findings of Fact

ISSUE 1

1. The quality of service provided by SGIU is satisfactory and has improved dramatically in recent years. Since 1989, when the last rate case regarding SGIU was before the Commission (Docket No. 871177-WU), SGIU has developed from a system of questionable reliability into a first class system that provides

DOCUMENT NUMBER-DATE

03871 AUG 29 84

FPSC RECORDS/REPORTING 485

Handwritten initials or marks in the bottom left corner.

safe and reliable water service for its customers. SGIU has the capacity to grow and to continue serving its existing customers and those projected into the foreseeable future.

2. In its Final Order in Docket No. 871177-WU, the Commission directed SGIU to improve its service by implementing specific programs and making designated improvements. In re: Application of St. George Island Utility Company, Ltd., Order No. 21122 (Public Service Commission 1989) at pp. 59-61. Each of the mandated programs and improvements and many others have been implemented.

3. Since the last rate case, SGIU has brought about the following programs and improvements: (A) A third well has been brought into service; (B) A 150,000 gallon elevated storage tank has been added; (C) A chlorine booster has been added; (D) The aeration plant has been expanded, repaired and improved; (E) A regular flushing program has been implemented; (F) A regular program for detection and repair of leaks has been implemented; (G) Testing programs for chlorine residuals and hydrogen sulfide have been implemented; (H) A regular system pressure testing program has been implemented; (I) A cross connection prevention program has been implemented; (J) Fencing and security have been developed and implemented at the wells and at the plant; (K) Personnel have been made available to deal with emergencies on a 24-hours a day, seven days a week basis; (L) The old generator has been replaced and a backup generator has been added; (M) A new 50 horsepower high efficiency motor and pump together with a

50 horsepower high efficiency replacement motor have been installed; (N) Variable speed drives needed for each new motor to avoid the "water hammer" problem have been installed; (O) Additional pumps are maintained in order to allow complete redundancy in the pumping system; (P) A new butterfly valve and a new altitude valve with necessary piping configuration have been installed.

4. These improvements have dramatically increased the capacity of the system and improved its reliability. Hydrogen sulfide or sulphur water complaints have been virtually eliminated. There has only been one unscheduled service outage, since the beginning of 1991, and then only for fifteen minutes, except in connection with testing by the volunteer fire fighters.

5. The system now operates at a consistent pressure of 65 pounds per square inch throughout the system. The company has consistently taken required samples in a timely manner and has passed all water quality tests.

Proposed findings with regard to Issue 1 are based upon the testimony of the witnesses Coloney (Tr. v. 2, pp. 158-60, 163-64, 243-45), Garrett (Tr. v. 7, pp. 868-69, 878-81, 883), Brown (Tr. v. 3, pp. 270-77, v. 4, pp. 555-56, 560, 571-73, 582, 608), Seidman (Tr. v. 1 pp. 44-45), Chase (Tr. v. 7, p. 892), Baltzley (Tr. v. 8, pp. 1187-89), and Bidy (Tr. v. 8, pp. 1194-1209); and upon Exhibits 48, 50, 51, 52, and 53.

ISSUE 2

6. SGIU has accurately stated the original cost of the water system. The issue of original cost was fully litigated in the last rate case conducted with regard to SGIU (Docket No.

871177-WU). Indeed, original cost was the single most contested issue in the proceeding.

7. The same parties, including SGIU, Public Counsel, Commission Staff, and representatives of the Intervenor were all active participants in that proceeding. The issue of original cost in that proceeding was identical to the issue of original cost in this proceeding except in relation to plant investments that have been made since 1987, the test year utilized in Docket No. 871177-WU. No issues have been raised in this proceeding regarding plant investments made subsequent to 1987.

8. The Commission determined in Order No. 21122, that the original cost of the SGIU system was \$2,167,138 as of the 1987 test year. Order No. 21122 at p. 75.

9. This determination was made with full knowledge that SGIU's original cost records had been lost. The Commission also knew that there had been audited financial statements reflecting plant investment.

10. SGIU offered an original cost study in lieu of its lost records. The Commission expressed the options before it as follows:

In the absence of the original source documentation, there appear to be two options available to determine the original cost of SGI's system. The first would be for us to conclude that, due to the suspect circumstances surrounding the absence of the records, SGI has not met its burden to prove its investment. Accordingly, we could conclude that SGI has no investment in utility plant until such time as it provides original source documentation. This solution does not, however, appear to be fair and just since the record does indicate that the utility has some level of investment in the system.

The second option is for us to accept SGI's original cost study, subject to any adjustments that we determine to be appropriate. This appears to be the only reasonable approach under the circumstances. However, although we will use SGI's original cost study, we stress that our action should not be construed to imply that a utility can justify investment unsupported by original source documentation with an original cost study. Further, if at any time in the future, evidence is produced which reflects that our analysis of SGI's investment is incorrect, we may, of course, readdress the issue of SGI's level of investment.

Order No. 21122 at pp. 14, 15.

11. The Commission had statements of original cost that had been provided by SGIU and by Public Counsel. The Commission accepted SGIU's original cost study, but it reduced the estimate by applying an 84 percent reduction factor, stating:

Based upon these two statements of actual cost, and our adjustments, it appears that the actual cost of the plant items addressed by those contracts was only 84 percent of the amount estimated by SGI. In view of SGI's lack of documentation and its apparent inflation of costs, we find it appropriate to apply this 84 percent reduction factor to all of SGI's estimates. Accordingly, we have adjusted all of SGI's original cost estimates to reflect 84 percent of those estimates, as set forth on Schedule No. 4-A.

Order No. 21122 a p. 19.

12. The SGIU original cost study was conducted by Wayne H. Coloney. Mr. Coloney is an engineer whose credentials are virtually beyond peer. In his study Mr. Coloney fully appraised all of the items and materials that should be accounted for in determining original cost, and determined the cost of the materials at the time they were placed in service.

13. Mr. Coloney made an original cost determination based upon his study. His studies are accurate to within a factor of ten percent.

14. The Commission also had before it the results of audited financial statements of SGIU in which unqualified opinions had been issued. Indeed, SGIU had offered the statements as a substitute for original source documents and to demonstrate that its record keeping was adequate. The Commission rejected these contentions.

15. The Commission also had before it financial statements and tax returns of Leisure Properties and SGIU for all relevant times, and the Internal Revenue Service simultaneous audit of the books and records of SGIU and Leisure Properties, Ltd. Leisure Properties Ltd. was the former owner of the utility, and is at present a ten percent owner/general partner. The IRS audit determined the depreciable assets of SGIU, which equates to original cost, to be a figure very close to the original cost determined through the Coloney original cost study.

16. Against this prior determination, Public Counsel has offered an appraisal conducted in 1978, a Leisure Properties financial statement for the year 1979, Leisure Properties tax returns for the years 1978 and 1979, and annual reports filed by SGIU with the Commission. All of these documents were either before the Commission when it conducted Docket No. 871177-WU, or through the exercise of reasonable diligence could have been

placed in evidence before the Commission by the same parties who are parties in this proceeding.

17. Public Counsel actually offered the 1979 financial statement and the 1979 income tax return of Leisure Properties, among other statements and returns, as an exhibit in Docket No. 871177-WU through a motion that was filed after the hearing concluded. The Commission took "administrative recognition" of the documents and received them into the record. In re: Petition of St. George Island Utility Company, Ltd., Docket No. 871177-WU, Order No. 20913 (Public Service Commission 1989).

18. Copies of the tax returns and financial statements were appended to the Commission order. They are the identical documents Public Counsel is trying to use in this proceeding as the basis for overturning the Commission's prior ruling.

19. Even had Public Counsel not offered the documents, the financial statements and tax returns were already part of the record in the prior proceeding. During the questioning of a witness, Barbara Withers, who also testified in this proceeding, Mr. Gatlin, then representing SGIU offered numerous tax documents and financial statements into evidence.

20. There was a colloquy among counsel (Mr. Gatlin representing SGIU and Mr. Burgess representing Public Counsel) and Commissioner Herndon at the hearing. Transcript of Proceedings In Docket No. 871177-WU at pp. 530-37.

21. Counsel and the Commissioner Herndon identified documents that would be included as part of Exhibit 21.

22. Mr. Gatlin stated at p. 531:

MR. GATLIN: Perhaps the Staff could confirm with me what was furnished to them. I am trying to avoid the issue of trying to put something into evidence that was not already furnished to them, and all I want to put in evidence is what was furnished. I don't have with me a ready reference to it, but I think that it includes the financial statements of Leisure Properties and the utility, and some tax returns, the IRS engineering report, revenue agents reports that have been furnished to staff. I don't think that the copies, when they were filed with the Staff, were furnished to Mr. Burgess but I think that he has looked at them. Mr. Dittmer reviewed them.

23. Commissioner Herndon and Mr. Gatlin stated at p. 532:

COMMISSIONER HERNDON: Federal Income Tax Returns for the years '79 through '87, Federal Income Tax Schedules and work papers balance sheets, ledgers, financial statements, and summaries of tax depreciation and distribution to partners. That's out of the Order dated -- well, this doesn't have an Order number on it.

MR. GATLIN: The engineering appraisal with the IRS, and the revenue agent report, added to that list that you have.

24. Commissioner Herndon and Mr. Gatlin stated at p. 534:

COMMISSIONER HERNDON: All right, composite exhibit No. 21. Mr. Gatlin, is this Ms. Withers who is sponsoring this exhibit?

MR. GATLIN: Yes. She got most of it together.

MR. PIERSON: Did you want to include the response to Audit Disclosure No. 9?

MR. GATLIN: Yes.

25. The 1979 audited financial statement of Leisure Properties, the 1979 tax return and subsequent year tax returns of Leisure Properties, and the tax returns of SGIU were all part of the Response to Audit Exception No. 9. Despite being given seven days to file exceptions to the exhibit, as suggested by Mr.

Pruitt, representing the Commission, no exception to Exhibit 21 was ever filed by Public Counsel. Instead, Public Counsel sought to use a few of the documents that were part of Exhibit 21 by having the Commission take official recognition of them.

26. In addition, Mr. Thomas Day, who appeared as a witness at the hearing in 1989, and who served as a representative of the Intervenor in the instant proceeding advised the Commission in 1989, that he had all of the tax returns of SGIU and its 1987 audited financial statement. See pp. 34-46 of the transcript of proceedings in Docket No. 871177-WU.

27. Public Counsel also had access to the 1978 Billy Bishop appraisal that was received in evidence in this proceeding as Exhibit 6. Indeed, just as Public Counsel cross-examined Mr. Coloney, using Bishop appraisals during the course of this proceeding, he did the same thing in 1989. See pp. 277-78 of the transcript of proceedings in Docket No. 871177-WU.

28. As to the annual reports of SGIU, Public Counsel advised the Commission in this proceeding that they were obtained from the Commission's records. Since these reports predate the date of the last hearing, they would have been available to Public Counsel then as well. Public Counsel is seeking to make the same case here that it made in 1989, using documents that it used or should have used in 1989.

29. Even if it were determined, despite the identity of issues parties and evidence that the doctrines of *res judicata* and collateral estoppel do not bar relitigation of the original

cost issue, evidence presented in this proceeding does not demonstrate that the Commission's analysis of original cost undertaken in 1989 was incorrect. Indeed, the evidence supports the Commission's 1989 determination.

30. Despite the fact that Billy Bishop and other members of his firm who conducted the 1978 appraisal and other appraisals are alive and well, no witnesses were called to testify that any of the appraisals would justify a different conclusion regarding original cost than was reached by Mr. Coloney in his original cost study. Indeed, an appraisal conducted by Mr. Bishop in 1982, which was received in evidence as Exhibit 47, and an appraisal conducted in 1977 by J. Ed Sayers, M.A.I., which was received in evidence as Exhibit 75, reached different conclusions than Mr. Bishop reached in 1978.

31. But, the Bishop study is not inconsistent with the Coloney study. All that it reflects is that some plant investments which Mr. Coloney believed had been put in place before 1978 were put in place later. The result would be that the Coloney study erred on the side of expressing the original cost too low because Mr. Coloney believed that lower cost materials available in 1978 or before were used, rather than higher cost materials used later.

32. The remainder of Public Council's case is grounded on financial statements, tax returns and annual reports. These are the same kinds of documents that the Commission determined in Order No. 21122 could not reliably replace original documents.

Furthermore, the documents do not accurately reflect the original cost of SGIU.

33. Public Counsel has suggested that a single entry in the 1979 audited financial statement of Leisure Properties, Ltd. labeled "investment in utility" sets the original cost as of that date. It does not. It merely reflects some, but not all, of the hard costs. Hard costs include actual physical improvements, and, under National Association of Regulated Utility Commissioners ("NARUC") standards, also include construction costs.

34. The entry in the 1979 financial statement of Leisure Properties did not include some of the hard costs such as the costs of construction when crews of Leisure Properties were used to lay line. These costs were not attributed to the utility in the 1979 financial statement although they were later attributed to the utility after the Internal Revenue Service conducted its simultaneous audit of the books of Leisure Properties and the books of SGIU. It also did not include the hard cost of improvements put in place by SGIU after the sale but before the end of 1979.

35. The entry in the 1979 financial statement also did not include soft costs such as architectural costs, engineering costs, feasibility studies, costs of the development of regional impact process, carrying costs, property taxes and interest, construction overhead, legal fees, supervision and general office salaries. All of these costs are properly allocated to original

cost under NARUC standards, and none of them were included in the 1979 financial statement of Leisure Properties entry "investment in utility." When IRS conducted its simultaneous audit of the books of Leisure Properties and SGIU, it included soft costs and reached a conclusion that investment in the utility plant as of 1979, the date that the utility was sold by Leisure to SGIU, exceeded \$2.2 million.

36. Entries in the books of SGIU in years subsequent to 1979, that reflected new plant investment also did not include all hard and soft costs that can be allocated to original cost under NARUC standards.

37. There is nothing surprising in the fact that the 1979 audited financial statement of Leisure Properties, Ltd., did not include all of the cost items for investment in the utility that could be included under NARUC standards. Leisure Properties was not a utility subject to NARUC standards and there is no reason to believe that the auditing accountants would have applied NARUC standards.

Proposed findings with regard to Issue 2 are based upon the testimony of the witnesses Coloney (Tr. v. 2, pp. 162-63, 167-69, 171-82, 184-87, 189-216, 201-03, 212-13, 248), Brown (Tr. v. 9, pp. 1310-12,; v. 10, pp. 1375-1472, v. 11 pp. 1599-1628, 1651-58, 1662-63), Seidman (Tr. v. 7, 985-98; v. 8 1154, 1171-1172), Dismukes (v. 6, p. 765), and Withers (Tr. v. 11, pp. 1542-45, 1574-90); upon Exhibits 6, 7, 8, 20, 21, 22, 42, 47, and 75; and upon Public Service Commission orders 20913, 21741, and 21122; and the record of proceedings conducted in Docket No. 871177-WU, all of which were officially recognized by the Commission.

ISSUE 3

38. SGIU's pro forma adjustment of \$21,000 for engineering design fees is an adjustment to rate base for previously unrecorded engineering fees associated with the construction of the elevated tank. All of the invoices provided by Coloney Company Consulting Engineers, Inc., for engineering services provided between March, 1988, and December, 1990, totaling \$21,814.24 were provided in the response to Audit Exceptions 9 and 14. These costs are not a duplication of expense, nor were they previously capitalized.

Proposed findings with regard to Issue 3 are based upon the testimony of the witness Seidman (Tr. v. 7, pp. 1001-03), and upon Exhibits 1 (vol. 1, p. 3), and 29 (Schedule 5, response to Audit Exceptions 9 and 14).

ISSUE 4

39. "Plant in service" should be reduced by \$647 for leasehold improvements. SGIU and the law offices of Gene Brown, P.A. share a leasehold, each occupying 50 percent of the space. Leasehold improvements attributed to plant in service in the amount of \$1,295 should be adjusted to reflect only the portion of the leasehold allocated to utility use. While it would be incorrect to allocate total leasehold improvements to the utility, it would also be incorrect to allocate less than 50 percent of it.

Proposed findings with regard to Issue 4 are based upon the testimony of the witness Seidman (Tr. v. 7, p. 929-30, 932), and upon Exhibit 29 (Schedule 5, response to Audit Exception No. 7).

ISSUE 5

40. Affiliated companies use space at the law firm of Gene Brown, P.A. All of the furniture and substantially all of the equipment used by SGIU belongs to an affiliate.

41. SGIU uses furniture and equipment owned by an affiliate far more than any affiliate uses furniture or equipment owned by SGIU. In effect SGIU has been provided a furnished office for the same market rental rate as an unfurnished office. Use by an affiliate of SGIU equipment that does occur is minimal, less than any level that is subject to meaningful calculation.

Proposed findings with regard to Issue 5 are based upon the testimony of the witnesses Brown (Tr. v. 5, pp. 605-06), Chase (Tr. v. 7, p. 895), and Seidman (Tr. v. 7, p. 932).

ISSUE 6

42. Some adjustment to contribution in aid of construction ("CIAC") is appropriate. An adjustment should be made to increase test year CIAC by \$44,440 to reflect contributions received in 1991 but not booked until 1993.

43. An adjustment in the amount of \$45,600 for 30 lots to ascribe connection fees of \$2020 to those lots is not appropriate. SGIU's CIAC list is accurate and complete. It is supported by the necessary documentation for each account and the proper amount is recorded for each account. Only those lots entitled to the \$500 fee are recorded at that charge.

44. An adjustment to increase CIAC by \$65,000 to reflect an advance from companies affiliated with SGIU is not appropriate. These funds represented the proceeds of the settlement of a law

suit in which SGIU was not a party. In accordance with the settlement, the affiliated companies "advanced" funds to SGIU to implement improvements to the system. An "advance" is a loan, not a contribution. These funds are properly carried on the books of SGIU as a loan, not as CIAC.

Proposed findings with regard to Issue 6 are based upon the testimony of the witnesses Brown (Tr. v. 9, pp. 1312-14, 1324-25, v. 10, pp. 1357-74, v. 11, pp. 1597-99) and Seidman (Tr. v. 7, pp. 993-98); and upon Exhibit 63.

ISSUE 7

45. SGIU has presented an appropriate matching of rate base, on the one hand, with revenues and expenses on the other. With the Commission's approval, SGIU used 1992 as its test year, and, in order to implement programs that were not in place in 1992, but that will serve to improve service to its customers, SGIU used pro forma adjustments, including only adjustments which recognize costs necessary to adequately serve 1992 test year customers. The introduction of any revenues or costs that do not apply to the test year are inappropriate.

Proposed findings with regard to Issue 7 are based upon the testimony of the witnesses Brown (Tr. v. 9, pp. 1285-86) and Seidman (Tr. v. 1, pp. 42-48, 53-54; v. 7, 932-35, 999-1000), and Exhibit 1.

ISSUE 8

46. The level of test year rate base depends upon the resolution of other issues. When the effect of prehearing stipulations and reduction of pro forma costs based on information provided at the hearing are considered, the appropriate level of test year rate base is \$791,175.

Proposed findings with regard to Issue 8 are based upon the testimony of the witness Seidman (Tr. v. 1, pp. 45-48, 53) and upon Exhibit 1.

ISSUE 9

47. The capital structure for ratemaking purposes should be 100 percent debt. SGIU has a negative equity balance, and using 100 percent debt as the capital structure treats this consistently with the Commission's Order No. 21122. The long term and short term debt components should be reconciled to rate base on a pro rata basis, with customer deposits reflected at SGIU's actual average balance for the test year.

Proposed findings with regard to Issue 9 are based upon the testimony of the witness Seidman (Tr. v. 1, pp. 67-68) and upon Exhibit 1, pp. 56, 57.

ISSUE 10

48. The weighted average cost of capital is 8.04 percent, composed of the following components:

	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Long term debt	89.90%	7.68%	6.90%
Short term debt	8.60	12.17	1.05
Customer deposits	<u>1.49</u>	6.00	<u>0.09</u>
	100.00%		8.04%

The cost of customer deposits is reduced from the MFR projection to reflect the current cost allowed by Rule 25-30.311, Florida Administrative Code.

Proposed findings with regard to Issue 10 are based upon Exhibit 1, p. 56, and Commission Rule 25-30.311.

ISSUE 11

49. There is no justification for contrasting pro forma adjustments to the test year in this case with those requested in

the rate case that the Commission dismissed just prior to the filing of the petition in this proceeding. SGIU is seeking, through the pro forma adjustments, to implement programs that are important to the quality of service that SGIU provides its customers. These programs are not now part of SGIU's rate structure, or if they are, have had insufficient funds allocated to implement the programs.

50. The fact that these programs were not offered as pro forma adjustments in the dismissed proceeding has no bearing upon whether the programs are desirable, and whether they will help to ensure good quality service. The programs are all important, in most cases vital if SGIU is going to continue to improve the service it is providing its customers as it has improved service during the past three years. Whether the pro forma adjustments should be allowed should be determined based upon the merits of the programs they are designed to implement.

Proposed findings regarding Issue 11 are based upon the testimony of the witnesses Brown (Tr. v. 3, pp. 264, 291; v. 9, pp. 1269-1292-1303), Seidman (Tr. v. 7, pp. 913-20), and Dismukes (Tr. v. 6, pp. 716-17).

ISSUE 12

51. SGIU expenses are not comparable to the expenses of most other Class B utilities. There are many reasons why this is true. SGIU is a unique utility with unique features that add to the cost of providing service. These features include the following:

- A. The physical configuration of SGIU is unusual. Its service area is on a barrier island. Its

water source is on the mainland, miles from its nearest customer. The service area itself is long and narrow. SGIU has an unusually long distribution system for a utility of its customer base.

- B. The volume of water that SGIU needs to provide is extremely cyclical. There are three extraordinary peak demand days. The rest of the time the capacity of the system is used only to a fraction of its capacity. Thus, SGIU needs to maintain facilities and capacity that are needed only a few days each year.
- C. SGIU does not have an exclusive service area. Residents can use private wells for water service and many of them do. SGIU is required to provide service to customers within its service area who request it, and therefore must extend lines for long distances, passing by developed properties with potential customers who do not choose to use the system.
- D. Because of the large number of private wells, SGIU has significant cross-connection problems, necessitating a costly program to ensure that private wells do not endanger the integrity of the system and the safety of the product.

- E. SGIU's service area is a barrier island. Its equipment is subject to the corrosive effects of a coastal environment.
- F. SGIU serves a developing area. There is a need for negotiation of and execution of contracts such as developer agreements that increase the cost of legal services for SGIU as compared to utilities that serve built-out communities.

52. All of these factors add significantly to the cost of maintaining the infrastructure of the utility and operating the utility. There are few other utilities that share this range of unique features. It does not appear that any other Class B utility has this unique combination of operational problems.

53. It is therefore inappropriate to compare the cost of operating and maintaining them to the cost of operating and maintaining SGIU. Indeed, the only utility that shares a number of these features about which there was testimony at the hearing has higher operating expenses than SGIU.

Proposed findings regarding Issue 12 are based upon the testimony of the witnesses Coloney (Tr. v. 2, pp. 235-36, 250-51), Brown (Tr. v. 3, pp. 286-87, 338; v. 4, pp. 576-77; v. 9, pp. 1269-72), Seidman (Tr. v. 1, pp. 50-51, 74-75; v. 7, pp. 920-28), and Dismukes (Tr. v. 5, pp. 710-716).

ISSUE 13

54. Test year expenses have been properly allocated in SGIU's filing with the exception of insurance expense for Mr. Brown and Ms. Chase. Ms. Chase's insurance expense should be allocated in the same proportion as her salary.

55. None of Mr. Brown's insurance expense should be allocated to SGIU because he is not an employee. No other allocation of test year expenses to utility affiliates should be made.

56. SGIU affiliates do marginally benefit from SGIU expenses. For example, SGIU employees may from time to time answer and route a telephone call that relates to affiliate business. These benefits to affiliates are, however, minimal, quite below anything that can even be meaningfully calculated. SGIU benefits far more significantly from affiliate expenses, including the use of the affiliate's furniture and office equipment, the use of two affiliate telephone lines, and all of the office space occupied by Gene Brown and Sandy Chase while they are working on SGIU business.

Proposed findings regarding Issue 13 are based upon the testimony of the witnesses Brown (Tr. v. 9, pp. 1290-92, 1320-21; v. 10, pp. 1477-82), Chase (Tr. v. 7, pp. 891-92, 895-96, 901-04), and Seidman (Tr. v. 7, pp. 928-32, 1040-45, 1144-45); and upon Exhibit 61 (Exhibit B to prefiled rebuttal testimony of the witness Brown).

ISSUE 14

57. It would be foolish to reduce SGIU employees' salaries. One of the primary reasons that SGIU has improved quality of service is that it has recruited and kept good employees. SGIU and its customers have suffered in the past when SGIU staff was not stable and when employees left to find better jobs.

58. Indeed, virtually every witness with any familiarity with the SGIU system has acknowledged the importance of its

operations manager, Hank Garrett, and the desirability of keeping him there. SGIU needs all of its present full-time employees to in order to continue providing adequate service and in order to continue improving its service.

59. It has been suggested that SGIU could get along with one fewer full-time field assistant. The suggestion shows a complete lack of understanding of problems that SGIU confronts in its day-to-day operations. SGIU has always needed two full time field assistants in addition to its operations manager.

60. Mr. Garrett and a single assistant operated the utility without the second assistant for a period of time in recognition of cash flow problems that SGIU was experiencing. These two employees are now on call seven days every week, 24 hours every day.

61. The list of duties of these employees is impressive and has been increased in recent years on account of Department of Environmental Protection testing requirements; increased bookkeeping responsibilities; maintaining the cross-connect program; leak detection and repair; on going maintenance; and flushing of the distribution system, which takes several hours every day. This daily flushing becomes even more important and time consuming in winter months when less water is pumped to customers. It is difficult to appreciate the suggestion that one less field assistant is needed.

Proposed findings regarding Issue 14 are based upon the testimony of the witnesses Brown (Tr. v. 3, pp. 275-76, 291-94; v. 4, pp. 573-76, 578, 611-12; v. 9, pp. 1286-90), Seidman (Tr. v. 1 pp. 54-56; v. 7, pp. 935-99),

Garrett (Tr. v. 7, pp. 865-66, 869-72, 876), Chase (Tr. v. 7, p. 893-94), and Dismukes (Tr. v. 5, pp. 722-27); and upon Exhibit 1 (schedule 5 p. 2 and schedule B-3 p. 1, "O & M detail").

ISSUE 15

62. Until recently, SGIU has not had a pension program, but it has now implemented a program that completely separates responsibility for managing the funds from management of SGIU has been initiated. While it may be possible to quarrel with some elements of the program, it is clear that the employees of SGIU deserve a pension program and that the pension program will serve the goal of helping to recruit and keep quality employees. There is no justification for reducing pension benefits.

Proposed findings regarding Issue 15 are based upon the testimony of the witnesses Brown (Tr. v. 3, pp. 294-96, 360-62; v. 4, pp. 553-54, 590-91, 608-09; v. 9, pp. 1257, 1296-97; v. 10, p. 1528), Seidman (Tr. v. 1, p. 57; v. 7, pp. 949-54), Garrett (Tr. v. 7, p. 875), and Dismukes (Tr. v. 5, pp. 740-44).

ISSUE 16

63. Audit Disclosure No. 6 does not suggest reducing engineering expenses. It only summarizes actual test year expenses and describes the retainer agreement between Mr. Coloney and SGIU. There is no evidence in the record to justify rejection of that agreement or to reduce the pro form engineering expense. SGIU uses the services of Wayne Coloney and other engineers for advice and guidance that benefits SGIU and its customers. While day-to-day engineering tasks are provided by less expensive firms, the oversight and advice of Mr. Coloney has proved invaluable to SGIU.

Proposed findings regarding Issue 16 are based upon the testimony of the witnesses Coloney (Tr. v. 2, pp. 216-18, 220), Brown (Tr. v. 3, p. 296; v. 4, pp. 570-71, 610-11; v. 9, pp. 1317-19), and Seidman (Tr. v. 1, p. 57).

ISSUE 17

64. Bookkeeping and accounting responsibilities have increased in recent years. By using the services of two accountants, one with day-to-day responsibilities and one with oversight responsibilities, SGIU has improved its books and record keeping from the time of the last rate case in 1989 until 1992, and from 1992 until the present.

65. To keep up with the increased work load, SGIU has recently hired a new full time accountant. It would be counterproductive to adjust contractual services-accounting.

Proposed findings respecting Issue 17 are based upon the testimony of the witnesses Brown (Tr. v. 3, p. 297; v. 4, pp. 368-74, 457-60; v. 5, p. 606; v. 9, pp. 1317-19) and Seidman (Tr. v. 1, pp. 57-58; v. 7, pp. 954-60), and upon Exhibit 27 and Commission Order No. 92-0122-FOF-WU.

ISSUE 18

66. In its MFR filing, SGIU requested \$24,000 annually for legal contractual services. The need for legal services is likely to decrease, but it will always be at least \$12,000 annually. SGIU serves a growing community. There will be on going needs to deal with permitting issues at the Water Management District, and all of the other agencies such as the Department of Environmental Protection, and to deal with developers and new customers in contractual relationships with SGIU.

67. SGIU needs legal assistance to ensure that legal matters are competently negotiated and that legal documents are competently drafted. It also needs on going legal support to ensure that responsibilities imposed by regulatory agencies are met.

Proposed findings regarding Issue 18 are based upon the testimony of witnesses Brown (Tr. v. 3, pp. 297-98; v. 4, p. 478, 483-95, 521-28; v. 5 604-05; v. 9, pp. 1280-84) and Seidman (Tr. v. 1, p. 58; v. 7, pp. 943-49).

ISSUE 19

68. Just as it is important to recruit and keep good employees, it is important to have a good manager in charge of SGIU operations. It would serve neither the interests of SGIU nor the interests of its customers if SGIU is not able to hire a competent manager because insufficient fees are allocated in this proceeding.

69. Management fees should not be adjusted in any manner that would render it impossible to recruit, hire and keep a competent manager. At minimum, an annual salary of \$42,000 plus all employee benefits is required to ensure that SGIU will be able to secure and maintain competent management.

70. If insufficient fees are allocated to management through this proceeding there is a prospect that instead of continuing to improve service, the gains accomplished during recent years will be lost.

Proposed findings regarding Issue 19 are based upon the testimony of the witnesses Coloney (Tr. v. 2, pp. 164-66, 236-43), Brown (Tr. v. 3, pp. 262-65, 270-75, 289-

90, 298-99; v. 4, pp. 514-516, v. 9, pp. 1272-80, 1314-17, 1326), Garrett (Tr. v. 7, pp. 867-68), Chase (Tr. v. 7, pp. 898-900), and Seidman (Tr. v. 8, pp. 939-43).

ISSUE 20

71. Five items that fall under the heading "contractual services-other" should be adjusted for a total reduction of \$27,845. The category should be reduced by \$3,873 to reflect Stipulation 21. The category should be reduced by \$1,870 to reflect that triennial testing fees were reflected as annual.

72. The category should be reduced by \$3,876 to reflect an elimination of duplication of sample pickup costs. The category should be reduced \$1916 for tank maintenance expense to show an actual proposal for \$20,493 rather than the \$22,409 estimated in the MFR. The category should be reduced \$16,310 for the pipe cleaning program to reflect an actual proposal to perform the service for \$21,183 rather than the \$37,493 estimated in the MFR.

Proposed findings regarding Issue 20 are based upon the testimony of the witness Seidman (Tr. v. 1, pp. 57-59) and Brown (Tr. v. 3, pp. 299-301, 362-65; v. 10, pp. 1529-30), and upon Exhibit 61 (Exhibits C and D to prefiled rebuttal testimony of Gene Brown).

ISSUE 21

73. Transportation expenses should not be reduced. SGIU employees are compensated a set amount for travel. The set payment is based upon experience and is a conservative estimate of the travel that employees are required to make as part of their job responsibilities.

74. While employees did not maintain regular travel logs during the test year, whenever logs have been maintained they

have reflected that employees travel more miles in their own private automobiles than they are compensated for traveling. In the past SGIU has owned and maintained its own vehicles. It has been shown that it would cost at least \$2,500 a year more for SGIU to own and operate its own vehicle than to pay the requested travel allowance.

Proposed findings regarding Issue 21 are based upon the testimony of the witnesses Brown (Tr. v. 3, pp. 302, 344-59, 367-68; v. 4, pp. 559-60; v. 5, pp. 593-95, 614; v. 9, pp. 1321-23), Seidman (Tr. v. 1, pp. 59-60; v. 7, pp. 965-68), Chase (Tr. v. 7, pp. 895-98, 905-06), and Garrett (Tr. v. 7, pp. 873-75); and upon Exhibit 28.

ISSUE 22

75. SGIU needs to maintain workers' compensation, casualty and liability insurance. Insufficient fees were allocated for insurance during the last rate case. SGIU has recently obtained insurance through a loan of funds from an affiliate company.

76. Total insurance costs reflected in the MFR's can be reduced by \$23,799 to reflect the actual cost of obtaining needed insurance. The actual costs of liability insurance is \$12,044 less than estimated in the MFR. The actual cost of casualty insurance is \$13,061 less than estimated in the MFR. The actual cost of workers' compensation insurance \$1,306 higher than estimated in the MFR.

Proposed findings regarding Issue 22 are based upon the testimony of the witnesses Brown (Tr. v. 3, pp. 302-313, v. 4, pp. 591-92; v. 9, pp. 1294-96), Seidman (Tr. v. 1, p. 60; v. 7, p. 965-68), and Dismukes (Tr. v. 6, p. 774-75); and upon Exhibit 61 (Exhibit E to prefiled rebuttal testimony).

ISSUE 23

77. SGIU's unaccounted for water is not excessive. It is within normal ranges. Given the unusual length of the SGIU delivery system it is noteworthy that the rate is not higher. No adjustment for "chemical, purchased power" expense item is justified.

Proposed findings regarding Issue 23 are based upon the testimony of the witnesses Baltzley (Tr. v. 8, pp. 1188-89), Dismukes (Tr. v. 6, pp. 779-80), and Seidman (Tr. v. 7, pp. 971-74; v. 8, p. 1145).

ISSUE 24

78. SGIU experiences unusually high bad debt expense. There are many residential units within the service area of SGIU that are rented on a month-to-month basis. The transient nature of these renters makes it easy for them to leave without paying utility bills, and they do that. There should be no adjustment for bad debt expense.

Proposed findings respecting Issue 24 are based upon the testimony of the witnesses Brown (Tr. v. 3, pp. 303-04, 335-44) and Seidman (Tr. v. 1, pp. 60-61).

ISSUE 25

79. Miscellaneous expenses should be reduced by \$3,544 to adjust for items identified in the audit and not disputed by SGIU. These are non-recurring, non-utility or non-supported expenses that were identified in the staff audit. Otherwise, miscellaneous expense items reclassify test year expenses and reflect an increase in expenses.

Proposed findings regarding Issue 25 are based upon the testimony of the witnesses Brown (Tr. v. 3, pp. 304-05; v. 9, pp. 1304-06), Seidman (Tr. v. 1, p. 61; v. 7, p.

968), Garrett (Tr. v. 7, p. 872), and Chase (Tr. v. 7, pp. 896-97, 898).

ISSUE 26

80. Rate case expense is substantial. It was estimated in the MFR to be \$105,000. It is already up to \$134,000. It will exceed \$150,000.

81. The primary reasons for the increase in rate case expense has been the extraordinary audit and the need to respond to it, and the fact that Public Counsel and the Intervenor have sought to relitigate the issue of original cost. Two additional rebuttal witnesses were required, and additional testamentary responsibilities were imposed on other rebuttal witnesses.

82. The hearing, originally scheduled for two days took nearly six days to complete. It can be fairly estimated that \$15,000 was added to the cost of Mr. Seidman's participation in the proceeding; \$4,000 to Mr. Coloney's; \$3,000 to Ms. Withers; and \$15,000 for legal counsel.

83. The appropriate amount of rate case expense is \$154,734.88. The annual amortization expense is \$38,683.72. The expense includes \$134,024.88 actually incurred through the first hearings and \$20,710 to complete the proceeding through extended hearings and the post hearing briefs.

84. This has been a costly proceeding, certainly more costly than SGIU anticipated. It is noteworthy, however, that even with unexpected issues and extended hearings the rate case expense is less than had been estimated by Ben Johnson Associates in 1991.

Proposed findings regarding Issue 26 are based upon the testimony of the witnesses Brown (Tr. v. 9, pp. 1323-24; v. 10, p. 1482; v. 11, pp. 1596-97), Seidman (Tr. v. 1, pp. 61-63; v. 7, pp. 974-84; v. 8 pp. 1121-37), and Dismukes (Tr. v. 6, pp. 746, 747); and upon Late Filed Exhibit 43.

ISSUE 27

85. Expenses for the system analysis, aerator analysis, hydrological study, and the fire protection study should be reduced by \$28,370 to reflect confirmed reduced contract costs for these studies. In addition all study costs should be amortized over five years rather than two years.

86. All of these studies are important features of maintaining and improving service provided by SGIU. There has been no shortage of criticism of past operations of SGIU.

87. At the conclusion of the last rate case, the Commission directed SGIU to implement new programs even though the cost of the programs was not included as part of SGIU's rate structure. SGIU undertook to implement improvements on its own initiative in addition to improvements mandated by the Commission. These programs were also not included as part of SGIU's rate structure.

88. Even though it has operated at a loss since the last rate case SGIU has implemented many improvements to its system. Pro forma adjustments, including the various studies, represent the cost of maintaining and continuing to improve service offered by SGIU. They are costs SGIU cannot afford without adequate rates.

89. The fire study is a good example. Obviously many SGIU customers are anxious that SGIU provide a level of service that

would meet fire protection standards. At the hearing in this proceeding, however, there were at least three different views expressed about what SGIU will need to do to meet those standards.

90. Clearly a study is desirable so that SGIU can learn what is the most effective means of meeting the objective in terms of service and in terms of cost. Only in this manner can SGIU customers intelligently evaluate whether they truly desire and are willing to pay for fire protection service.

Proposed findings regarding Issue 27 are based upon the testimony of the witnesses Coloney (Tr. v. 2, pp. 221-26), Seidman (Tr. v. 1, pp. 64-66; v. 7, p. 920, 999-1000), Brown (Tr. v. 9, pp. 197-1303, 1319-20; v. 10 pp. 1491-95), Abbott (Tr. v. 6, p. 838), and Bidy (Tr. v. 8, pp. 1229-31); and upon Exhibit 61 (Exhibits G and H to prefiled rebuttal testimony of the witness Brown).

ISSUE 29

91. The cost of maintaining the old generator from the test year should not be eliminated simply because SGIU has purchased a new generator. This generator, too, will require maintenance. Furthermore, SGIU now has two generators, both of which will need to be maintained.

Proposed findings regarding Issue 29 are based upon the testimony of the witnesses Seidman (Tr. v. 7, p. 984) and Brown (Tr. v. 9, pp. 1307-08).

ISSUE 30

92. SGIU has presented an appropriate matching of revenues and expenses. Revenues and expenses are both taken from the 1992 test year. Pro forma expenses represent additional costs necessary to provide adequate service to test year customers.

93. There is no justification for including revenues or expenses from another period that are not associated with test year customers, especially since the projected expenses have not been shown to be the actual expenses or adequate.

Proposed findings regarding Issue 30 are based upon the testimony of the witnesses Brown (Tr. v. 9, pp. 1285-86) and Seidman (Tr. v. 1, pp. 63-65; v. 7, pp. 999-1000).

ISSUE 31

94. The appropriate level of test year operating income is \$63,610 after adjusting for the effect of prehearing stipulations and the reduction in pro forma costs based on information provided at the hearing.

Proposed findings regarding Issue 31 are based upon the testimony of the witness Seidman (Tr. v. 1, p. 69).

ISSUE 32

95. The total revenue requirement is \$629,279 after adjusting the requested amount to recognize the effect of prehearing stipulations and the reduction in pro forma costs based on information provided at the hearing.

Proposed findings regarding Issue 32 are based upon the testimony of the witness Seidman (Tr. v. 1, p. 69).

ISSUE 33

96. The appropriate rates to cover the adjusted revenue requirement set out in Paragraph 59 are as follows:

Residential & General Service:

<u>Meter Size</u>	<u>Monthly BFC</u>
5/8 " x 3/4"	\$ 30.91
1"	77.27
1 1/2"	154.54
2"	247.27
3" Cmpd	494.54
3" Turbine	540.91
4" Turbine	927.27
6" Turbine	1931.81

Gallorage charge \$2.84 per MG

Rates should become effective when tariffs are approved by the Commission.

Proposed findings regarding Issue 33 are based upon the testimony of the witness Seidman (Tr. v. 1, p. 69).

ISSUE 35

97. It would serve no useful purpose and would serve only to frustrate management of SGIU if service availability charges were placed in an escrow account. There has been no showing that SGIU has failed to meet its obligation to provide service to customers who have paid service availability charges. Prior escrow agreements have caused great confusion and have been disruptive to SGIU meeting its responsibilities to implement needed improvements to the system.

Proposed findings regarding Issue 35 are based upon the testimony of the witnesses Brown (Tr. v. 4, pp. 507-513, 612-13; v. 9, pp. 1326-27; v. 10, pp. 1523-28) and Seidman (Tr. v. 1, p. 106, 110; v. 7 p. 963).

ISSUE 36

98. The appropriate reduction after four years is calculated in accordance with Rule 25-30.470, Florida

Administrative Code. Based on the revenue requirement as set out in Paragraph 59 above, and the rate case expense set out in Paragraphs 50 and 51, it is 6.39 percent applied as follows:

Residential & General Service:

<u>Meter Size</u>	<u>Monthly BFC</u>
5/8 " x 3/4"	\$ 1.98
1"	4.94
1 1/2"	9.88
2"	15.80
3" Cmpd	31.60
3" Turbine	34.56
4" Turbine	59.25
6" Turbine	123.44

Gallongage charge \$.18 per MG

Proposed findings regarding Issue 36 are based upon paragraphs 50, 51, and 59 herein, and an application of Rule 25.30.470.

ISSUE 39

99. The books and records of SGIU are kept in substantial compliance with rules and regulations of the Commission. After the last rate case hearing regarding SGIU, the Commission was critical of the books and records of SGIU. In 1992, however, the Commission determined in Order No. 92-0122-FOF-WU that the books and records of the utility were in substantial compliance.

100. The books and records of SGIU have improved since 1992. The staff auditor determined that SGIU books and records are in substantial compliance. Although she added the caveat except as set out in Audit Exceptions, she did not testify that this exception was such as to take the books and records out of substantial compliance.

101. There is no evidence in this proceeding from which it could be determined that the books and records of SGIU are not in substantial compliance.

Proposed findings regarding Issue 39 are based upon the testimony of the witnesses Drawdy (Tr. v. 1, pp. 117-119), Withers (Tr. v. 11, pp. 1540-41, 1571-73), Seidman (Tr. v. 7, pp. 1001-05); and upon Exhibit 27.

ISSUE 40

102. SGIU is presently serving approximately 1200 ERCs. SGIU is fully capable of serving well in excess of 1541 ERCs while maintaining compliance with all government regulations.

103. Testimony that SGIU can serve only 1346 ERCs is based upon an erroneous view of the system's capacity which ignores the fact that peak load demands only occur on three days during the year and ignore the capacity that is accomplished by combining storage and pumping capacity. Furthermore the limitation of 1346 ERCs is based upon the consumptive use permit issued by the Northwest Florida Water Management District, which has been temporarily modified and is undergoing permanent modification.

Proposed findings regarding Issue 40 are based upon the testimony of the witnesses Coloney (Tr. v. 2, pp. 160-61, 220-21, 226-34, 243-45), Brown (Tr. v. 3, p. 276; v. 4, p. 582; v. 10, p. 1483), Bidy (Tr. v. 8, pp. 1195-1201, 1214-1223), and Baltzley (Tr. v. 8, pp. 1188-89); and upon Exhibits 48, 50, 51, 52 and 53.

ISSUE 41

104. SGIU is fully capable of meeting existing needs and projected growth through 1998. By constructing improvements recommended by its engineers, SGIU is fully capable of meeting the needs of its customers into the future. As demonstrated by

its implementation of many improvements during the past four years when it was operating at a loss, it is clear that SGIU is fully capable of implementing needed improvements in the future with an improved revenue base.

Proposed findings regarding Issue 41 are based upon the testimony of the witness Coloney (Tr. v. 2, pp. 160-61, 226-34), Bidy (Tr. v. 8, pp. 1194-1209), and Brown (Tr. v. 4, p. 560), and upon Exhibits 50, 51, 52, and 53.

Respectfully submitted this 21st day of August, 1994.

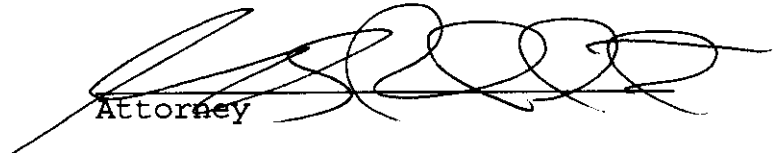


G. Steven Pfeiffer
Florida Bar No. 124400
APGAR, PELHAM, PFEIFFER
& THERIAQUE
909 East Park Avenue
Tallahassee, Florida 32301
Telephone: 904/222-5984

**Attorneys for St. George
Island Utility Company, Ltd.**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by hand delivery to Robert Pierson and Suzanne Summerlin, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0863; and to Harold McLean, Associate Public Counsel, Claude Pepper Building, Room 812, 111 West Madison Street, Tallahassee, Florida 32399-1400; and a copy has been furnished by U.S. Mail to Barbara Sanders, St. George Island Water and Sewer District, Post Office Box 157, Apalachicola, Florida 32320 this 21st day of August, 1994.



Attorney