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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a rate increase )  
in Lee County by Florida Cities Water )  
Company (North Fort Myers Division )

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Docket No. 950387-SU  
Filed: March 13, 1996

Direct Testimony  
of  
Cheryl Walla

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FPSC-RECORDS/REPORTING

1 TESTIMONY

2 OF

3 CHERYL WALLA

4 Q. What is your name and address?

5 A. Cheryl Walla, 1750 Dockway Drive, N. Ft. Myers, FL 33903.

6 Q. What is your interest in this case?

7 A. I am a water and wastewater customer of this utility.

8 Q. Have you taken any official action in the docket?

9 A. Yes. Our group, who I represent, filed a protest to Order No. PSC-95-  
10 1360-FOF-SU, the Proposed Agency Action order.

11 Q. Did you agree with the proposed findings of that order?

12 A. I did not.

13 Q. Have you had contact with the staff of the Commission?

14 A. Yes I have.

15 Q. With whom have you had contact?

16 A. Mr. Crouch, Mr. Yaeger, Tom Walden, Ed Fuchs.

17 Q. What concerns have prompted this testimony?

18 A. Two general areas: first, we do not believe that the utility or the staff has  
19 correctly accounted for the infiltration and inflow (to which I will refer as  
20 "infiltration") into the wastewater system. FCWC used the average flow

1 from April 1991 to March 1992, which they were at 99% capacity, as a  
2 basis to increase the existing capacity from 1.0 mgd to 1.25 mgd. The  
3 FDER mandated the increase based on data reported to them, which  
4 unknown to them included excessive infiltration inflating the flows.  
5 Second, I am concerned about the quality of service provided by the  
6 utility.

7 Q. Ms. Walla, may we begin with your testimony regarding infiltration. You  
8 are not trained as a civil engineer, and you have no formal training in  
9 waste disposal or other sanitary engineering. Why do you feel qualified  
10 to provide the Commission testimony on these subjects?

11 A. The concepts which I feel that the staff and the Commission neglected by  
12 their adoption of the PAA order, are neither technical nor complicated by  
13 their nature.

14 Q. Please elaborate.

15 A. In a July 26, 1995 customer meeting attended by the staff of the  
16 Commission, which our group and many of our neighbors attended, Mr.  
17 Crouch responded to a rule of thumb infiltration of 20% used by the  
18 Commission with a yes. On August 3, 1995, I called the engineering  
19 department of the Commission and spoke with Ed Fuchs. Mr. Fuchs  
20 advised that the Commission has strict standards and permitted only 10%

1 infiltration but that the industry allowed up to 20%.

2 Q. What conclusion did you reach as a result?

3 A. The Commission does not use a uniform standard to determine  
4 REASONABLE infiltration. Therefore is unable to properly calculate  
5 whether the permitted capacity needed to be expanded.

6 Q. What other issue did the staff of the Commission refer to in regards to  
7 flows?

8 A. At the customer meeting, Mr. Rendell stated that the Commission' factors  
9 the rate based on 80% of the water use returns back to the collection  
10 system.

11 Q. Do you believe that the utility has properly accounted for its infiltration  
12 in this case?

13 A. No, I do not. Furthermore, Phillip R. Edwards, then Director of District  
14 Management for the FDER wrote to the utility of his concerns with the  
15 infiltration problem. Exhibit \_\_\_ (CW1) Also the engineer who did the  
16 FCWC Capacity Analysis Report addressed the infiltration problem at  
17 length. Exhibit \_\_\_ (CW2)

18 Q. Have you discussed these problems with staff of the Commission in  
19 addition to what you have already related?

20 A. Yes. On October 14, 1994 in my telephone conversation with Tom

1 Walden of the Commission staff. Mr. Walden related to me the  
2 calculations which staff uses in evaluating wastewater systems. Mr.  
3 Walden related that infiltration is taken into consideration in the staff's  
4 calculation of used and useful plant. It is apparent by Mr. Walden's  
5 workpapers (CW-3) that infiltration was not used in his used and useful  
6 calculation.

7 Q. Are you familiar with the term "Margin Reserve"?

8 A. Yes I am. I do not agree with Mr. Walden's inclusion of 3.9 years  
9 margin reserve in the used and useful calculation, when standardly 18  
10 months is used.

11 Q. Have you read utility witness Dick's testimony on this issue?

12 A. Yes.

13 Q. Do you agree with it?

14 A. No I do not. Mr. Dick's testimony assumes that all water purchased by  
15 a wastewater customer is returned to the wastewater system. This is an  
16 unreasonable assumption. If Mr. Dick's calculations are utilized with an  
17 assumption that 20% of the water sold does not return to the wastewater  
18 system, Mr. Dick's own numbers show that this system has extreme  
19 infiltration of 45%. It simply does not take engineering expertise to  
20 understand these concepts. In the February 1995 issue of Public works,

1 excerpts from which I have included as Exhibit \_\_\_\_ (CW-4) to my  
2 testimony, the Miami-Dade water and sewer department clearly regard  
3 40% infiltration as a "major problem". Judging by the PAA order in this  
4 case, the Commission is apparently prepared to accept a much higher level  
5 of infiltration as one for which the customers ought to be charged. I  
6 strenuously disagree.

7 Q. Have you prepared a schedule showing your own calculations?

8 A. Yes I have attached it as Exhibit \_\_\_\_ (CW-5).

9 Q. Have you seen testimony similar to Mr. Dick's on a previous occasion?

10 A. Yes. Mr. Dick's testimony is essentially identical to that of Mr. Griggs  
11 in Docket No 910756-SU which appears in Commission Order PSC-92-  
12 0594-FOF-SU issued on July 1, 1992, at page 13. I believe the  
13 Commission should not accept Mr. Dick's testimony when he is simply  
14 reiterating the testimony of the FCWC witness in a 4 year old case.

15 Q. What is the effect of the utility's accounting for infiltration as they have?

16 A. If the utility were permitted only the plant and expenses needed to serve  
17 the wastewater generated by their customers with no more than a 10%  
18 infiltration, it would have several direct consequences. First of all, the  
19 new increase in capacity of .250 gpd would not have been needed.  
20 Secondly, the existing means of effluent disposal was adequate: the reuse

1 facilities would never have been needed. In addition, there are many  
2 variable expenses which would be lessened as well. Among these are 1)  
3 purchased sewage treatment 2) sludge removal 3) purchased power and  
4 chemicals.

5 Q. Are you suggesting that the infiltration should be permitted to continue and  
6 that the company should have to treat it as its own expense?

7 A. No. I am suggesting that the utility ought to do something other than  
8 simply increase the capacity to treat infiltration and send the customers the  
9 bill for it. For example, the utility brings no evidence before the  
10 Commission as to what they intend to do to lessen the infiltration to an  
11 acceptable level. They simply offer flawed calculations to suggest that the  
12 infiltration is less than it actually is and then urge the Commission to sign  
13 off on their plan.

14 Q. What should the utility have done?

15 A. In place of their creative accounting regarding infiltration, they should  
16 bring to the Commission a plan which would lessen the infiltration. At  
17 that point both the utility and the Commission could make an informed  
18 judgement as to whether the utility prudently added capacity. It may well  
19 have been cheaper to repair the system, but in the absence of a study  
20 designed to determine the cost of an effective infiltration program, neither

1 the utility or the Commission can address that matter at all.

2 Q. You have concerns regarding service matters?

3 A. Yes I do. At the July 26, 1995 customer meeting, Mr. Crouch said that  
4 they were there to get our input, as to the type of service provided by  
5 FCWC and our opinion as to the rate increase. In the Commission's PAA  
6 order , at pages 3 and 4, the word "several", is used to describe the  
7 amount of customers with certain concerns. The Commission's choice of  
8 "several" is unfortunate because it sadly misrepresents the number of  
9 customers involved. A petition presented to the staff at that hearing  
10 relating 54 customers' problems with the odor emanating from the sewer  
11 treatment plant is not mentioned in the order. The petition is attached to  
12 my testimony as Exhibit \_\_\_ (CW-6). There were numerous other  
13 concerns stated by the customers at that meeting, yet the Commission  
14 order makes no mention of these concerns, offers no explanation of the  
15 conditions which led to the concerns, and resolves the case as if the  
16 concerns were never stated. As a result, many of the customers believe  
17 that the meeting was pretextual in nature, and was simply offered by the  
18 Commission to placate the customers' concerns rather deal with them.  
19 The Commission's neglect of these concerns in the PAA leads to the  
20 conclusion that the Commission either did not believe the customers or



1 simply is not concerned about the quality of service.

2 Q. What is your opinion of the recent customer information insert?

3 A. The most recent example of their new billing procedure brought an insert  
4 which I provide as Exhibit \_\_\_ (CW-7). This insert is false. It represents  
5 to customers that the water and wastewater service costs only \$1.85 per  
6 day. I have no idea as to whether that may be true for FCWC and its  
7 affiliates as an entire company, but it is true neither for me nor my  
8 neighbors here in N. Fort Myers, and the company knows it to be untrue.  
9 Under this analysis an average customer in this system would use only  
10 2597 gallons per month. Since that would theoretically cause only a  
11 444,194 gpd to the treatment plant, this utility apparently has quite a bit  
12 of unused capacity.

13 Q. Do you have an alternative suggestion?

14 A. Yes. The Commission should compute the flows which result in a \$1.85  
15 per day bill to FCWC in the N. Ft. Myers division, and adjust the utility's  
16 used and useful analysis accordingly.

17 Q. On page 4 of Mr. Dick's testimony, he says that he values  
18 communications with the customers, yet in a recent meeting with a group  
19 of customers (the North Fort Myers Water Committee) the utility  
20 represented that 12 of the thirteen persons who protested the PAA had

1            withdrawn. Exhibit \_\_\_ (CW-8). It was apparent , as no one had  
2            withdrawn that FCWC was trying to discredit the merit of our protest.

3            Q.    Have you reviewed the Staff Audit report for this utility and if so, do you  
4            have any concerns with matters discussed there?

5            A.    I have reviewed it and I am concerned.    On page 6 of the report the  
6            utility plainly sought to have the customers pay their legal expenses of  
7            \$210,734 in the lawsuit with the U.S. Dept. of Justice as they had  
8            included in this plant expansion docket. Mr. Crouch specifically told the  
9            customers in the July meeting that the Commission was told none of the  
10           legal fees for this docket were included in this docket. FCWC also  
11           claimed this in a fact sheet which was given to the customers at the  
12           meeting. FCWC outwardly misrepresented this fact. Exhibits \_\_\_ (CW-  
13           9) & (CW-10).

14           Q.    Does this conclude your testimony?

15           A.    No. On February 2, 1996, I presented several questions to the utility in  
16           letter form. On February 20, I rewrote my questions as interrogatories  
17           with the format provided by OPC. The utility has utilized the  
18           formalization of my questions as an opportunity to delay their answers.  
19           When I receive my answers, I may wish to file supplemental testimony.  
20           I have attached my original questions and the utility's initial response to

1 my interrogatories as Exhibit \_\_\_\_ (CW-11).

2 Q. Did you write this testimony?

3 A. I wrote the testimony in the form of handwritten analysis of the case, but  
4 I was advised by members of the Office of Public Counsel that the  
5 Commission would not accept testimony--even that of customers--without  
6 meeting their standards. So the Office of Public Counsel prepared my  
7 testimony in the form which would be accepted by the Commission.

**EXHIBITS**

Exhibit CW-1  
P1

25  
12



# Florida Department of Environmental Regulation

South District • 2295 Victoria Avenue, Suite 364 • Fort Myers, Florida 33901  
Lawrence Chiles, Governor • Carol M. Aronson, Secretary

November 9, 1992

Mr. Johnnie Overton  
Florida Cities Water Company  
4837 Swift Road, Suite 100  
Sarasota, Florida 34231

RECEIVED

NOV 12 1992

Re: Lee County - DW GENERAL OFFICE  
Waterway Estates WWTP

Dear Mr. Overton:

As a follow up to your meeting with the Department Staff on November 6, 1992, the following action items shall be implemented:

1. Florida Cities Water Company will submit a request for "a mixing zone" for Waterway Estates WWTP. The request will include current toxicity tests results along with a narrative on justification for a "mixing zone" for Waterway Estates WWTP.
2. Florida Cities Water Company shall submit applications for construction/expansion of the Waterway Estates WWTP along with an application for renewal of the current operations permit which expires June 1, 1993. These applications will be submitted sixty days prior to June 1, 1993.
3. Final documentation for satisfactory completion of the Capacity Analysis Report shall be submitted to the Department prior to submission of permit applications on April 1, 1993. Included in the documentation submitted, FCWC will address analysis and corrective measures pertaining to infiltration at Waterway Estates WWTP.
4. Florida Cities Water Company shall submit the Reuse Feasibility Study prior or during submission of the permit applications for construction/expansion and operation of the Waterway Estates WWTP.

Continued . . .

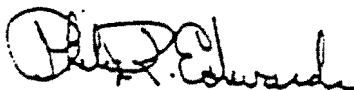
Exhibit CW-1  
pc

Mr. Johnnie Overton  
November 9, 1992  
Page 2

5. The construction permit application for the above referenced facility will include contract agreements for Reuse Sites, provide documentation pertaining to high level disinfection requirements pursuant to 17-610 and appropriate documentation pertaining to wet weather discharge if storage for non-application days is not provided.
6. On site storage at the Reuse Sites will be investigated by Florida Cities Water Company for Waterway Estates WWTP.
7. An Agricultural Use Plan shall be submitted to the Department at the time of Operation Permit renewal (April 1993).
8. Florida Cities Water Company shall submit a report on fluctuations in TSS influent limits and the impact on design criteria for expansion of the Waterway Estates WWTP currently underway.

If you have any questions pertaining to these matters, please contact Jim Grob at (813) 332-6975.

Sincerely,



Philip R. Edwards  
Director of  
District Management

PRE/JVG/klm

cc: Paul H. Bradtmiller  
Julie Karleskint  
Roger Ytterberg

## Exhibit CW-2 ✓

Attachment three (3) shows monthly ADF for the last ten years. Attachment four (4) shows the three-month ADF for the last ten years. Attachment five (5) shows the running annual average daily flow since 1981.

Attachment six (6) shows the actual and projected annual ADF from 1982 to 2001. These projected flows reflect an average customer growth of 1.3% per year and demand increase of 3.5% per year each from the last three years. These two figures were averaged (2.4%) and used to project the increase in wastewater flows for the next ten years. An ADF of 1.09 MGD is projected by the year 2001.

Attachments seven (7) and eight (8) show wastewater flows along with water demand for the last ten years. Since 1985, the wastewater curve increasingly approaches the relatively level demand curve. This occurred with only a small increase in wastewater customers. This is an indication of increasing Inflow and Infiltration (I&I) since 1985. Additionally, rainy season peaks of 200,000 to 300,000 gpd above ADF began appearing in 1987 and each year subsequently.

Flows through the wastewater facility have exceeded permitted hydraulic capacity on certain occasions. However, permitted effluent limitations and disinfection requirements have consistently been met.

The I & I problem in the collection system is being addressed. In 1991 one individual section of the collection system was TV/Video inspected. Leaks and cracks were sealed and sections of pipe were replaced where necessary. A smoke testing program will begin in early 1992. Based on the results of the smoke testing, further TV/Video inspection will be done and systems repaired where problems are found to exist.

The program to reduce I&I is just beginning. Its potential is not yet clear. However, if a 25% reduction can be achieved, this would add 50,000 to 75,000 gpd of capacity to the plant.

Based on a wastewater flow rate increase of 2.4% per year and a current dry weather flow of 860,000 gpd, a plant expansion would be needed by 1998.

A plant addition that will provide nitrogen and phosphorus removal is currently under construction. The new capacity of the plant will be 1.0 MGD. This reduction in capacity does not move the expansion date of 1998. The facility is capable of being expanded to 1.5 MGD.

Exhibit  
CW-3

Tom Walden  
Workpapers

U & U calculations

~~FROM SCH. F-10, MFC~~

Plant capacity

1.25 mgd

~~1.25 mgd~~

~~1.253~~

unused capacity

2747 mgd

ADE during year

.9421 mgd

÷ ERC for 1994

4590

= 205 gpd / ERC

205 gpd

~~unused capacity 79,700~~

@ 205 gpd

÷ 205 gpd / ERC

= (364) ERCs

↓  
292 ERCs

Therefore, allow 292 ERCs in the  
margin reserve



Most of us are familiar with the restricted access to and from interstate highways or urban freeways. And many other busy roads use raised medians, left turn lanes, and restricted access to adjoining properties to speed the flow of traffic and reduce traffic conflicts. But much of the nation's roadway mileage consists of two- or four-lane roads with unrestricted driveways, unrestricted turns or, in small towns and rural areas, no curbs and the freedom to pull off the road wherever the driver desires.

With no ordinances to control access to roads, small towns can find themselves overwhelmed when suburban growth reaches their borders. "We are working with two small cities north of Austin, Texas, to develop regulations on driveway spacing," said Mike Weaver, a principal

with Carter and Burgess. "Accidents in one city were increasing. When the city planned ten subdivisions in one year, they realized that having inadequate rules for building roads could cause even greater traffic problems."

### Benefits of Access Management

Statistical research has verified that controlling access reduces vehicle accidents. In one study, driveway accidents along routes with raised medians were found to be only a third as great as along routes without raised medians. A study conducted in Arapahoe County, Colorado, found that the accident rate on typical uncontrolled arterials was more than double that of arterials with intensive use of access management.

Research also has established that access management increases traffic flow. The Arapahoe County study measured average travel speeds during afternoon peak hours. The study found that the average speed on uncontrolled arterials was half the speed that cars achieved on the arterials with intensive access management. A typical four-lane arterial road with a high level of access management can handle almost 10,000 more vehicles per day than the same road without access controls. Also, because access management can relieve congestion, it may contribute to improving local air quality.

Designing a new development or building a new road are the easiest situations in which to apply access management because a plan usually can be developed with the involvement of adjacent land-

## Study of Infiltration Sources Is Completed in Record Time



### 120 DAYS, NOT 720

**D**ESPITE difficulties, Miami-Dade Sewer and Water Department and its contractors, Video Industrial Services, Inc., Birmingham, Alabama, and Sewer System Evaluations Inc., Chicago, have completed an extensive sewer system study in one-sixth the time originally forecast.

With over two million service connections, 840 wastewater pumping stations, and close to 3000 miles of piping, Miami-Dade is the largest water utility in Florida and one perhaps more subject to infiltration than any other in the U.S.

Most of the residents and businesses in both the city and the fast-growing county around it lie in a very flat, very low area. About 95 percent of all underground piping is situated at elevations 0 to 14 ft above sea level. Much of it is below the normal water table. Heavy rain adds problems. Some 56 in. falls per year—third highest among major cities in the U.S. Storms frequently are intense, not

only raising groundwater levels but at times surcharging manholes and gutters. Infiltration, a major problem, contributes an estimated 40 percent of the total treatment flow.

Miami-Dade Water and Sewer Department's study was aimed at quickly identifying infiltration sources in order to cost-effectively stop as much of it as possible.

What was thought to take about two years has been accomplished in 120 days, reducing consumer complaints, emergency repairs, and treatment costs.

#### Older District Targeted

By design, Miami-Dade's lines supposedly carry wastewater only. Since the district has no stormwater system, however, the wastewater system invariably becomes a combined carrier.

As in most coastal areas, salinity levels provide a good reading of infiltration. Normal wastewater here contains 50 to 60

mg/L of NaCl, the maximum permitted by regulatory agencies. In Miami-Dade's north and central districts, salinity ranges up to 1000 mg/L.

Much of the area inspected lay in the older central district where piping is mostly of mortar-cemented 5-ft clay sections. Laid primarily in the 1920s and 1930s, some lines are 18 to 22 ft below ground level; all have at least three ft of cover. Infiltration results from uneven settling and section deflection. Service laterals and water flows off the roofs of major downtown buildings, as well as from parking lots, add unwanted volume. Infiltration is further complicated by large amounts of sand and grit that find their way into the lines and from there into the District's three wastewater treatment plants.

The three facilities combined treat an average of 315 mgd. Peak amounts during the rainy season measure up to 510 mgd, which equates to an infiltration factor of 1.6.

Environmental considerations no longer make it possible for the Department to reduce overflows by direct discharge into canals, rivers, bays, the ocean, or other open water.

#### Intensive Testing

Video Industrial Services' first assignment was to measure flows by isolation methods. Specific areas were checked 1000 to 3000 ft at a time. General area flows were measured at 27 pumping stations.

Secondly, the contractor inspected 5600 manholes. Information was recorded about the general condition of each one, the amount of infiltration found, and the condition of the connecting piping.

Smoke-testing was specified for 1.3 million ft of 6-in. to 60-in. lines. Here,

owners. Another time to consider improving access design is during roadway expansions or improvements. A local or state agency generally has regulatory power over traffic laws and highway configurations and can include access controls in a road improvement project.

Municipalities can regulate location and design of new or improved driveways through a driveway permit program.

"Regulations which affect property are going to be controversial," said Hart. "Many commercial property owners think that access management will be a detriment to their site, but when driveways are well defined and safe, that can actually result in more traffic to their front door."

Heavily controlled access is not automatically the best approach. "A devel-

oper asked us about a road widening next to his property," said Hart. "The project included a raised median, which would restrict turns to the property. The county proposed to consolidate the main entrance with a driveway to a gas station next door. We collected data on the turning movements into and out of both properties, added projected growth at the shopping center, and established that the shared driveway would become overloaded. We showed the county that maintaining separate driveways and changing the design of the median to include two breaks with limited turns resulted in better traffic flow."

Computer software often can provide conclusive evidence that an access management plan will work. "A developer asked us to design access for properties

along a road with a median barrier," said Weaver. "We proposed a series of limited purpose median breaks, but the highway department was skeptical of the idea. By modeling the whole corridor, we established that traffic queues would not build up at the access breaks, and the department accepted the change."

Historically, roads have two functions: the first, to get people and goods from place to place. The second, no less important, is to provide access to property that borders the road. An inherent conflict between these two purposes arises when traffic on a road increases. It is not possible to have completely free access and, at the same time, unhindered traffic flow. Access management offers a way to strike a balance between the needs of landowners and the traveling public. □ □ □

the objective was to pinpoint suspected cross-connections, illegal hookups, broken mainlines, and broken house laterals. Illegal drainage paths were identified; so were roof leaders, yard and fountain drains, abandoned building sewers, and faulty service connections.

Prior to smoke-testing, the contractor notified neighboring residents, fire stations, businesses, and schools as to the time and place of the activity. Sand bags or plugs, temporarily blocking each work section, prevented the smoke from escaping through manholes and adjacent piping.

Per specifications, the smoke used was non-toxic, non-staining, and odorless. Delivered from smoke candles, the material was forced by an air blower into each mainline section at a minimum rate of 1500 cfm. Generally 500 to 3000 linear ft were isolated at a time.

All points of smoke emergence were identified by a smoke sketch which included:

- Manhole number and reach.
- Consecutive photo and house numbers so the leak could be accurately identified at a later date.
- Description of each problem.
- Three distance measurements to permanent objects from each smoke emergence point.
- Area and type of surfaces drained by each located leak.
- A figure that quantified potential inflow from the smoke source and a recommended remediation method where possible.

As a final step in the \$1.4 million contract, 500,000 linear ft of piping was inspected and recorded by contractor-operated closed-circuit television cameras. Permanent, narrated color video tapes resulted. No one went through the lines regardless of size—their range was up to 108 in. in diameter—and the one man who occasionally went down the man-

holes was harnessed to a street-mounted safety tripod and equipped with all kinds of safety meters and devices.

### Repairs Will Be Simplified

"In the five years prior to this study, Miami-Dade spent \$24.2 million in infiltration abatement alone," explains Robert Cuevas, P.E., chief engineer. "As a result of this latest study, our future repairs will be simplified. We'll know better where the infiltration exists and how to select the most effective repair method for each individual problem. Previously, our personnel both identified problems and made repairs. The contracted method benefits everyone concerned by providing more expertise and better, more specialized equipment that covered a larger area in a shorter time. Specially trained contractor personnel did the job faster and more economically and, at the same time, freed our people for flow monitoring and other routine and emergency tasks."

Using the resources of its parent firm, Caryl Corporation, the nation's largest cleanout/pipeline specialists, the contractor brought in no less than 12 crews to start the project. At the peak of their inspection and smoke-testing activities, their personnel worked round-the-clock to get the various assignments finished within the Miami-Dade project's tight time frame.

Each contractor crew was made up of two men teamed with the appropriate combination jetter/vacuum trucks, closed-circuit TV trucks, and smoke blowers, plus such ordinary equipment as manhole hooks, shovels, sledge hammers, and picks. Video's technicians identified many of the sources that have contributed up to 195 million gallons of infiltration per day.

In one spot, an old utility pole was found to have unknowingly been driven completely through one of the Department's pipelines. This location alone was

responsible for an infiltration rate of 100 gpm or close to 150,000 gpd.

Video's smoke-testing identified several hundred places where homeowners had illegally removed cleanout caps, allowing water to drain directly from their yards into Miami-Dade's sewer lines.

Their manhole inspection identified a number of previously unknown illegal connections from sump pumps. Twenty such points, by themselves, were contributing over 100,000 gpd of infiltration.

Unidentified, unknown, illegal force mains were also located. For example, one subdivision which by population should have contributed about 300,000 gpd of wastewater was found to actually be contributing 600,000 gpd.

Similarly, a number of downtown Miami parking garages and high-rise buildings were found to have illegally connected roof and other exposed-area drains to the sewer system.

Because of system overloading at these points, no further building permits could be issued for these areas. Now, following correction, the restrictions have been lifted.

### Numerous Benefits

"Our infiltration study had a number of other benefits," says Chief Engineer Cuevas. "As noted before, what had been anticipated to be a two-year project, at the least, was handled in four months.

"Correcting the problems they discovered will significantly reduce our wastewater treatment costs."

Further corrections are coming. Video will soon start a line grouting program. Their contract calls for 360,000 linear ft to be re-sealed in only seven months.

"We were fortunate that Video Industrial Services was the low bidder for our inspection and correction work," Cuevas concludes. "They did what we wanted efficiently and at a very reasonable price." □ □ □

Exhibit CW-5  
P1

Percent water used by wastewater customers = 4590 ERC/5580 ERC = 82.26%

Month	Water Sold (Gal)	Estimated Water Use By Wastewater Customers (82.26% of Water Sold) (Gal.)	Wastewater Treated At Plant (Gal.)	Wastewater as a Percentage of Water Use (%)	I & I Above Allowable 20% (%)	TI I &
Jan. 94	27,311	22,456	27,342	121.70	21.70	41.
Feb. 94	26,152	21,513	24,976	116.09	16.09	36.
Mar. 94	26,257	21,599	27,652	128.02	28.02	48.
Apr. 94	32,430	26,677	26,880	100.76	.76	20.
May 94	25,358	20,859	24,552	117.70	17.70	37.
Jun 94	28,290	23,271	24,510	105.32	5.32	25.
Jul 94	27,187	22,364	29,233	130.71	30.71	50.
Aug 94	21,576	17,748	31,403	176.94	76.94	96.
Sep 94	24,420	20,088	35,250	175.48	75.48	95.
Oct 94	23,467	19,304	32,581	168.78	68.78	88.
Nov. 94	24,360	20,038	29,160	145.52	45.52	65.
Dec. 94	26,443	21,752	30,318	139.38	39.38	59.
Average for each column 1994	26,104	25,768	28,655	135.53	35.53	55.
Jan 95	29,016	23,869	34,968	146.50	46.50	66.5
Feb 95	26,488	21,789	28,366	130.04	30.04	50.0
Mar 95	26,753	22,007	28,427	129.17	29.17	49.1
Apr 95	29,220	24,036	26,190	108.96	8.96	28.9
May 95	26,071	21,446	26,784	124.89	24.89	44.8
Jun 95	28,890	23,765	35,310	148.58	48.58	68.5
Jul 95	22,971	18,896	39,525	209.17	109.17	129.1
Average for each Column 1995	27,058	22,258	31,362	142.47	42.27	62.1

\*\* All Gallonage figures omit 000's

Final Order

Rate Base

pg 445

CW-5  
p2

Staff

me

Used & Useful Plant

Comparing ADF in peak month  
 of sept 94 to plant  
 Capacity after expansion  
 Avg Flow Sept 94 1,1753 ÷ 1,2500 = 94%

53.54  
 .669,596 ÷ 1,2500 = 54%  
 used & useful

When including margin reserve

3.9 years  
 (2.2 ERC)  
 1,1753 + 74752 ÷ 1,2500 = 100%  
 74752

(3.9 years  
 400 ERC (4%))  
 .669,596 + .580290 ÷ 1,250  
 100%

used & useful  
 using the large  
 margin reserve.

PSC  
 Finds collection system  
 100% used &  
 useful

Did not use infiltration in  
 used and useful formula.

In contradiction to Robert Dicks statement at Florida Cities Water Co. customer meeting on July 19, 1995, we the undersigned have experienced numerous offensive SEWER ODORS REPEATEDLY over the past several years.

NAME	ADDRESS	INCOME				45
		UNDER 15K	UNDER 25K	UNDER 35K	UNDER 45K	
Natalie Rau	4728 Orange Ln. N.F.M. FL 33903			✓		
ROBERT C RAJ	See above 1709 INKET			✓		
Edwin M. Lunnery	D.R. N. FT. MYERS					
Louis R. Spino	4285 GLASGOW CT NFM			✓		
Jean Board	4371 Harbor Terr N.F.M.					
Fred Board	4371 HARBOUR TER					
Edette Santos	570 Tevo Hwy					
St. ... ..	3500 ... ..					
Anna ... ..	1639 St. Clair St N.F. Myers					
Kate ... ..	5716 Galloway Dr. N F MYERS					
...	414500 ... .. CAFÉ ORAL					
Jorge ... ..	673 N.F.M. Muscogee Dr.					
Claudette Helot	1009 Winsome Rd N.F.M.			✓		
Celena VanRien	936 HEARTY ST N.F.M. 33903			✓		
Dorothy Van Kuren	4322 Harbour Ln N.F.M. 33903					

ABOVE

In contradiction to Robert Dicks statement at Florida Cities Water Co. customer meeting on July 19, 1995, we the undersigned have experienced numerous offensive SEWER ODORS REPEATEDLY over the past several years.

NAME	ADDRESS	INCOME				ABOVE 45
		UNDER 15K	UNDER 25K	UNDER 35K	UNDER 45K	
Patricia A. Markowitz	1231 Barnett Rd, #1002	✓				
Shirley O. Arthur	1170 ORANGE Ave N. Ft. MYERS					✓
Kathy Von Ahn	5888 Spicer Ct WFM 33902					
Mumma Smolgram	1747 IO LODGE N. Ft. MYERS					✓
James E. Judd	4411 Frank G. St WFM					
Monica L. Japp	5996 Hallyn Ct NFM					✓
Ruston L. Japp	5996 Hallyn Ct. NFM					✓
W. B. M.	2153 LOCHMOON CRL N. F. M.					✓
M. Robert Harley	4714 ORANGE GROVE BLVD.					✓
Shirley Puckett	4270 Osbourne N. Ft. Myers.					
Robert E. Szym	4403 FENSDALE DR NFM. 03			✓		
Emmanuel J. Morris	2209 H.E. GLENN Cape Coral, Fla 938 W. Myrtle Ave					
Norman C. Smith	N.F.M 33903	✓		✓		
Washington J. ...	OFF JULY RD N. Ft. MYERS			✓		
Amy E. Barker	996 Ridgeway Dr					✓

In contradiction to Robert Dicks statement at Florida Cities Water Co. customer meeting on July 19, 1995, we the undersigned have experienced numerous offensive SEWER ODORS REPEATEDLY over the past several years.

NAME	ADDRESS	INCOME				45
		UNDER 15K	UNDER 25K	UNDER 35K	UNDER 45K	
<del>Robert Dicks</del>	4430 Teasdale		✓			
<del>John</del>	59197 Poetry					
Arauc DiBlasio	5953 Sunset St.	✓				
<del>Robert</del>						
Kathi Pletze	5910 Hillview Ct					✓
Sumner E. Nutt, L	847 March St					
<del>Robert</del>	4377					
M. Douglas	1714					
Adrian F. Schubert	963 Kippys Dr		✓			
Ruth Myers	1720 Inatta					
Lois Jones	4303					
Paul R. Allen	4335					
<del>Robert</del>	4642 Gulf Ave					
Sharon Burkholder	5947 Poetry Ct					
Don Patmyer	4370 Harbour					

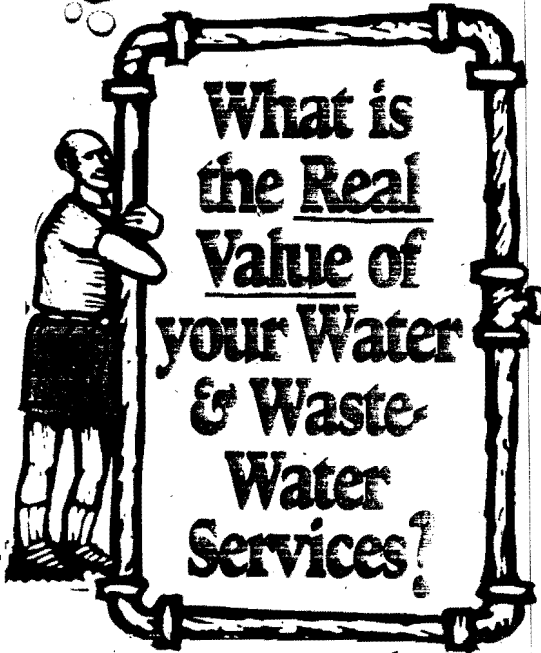




Jan 96

# Water Notice

Timely Information about Your Water and Wastewater Services from Florida Cities Water Company and Poinciana Utilities Inc.



There are few among us who remember the inconvenience of drawing a daily supply of water from a well. Indoor plumbing and the ability to turn on the tap at anytime to get a glass of water have long since ceased to be luxuries. They are simply a fact of life as we know it.

Yet few of us realize just how *inexpensive* a commodity tap water and wastewater services truly are.

**Just \$1.85 per day!**

Each year, Florida Cities Water Company and Poinciana Utilities Inc. (FCWC / PUI) provide our customers with 10.6 million gallons of water per day, throughout Florida. Although the cost varies from system to system, the average cost of providing that water to your home, on a company-wide basis is 88¢ per day.

FCWC / PUI processes nearly eight (8) million gallons of wastewater each day. The average cost of FCWC / PUI wastewater service, on a company-wide basis is 97¢ per day.

These services are delivered to your home 24 hours a day, 365 days a year, for a total average cost of \$1.85 per day.

## What does this pay for?

FCWC / PUI are providing our customers

- water treatment
- water quality testing and assurances
- delivery to your home or business
- meters and meter reading
- customer service
- maintenance of the distribution and collection systems
- wastewater collection and treatment
- effluent disposal
- environmental controls
- technical management and services.

FLORIDA CITIES WATER COMPANY  
NORTH FT. MYERS UTILITY COMMITTEE  
SUMMARY  
January 30, 1995

---

Members in attendance included:

Dick McConville	Chairman
Jim Goodale	Resident Member
Harry Green	Lochmoor
Dwight Sedgewick	Lochmoor
Biddy Lang	Resident Member
Joan Victory	Tropic Terrace
Bob Dick	Division Manager, FCWC
Carole Semenchuk	Administrative Support, FCWC

Previous minutes (November 28), paragraph 2 stated that residents felt to tie in to the reuse lines was too high. Correction noted and accepted that a resident in attendance felt the cost was too high.

It was noted that Cheryl Walla had not been contacted regarding the protest filing. Bob Dick announced that he had received a list of names of those protesting. There were 13, however, 12 had already withdrawn, Cheryl Walla was the only one that had not withdrawn. We can only speculate that the 12 that had withdrawn were satisfied with the answers they received to their questions and felt no need to proceed. The question came up whether or not the protest costs would be incurred by all consumers due to only 1 person filing. Bob Dick said that he thought so. The actual hearing date has been set for April 24. The list of dates was passed around to view.

Biddy Lang is to contact Jack Shreve, Office of Public Council, rather than Cheryl Walla regarding the protest and will get the facts concerning a 1 person protest and will also request a copy of the protest.

Again concern was expressed that the expense of the reuse lines should not be incurred by the consumers. Bob reiterated that it is a regulatory requirement. Committee wanted to see documentation confirming this. Documentation will be provided at the next meeting. There is not a clear understanding as to why Lochmoor did not pay for connection to the reuse system and residential customers would.

Conversation led to where FCWC was at selling reuse to the City of Cape Coral, which is still in negotiations. Committee would rather see conservation of water within the community rather than going to the outside. Interest was shown in working out something within the community; not concerned what other areas are doing. For

a matter of interest, 400 foreclosures are currently underway in Cape Coral due to the over assessment of their reuse lines. Bob explained that if an agreement is worked out with Cape Coral on our reuse in exchange for their potable water, this would definitely delay a need for an expansion of our water treatment facilities which could result in another rate increase (water). FCWC would like to utilize 100% of the reuse rather than discharge it into the river. We are trying to utilize our best options in the best interest of our customers.

A concern for unfortunate and needy people in the NFM area was expressed. Committee wanted to know if we had any subsidy programs to help these people. FCWC treats all customers the same. We do not subsidize or discriminate. There is state subsidy available for those in need.

It was brought up about those that are currently on septic tank that could be on sewer. Was there any way it could be mandatory that those people connect .

Some frustration was expressed about the future rate increase. Chairman McConville felt that a committee could not be functional without having the facts and knowledge of what is going on.

Amtel (acquired Moody property) is clearing along Moody Road. Rumor has it they are putting in a golf course, however, FCWC has not been contacted. Bob Dick to inquire as to the status of the project. Will report next meeting.

New meeting date was discussed and unanimously agreed to remain on the last Tuesday of the month. FCWC to check into a new meeting place. It was also recommended that besides mailing the minutes out to committee members, that a reminder call a few days before meeting be made.

Exhibit CW-9  
P1

MEMORANDUM

August 3, 1995

RECEIVED  
AUG 04 1995

Office of  
Public Counsel

TO: DIVISION OF RECORDS AND REPORTING  
FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER)  
RE: DOCKET NO. 950387-SU -- FLORIDA CITIES WATER COMPANY  
RATE CASE AUDIT REPORT - PERIOD ENDED 12/31/94  
AUDIT CONTROL NO. 95-137-2-1

The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit working papers are available for review on request. There are no confidential working papers associated with this audit.

Please forward a complete copy of this report to:

Florida Cities Water Company  
Larry E. Griggs  
P. O. Box 6459  
Ft. Myers, FL 33911-6459

DNV/sp

Attachment

cc: Chairman Clark  
Commissioner Deason  
Commissioner Johnson  
Commissioner Kiesling  
Commissioner Garcia  
Mary Andrews Bane, Deputy Executive Director/Technical  
Legal Services  
Division of Auditing and Financial Analysis (Devlin/Causseaux/  
File Folder)  
Division of Water and Wastewater (Clark)  
Tampa District Office (Bouckaert)

✓ Office of Public Counsel

CW-9  
pc

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

12 MONTHS ENDED DECEMBER 31, 1994

Field Work Completed

July 20, 1995

FLORIDA CITIES WATER COMPANY  
NORTH FT. MYERS WASTEWATER

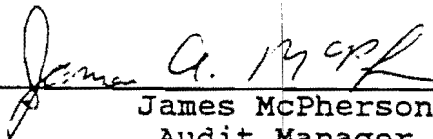
North Ft. Myers, Florida

Lee County

Rate Case Audit


Docket Number 950387-SU

Audit Control Number 95-137-2-1

  
James McPherson  
Audit Manager

Audit Staff  
Anne Lawler

Minority Opinion  
Yes \_\_\_\_\_ No AL/gcm  
8/1

  
Glenn Clepper  
Regulatory Analyst Supervisor  
Tampa

INDEX

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p4

I. EXECUTIVE SUMMARY

**AUDIT PURPOSE:** We have applied the procedures described in Section II of this report to audit the schedules of Rate Base, Net Operating Income, and Capital Structure for the historical twelve month period ending December 31, 1994 and the projected twelve month period ending December 31, 1995 prepared by Florida Cities Water Company - North Ft. Myers Wastewater Division for their Petition for rate relief, FPSC Docket No. 950387-SU.

**SCOPE LIMITATION:** The Utility determined that an audit exit conference was not necessary. There are no confidential workpapers in this audit.

**DISCLAIM PUBLIC USE:** This is an internal accounting report prepared after performing a limited scope audit; accordingly, this document must not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

**OPINION:** The schedules of Rate Base, Net Operating Income, and Capital Structure for the historical twelve month period ending December 31, 1994 and the projected twelve month period ending December 31, 1995 represent Florida Cities Water Company - North Ft. Myers Wastewater Division books and records maintained in substantial compliance with Commission Directives. The expressed opinions extend only to the scope of work described in Section II of this report.

**SUMMARY FINDINGS:**

The Utility overstated Guaranteed Revenue \$7,987 in 1994. This overstatement was due to a misposting between divisions.

The Utility did not reduce their Plant in Service account \$35,357 as required by a previous FPSC Order. Legal expenses of \$210,734 and engineering fees of \$12,441 were also incorrectly included in the plant accounts. Because of these, and other small errors, adjustments were made to reduce Accumulated Depreciation \$54,478 at December 31, 1994.

The Utility should increase their Accumulated Amortization of CIAC \$1,659 because a prior rate order adjustment was not made.

Liabilities included in the MFR Working Capital Allowance at December 31, 1994 were overstated \$2,221,791. The projected amount at December 31, 1995 was properly computed.

CW-9  
P5

II. AUDIT SCOPE

The opinions contained in this report are based on the audit work described below. When used in this report COMPILED and EXAMINED means that audit work includes:

COMPILED - Means that the audit staff reconciled exhibit amounts with the general ledger; visually scanned accounts for error or inconsistency; disclosed any unresolved error, irregularity, or inconsistency; and, except as otherwise noted performed no other audit work.

EXAMINED - Means that the audit staff reconciled exhibit amounts with the general ledger account balances to subsidiary ledgers; applied selective analytical review procedures; tested account balances to the extent further described; and disclosed any error, irregularity, or inconsistency observed.

**RATE BASE:** Compiled Utility Plant in Service and Contributions in Aid of Construction (CIAC) from the prior audit to December 31, 1994. Analyzed the year end balance in Construction Work in Progress (CWIP). Recomputed Accumulated Depreciation and Accumulated Amortization of CIAC through the end of the projected test year using FPSC approved rates. Judgementally selected all annual plant account additions in excess of \$25,000 and annual retirements in excess of \$5,000 and traced to supporting cost documentation. Traced selected annual CIAC additions to FPSC approved tariff amounts and to Company schedules. Recomputed Working Capital.

Obtained and reviewed cost documentation for projected 1995 plant additions. Traced plant additions and retirements through April 1, 1995 to the General Ledger.

**NET OPERATING INCOME:** Examined utility revenue accounts for the historical test year ended December 31, 1994. Recomputed judgementally selected customer bills using FPSC approved rates. Examined operating and maintenance (O&M) accounts for the year ended December 31, 1994. Judgementally selected expenditures to verify by tracing to supporting invoices and/or cancelled checks. Recalculated Depreciation Expense per F.A.C. 25-30.140. Taxes Other Than Income were traced to supporting documentation.

Analyzed adjustments to NOI for the projected test year ended December 31, 1995.

**CAPITAL STRUCTURE:** Compiled Capital Structure components as of December 31, 1994. Agreed terms of new bond issue to bond indenture agreement. Confirmed loan balances at December 31, 1994 with bank.



CW-9  
p4

AUDIT DISCLOSURE NO. 2

SUBJECT: REDUCTIONS TO PLANT IN SERVICE

STATEMENT OF FACTS:

Florida Cities Water Co. - North Ft. Myers division completed work on an expansion to their wastewater treatment plant in July, 1992. On October 1, 1993, the United States Department of Justice, on behalf of the U.S. Environmental Protection Agency, filed a civil action against the Company. Legal expenses of \$210,734 relating to this lawsuit that were incurred during 1992, 1993, and part of 1994, were capitalized as part of this expansion project. During 1994 the Company began expensing legal fees pertaining to the lawsuit and reporting them below the line.

The Utility had a project to relocate wastewater force mains and water mains along Pondella Road. Engineering costs for the water and wastewater sections were billed together. The Utility elected to allocate the engineering costs based upon each section's percentage of total contractor's cost. Initially, the Utility correctly allocated engineering costs 20% to the wastewater section and 80% to the water section. However, the final five payments, totaling \$34,887 in 1993 and \$6,584 in 1994 were allocated 50% to water and 50% to wastewater. These payments were allocated \$17,443 in 1993 and \$3,292 in 1994 to wastewater.

STATEMENT OF OPINION:

Legal fees totaling \$210,734 that were capitalized should be removed from plant in service and be consistently treated as a below the line expense item. Plant in service should also be reduced \$12,441 for engineering costs that belong in the N. Ft. Myers Water plant. Therefore plant in service should be reduced a total of \$223,175 for rate making purposes and on the books of the Utility.

Capitalized legal fees from 1992	\$ 16,643	
Capitalized legal fees from 1993	91,628	
Capitalized legal fees from 1994	<u>102,463</u>	
Subtotal		\$210,734
Reduction of engineering fees		
1993 - (17,443 - correct allocation of 34,887 x .2)	10,466	
1994 - (3,292 - correct allocation of 6,583 x .2)	<u>1,975</u>	
Subtotal		<u>12,441</u>
TOTAL		<u>\$223,175</u>

COMPANY COMMENTS - VERBATIM:

The Company may respond at a later date.

CW-9  
P7

AUDIT DISCLOSURE NO. 3

SUBJECT: PLANT IN SERVICE, ACCUMULATED DEPRECIATION & DEPRECIATION EXPENSE

STATEMENT OF FACTS:

When assigning costs associated with Work Order No. 11-4214, \$1,368 of plant addition costs were charged to cost of removal. On Work Order No. 11-4197 the cost of removal was understated by \$10,425; it was charged to a plant account.

FPSC Order No. PSC-92-0594-FOF-SU reduced plant in service by \$35,357 and accumulated depreciation by \$37,754. The books of the Utility were not adjusted to reflect these adjustments. The MFR shows adjustments in 1995 that are per the PSC Order.

FAC 25-30.140 provides that power operated equipment will be depreciated using an average service life of 12 years. The Utility has been using 10 years. However, the Utility has not been recognizing enough depreciation expense because they were only depreciating certain specifically identified assets instead of the asset class.

In 1991 the Utility double posted a \$118 adjustment to the retirement cost of an item of power operated equipment.

The Utility expensed a piece of lab equipment costing \$1,352 that should have been capitalized per capitalization policy.

The Utility did not include the cost of plant retirements in their projections for 1995. The work orders used to project plant additions for 1995 include retirements of \$26,130.

STATEMENT OF OPINION:

The net effect of the two misclassifications is that the December 31, 1994 plant in service and accumulated depreciation accounts are overstated \$9,057 (\$10,425 - \$1,368).

Accumulated depreciation should be reduced \$37,754 and plant in service should be reduced \$35,357 so that the records of the Utility comply with FPSC Order No. PSC-92-0594-FOF-SU.

Adjustments to accumulated depreciation should also be made to reflect an additional \$9,127 of depreciation expense on the power operated equipment.

Accumulated depreciation should be increased \$118 to adjust for an asset retirement that was booked twice.

CW-9  
P.8

Audit Disclosure No. 3  
Page 2

A net reduction of depreciation expense for the period of 1991 through 1994 totaling \$16,912 resulted from a reclassification of legal fees and all other plant adjustments as noted in Audit Disclosure No. 2. Accumulated depreciation should be decreased by this same amount. Of this total, \$7,440 is attributable to 1994 and depreciation expense for 1994 should be decreased accordingly.

Plant in service should be increased \$1,352 to reflect the reclassification of laboratory equipment that was originally expensed.

The above adjustments result in a total reduction to accumulated depreciation of \$54,478, as of December 31, 1994 and an additional reduction in plant of \$43,062. Additionally, for rate making purposes only, accumulated depreciation and plant should be reduced an additional \$26,130, so that depreciation expense can be properly projected for the test year ended December 31, 1995.

	Plant In Service -----	Accumulated Depreciation -----
W.O. 4214, Plant Cost Included in Cost of Removal	\$ 1,368	\$ 1,368
W.O. 4197 Cost of Removal Included in Plant	( 10,425)	( 10,425)
Adjustments per FPSC Order No. PSC-92-0594-FOF-SU	( 35,357)	( 37,754)
Additional depreciation on Power Operated Equip		9,127
Correct double posting of retirement		118
Reduction due to reclassifi- cations of legal fees and other plant adjustments (See Audit Disclosure #2)		( 16,912)
Capitalize laboratory equip.	1,352	
Sub-total	( 43,062)	( 54,478)
Projected retirements	( 26,130)	( 26,130)
Total Adjustment including Projections	=====	=====
	(\$69,192)	(\$ 80,608)

COMPANY COMMENT - VERBATIM:

The Company may respond at a later date.

AUDIT DISCLOSURE NO. 4

CW-9  
19

SUBJECT: ACCUMULATED AMORTIZATION OF CONTRIBUTIONS IN AID OF  
CONSTRUCTION (CIAC)

STATEMENT OF FACTS:

FPSC Order No. PSC-92-0594-FOF-SU issued July 1, 1992, increased accumulated amortization of CIAC by \$7,624. Of this total, \$5,965 represents an adjustment to the estimated amortization of a projected period. The remaining adjustment of \$1,659 is a result of recalculations for 1986 and 1988.

STATEMENT OF OPINION:

The prior period adjustments increasing accumulated amortization of CIAC by \$1,659 were not made on the Utility's books. Therefore, both the Utility's books and their MFR Schedule A-13 should be increased \$1,659 in order to comply with FPSC Order No. PSC-92-0594-FOF-SU.

COMPANY COMMENTS - VERBATIM:

The Company did not have the prior audit workpapers to calculate this adjustment in the MFR's. The Company may respond at a later date.

CW-9  
P10

AUDIT DISCLOSURE NO. 5

SUBJECT: WORKING CAPITAL ALLOWANCE

STATEMENT OF FACTS:

Florida Cities Water Company has a \$2,000,000 intercompany note payable to Consolidated Water Company. This note payable was included in both the Cost of Long-Term Debt (MFR Schedule D-5) and the Calculation of Working Capital Allowance (MFR Schedule A-17) for the 12/31/94 base year. When computing their working capital allowance for the projected 12/31/95 test year, the Utility did remove this note from the intercompany payables.

On MFR Schedule A-17 the Utility references in Note "b" that an adjustment is being made to the base year balance for accrued preferred stock dividends payable. The amount of the adjustment was for the entire year end debit balance of \$154,291 in the referenced general ledger account 233.18. The actual portion of the account that reflects accrued preferred stock dividends was a credit of (\$67,500). An income tax refund receivable of \$221,791 due from the parent company, FCWC Holdings, Inc. was also posted to this intercompany payable account.

STATEMENT OF OPINION:

The \$2,000,000 intercompany note should be treated consistently and therefore, removed from the base year working capital calculations.

Only the accrued preferred stock dividends of \$67,500 remaining in account 233.18 should be removed from working capital, not the entire balance of the account.

As shown below, the working capital allowance for the base year ended 12/31/94 should be recalculated to equal \$74,486. The projected test year allowance at 12/31/95 would remain the same as reported on MFR Schedule A-17.

Current Assets		\$5,026,111
Current Liabilities per MFR	\$6,119,328	
Remove note payable	( 2,000,000)	
Correct adjustment of dividends (154,291 + 67,500)	( 221,791)	
Current Liabilities per Audit		<u>3,897,537</u>
Net Working Capital		1,128,574
Allocation %		<u>.066</u>
Working Capital - N. Ft. Myers Wastewater Division		<u><u>\$ 74,486</u></u>

COMPANY COMMENTS - VERBATIM:

The Company may respond at a later date.

DISCLOSURE NO. 6

CW-9  
P11

SUBJECT: CUSTOMER DEPOSITS

STATEMENT OF FACTS:

Florida Cities Water Company does not use actual customer deposits relating to the North Ft. Myers division when computing capital structure in their MFR schedules. Instead they combine deposits from all their divisions and then allocate a portion of this total to the North Ft. Myers division based on the same allocation factor used to allocate corporate debt and equity.

STATEMENT OF OPINION:

As of December 31, 1994 actual deposits associated with the North Ft. Myers Water and Sewer divisions were \$107,366. The Sewer division would be allocated \$53,683 (50%) of this amount. Total company deposits are projected to increase 51.5% during 1995. If deposits in the North Ft. Myers division increase this same amount then deposits at 12/31/95 would be \$81,344. This is \$30,834 less than the projected balance of \$112,178 used in the Utility,s MFR Schedule D-1.

Using this method, in this rate filing, overstates deposits. Therefore, the Cost of Capital percentage is understated because deposit interest of 6% is less than the average 9.08% Cost of Capital calculated on MFR Schedule D-1.

RECOMMENDATION:

The Utility should be consistent in the method they use in calculating customer deposits. If this method has been used consistently in prior rate cases then it should be used in this case as well.

COMPANY COMMENTS - VERBATIM:

The Company may respond at a later date.

DISCLOSURE NO. 7

CW-9  
P12

SUBJECT: NEW BOND ISSUE

STATEMENT OF FACTS:

The Utility's MFR Schedule D-5 (pg 2 of 3) shows that they projected a new \$5,000,000 Series L bond would be issued in June 1995. As of July 19, 1995 no new bonds had been issued.

STATEMENT OF OPINION:

Utility representatives have explained that they are still unsure of the amount of new bonds that will be issued. It is possible that they will issue a larger amount of bonds and use the proceeds to retire higher interest debt.

COMPANY COMMENTS - VERBATIM:

The Company may respond at a later date.

CW-9  
p13

AUDIT DISCLOSURE NO. 8

SUBJECT: DEFERRED LIABILITIES NOT INCLUDED IN COST OF CAPITAL

STATEMENT OF FACTS:

Certain deferred assets and liabilities were not included in the Utility's MFR Year End Capital Structure Schedule (Schd D-2, pg 2 of 4). Many of these accounts arise from the "gross up" of Contributions In Aid of Construction (CIAC) for income tax purposes. The Utility has set up both asset and liability accounts for the amount that CIAC was grossed up. The Utility then amortizes the asset over 20 years and the liability over 35 years. Since the asset is amortized faster than the liability, a net unamortized deferred credit remains on the books until the amortization is completed. At 12-31-94 this net deferred liability, not included in the Capital Structure was \$904,795.

Other deferred credits not included in the Capital Structure were Deferred Pension Liability of \$143,898, Deferred Gross Receipts Tax of \$400,058 and Accrued Post Retirement Benefits of \$976,226.

The Utility did include in their Capital Structure a deferred debit of \$337,382. This deferred debit relates to timing differences on the income tax deductibility of Post Retirement Benefits. It was used to reduce the amount of Accumulated Deferred Income Taxes which is listed as "zero cost debt" in the Utility's MFR Schedule D-1.

STATEMENT OF OPINION:

The greater the amount of "zero cost debt" included in the Utility's Capital Structure the lower the required Cost of Capital will be. Therefore it is to the Utility's advantage not to include items of debt that will increase this amount and to include debit balances that will decrease this amount.

Past practices in other rate cases should indicate whether the above items should or should not be included in the Utility's Cost of Capital calculations.

COMPANY COMMENTS - VERBATIM:

The Company's prior rate cases and PSC Orders did not include these accounts. Refer to our response to Document Request No. 18 for further clarification by Joe Schifano, Comptroller of FCWC.



Exhibit CW-10  
P1

Schedule of Sewer Rate Base  
File: NFMA.wk1  
Company: Florida Cities Water Co. - N Ft Myers Div.  
Docket No.: 950387-SU  
Test Year Ended: 12/31/95

Florida Public Service Commission  
Schedule: A-2  
Page 1 of 1  
Preparer: Coel

Interim [ ] or Final [x]  
Historic [ ] or Projected [x]

Explanation: Provide the calculation of 13-month average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use. Use the balance sheet method approach to determine working capital.

Line No.	(1) Description	(2) Balance Per Books 12/31/94	(3) Utility Adjustments	(4) Projected Test Year Balance 12/31/95	(5) Supporting Schedule(s)
1	Utility Plant in Service (Excl. Land)	\$11,649,007	\$1,728,332	\$13,377,339	
2	Utility Land & Land Rights	5,000	0	5,000	
3	Total Utility Plant in Service	11,654,007	1,728,332	13,382,339	A-4,A-6
4	Less: Non-Used & Useful Plant	0	0	0	A-7
5	Construction Work in Progress	91,345	(91,345)	0	-
6	Less: Accumulated Depreciation	2,558,856	584,542	3,143,398	A-8,A-10
7	Less: CIAC	3,183,270	136,760	3,320,030	A-11,A-12
8	Accumulated Amortization of CIAC	1,159,806	172,988	1,332,794	A-13,A-14
9	Acquisition Adjustments	0	0	0	-
10	Accum. Amort. of Acq. Adjustments	0	0	0	-
11	Less: Advances For Construction	0	0	0	A-16
12	Working Capital Allowance	0	124,774	124,774	A-17
13	Other: Allocation of General Office	0	27,799	27,799	A-3
14	Total Rate Base	<u>\$7,163,032</u>	<u>\$1,241,246</u>	<u>\$8,404,278</u>	

Exhibit CW-10  
12

Schedule of Sewer Net Operating Income  
 File: NFMS.wk1  
 Company: Florida Cities Water Co. - N Ft Myers Div.  
 Docket No.: 950387-SJ  
 Test Year Ended: 12/31/95  
 Historic [ ] or Projected [X]

\*\*\*\*\*  
 WASTEWATER  
 \*\*\*\*\*

Florida Public Service Commission

Schedule: B-2  
 Page 1 of 4  
 Preparer: Coel

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 10) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) BASE YEAR Per Books 12/31/94	(3) TEST YEAR Adjustments	(4) PROJECTED TEST YEAR 12/31/95	(5) TEST YEAR Requested Revenue Adjustments	(6) TEST YEAR REQUESTED REVENUES 12/31/95	(7) Supporting Schedule(s)
1	OPERATING REVENUES	\$2,085,157	\$26,755	\$2,111,912	\$480,078	\$2,591,990	B-3, B-4
	Operation & Maintenance:				22.73%		X Increase
2	Source of Supply/Sewage Coll. Exp.	35,615	1,315	36,930	0	36,930	B-3
3	Pumping Expenses	81,218	2,970	84,188	0	84,188	"
4	Treatment Expenses	430,646	23,341	453,987	0	453,987	"
5	Transmission & Distribution Exp.	0	0	0	0	0	"
6	Customer Accounting Expenses	57,245	6,428	63,673	0	63,673	"
7	General & Administrative Expenses	315,080	6,294	321,374	0	321,374	"
8	Total Operation & Maintenance Exp.	919,804	40,349	960,153	0	960,153	"
9	Depreciation, net of CIAC Amort.	379,659	73,908	453,567	0	453,567	B-14
10	Amortization(Leasehold Improvements)	949	0	949	0	949	B-3, Pg 4 of 6
11	ALLOW. FOR FUNDS PRUDENTLY INVESTED	0	0	0	0	0	
12	Taxes Other Than Income	205,132	16,186	221,318	21,604	242,922	B-15
13	Provision for Income Taxes	105,294	(106,526)	(1,232)	172,524 #	171,292	B-2, Pg 2
14	OPERATING EXPENSES	1,610,838	23,916	1,634,754	194,128	1,828,882	
15	NET OPERATING INCOME	\$474,319	\$2,839	\$477,158	\$285,951	\$763,108	
16	RATE BASE	\$7,163,032	\$1,241,246	\$8,404,278	\$0	\$8,404,278	A-2
17	RATE OF RETURN	6.62%		5.68%		9.08%	

\* Revenue requirements:

	PROJECTED TEST YEAR
(1) Rate Base	\$8,404,278
(2) Operating Income - Present Rates	477,158
(3) Rate of Return Recommended	9.08%
(4) Required Operating Income(1)x(3)	763,108
(5) Income Deficiency (4)-(2)	285,951
(6) Gross Conversion Factor	1.6789
(7) Revenue Deficiency (5)x(6)	480,078
(8) Test Year Revenues	2,111,912
(9) Revenue Requirement (7)+(8)	\$2,591,990
(1) Marginal Income Tax Factor	37.63%
(2) Regulatory Assessment Fee	4.50%

Gross Conversion Factor Calculation:

Gross Revenue	100.0000
Plus: Reg Assess Fee Rate	4.5000
Net Revenue	95.5000
State Inc Tax	5.50%
Income Before I.T.	90.2475
Federal Inc Tax	34.00%
Net Operating Income	59.5634
Revenue Conversion	1.6789

Exhibit CW-11  
P1

January 24, 1996

Robert Dick  
Florida Cities Water Company  
7401 College Parkway  
Ft. Myers, Florida 33907  
P.O. Box 6459 (33911-6459)

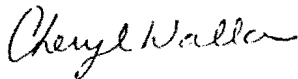
Dear Mr. Dick:

This letter is to identify additional questions we have for Florida Cities Water Company regarding Docket # 950387-SU, the wastewater rate increase.

1. Please send specific documentation of all that has taken place under the I/I reduction program. Dates, what was done, who did it and the cost. I believe this program was implemented in 1992 because of concerns of Director Edwards, FDEP, was it not? He seem to be particularly interested in your analysis of the infiltration and the corrective measures you would be taking.
2. Was your January 2, 1992 Capacity Analysis Report using all water sold in its projections for the future? Did it take out all water only customers to show accurately how the wastewater flows compared to water/wastewater customers? Wouldn't the CAR be considered deceptive if it did not show this? Why wasn't ERC used to calculate in this report? All formulas for finding used and useful, and margin reserve use ERC do they not?
3. Could you please explain and show documentation on how Florida Cities Water Company could **sell** more water than was **pumped** and **treated** for the months of April, July, September in 1994 and January, February, April and June of 1995.
4. How was the Lockmoor site for reuse determined? Please explain and show any documentation that proves the fact engineering wise that they can except 250,000 to 300,000 GPD of reuse water every day of the year. Especially because of the fact the reuse is going to the last pond in a chain of gravity fed ponds. This pond if overflowed consequently empties or is manually emptied into a drain or weir which leads to the same canal your treated water from the plant ultimately leads out to the river. So the reuse ends up in the river anyway, I would think especially in the wet weather season. Please explain this choice.
5. Under rate case expense, what exactly are the expenses June, July and August 1995 from Avatar Utility Services? The same question applies to Avatar Utilities in July and August of 1995.

Please provide answers to these questions as soon as possible. If you cannot reply within ten days please respond in writing when you could respond to the questions with the documentation needed.

Sincerely,



Cheryl Walla

cc: Jack Shreve Public Counsel  
B. Bayo , Div. of Records and Reporting ,FPSC  
R. Jaeger, Esq., Div. of Legal Services, FPSC  
B. Crouch, Div. of Water and Wastewater, FPSC

Exhibit CW-11  
p2

**FLORIDA CITIES  
WATER COMPANY**

February 20, 1996

Ms. Cheryl Walla  
1750 Dockway Drive  
N. Ft. Myers, Florida 33903

**RE: Florida Cities Water Company  
North Fort Myers Wastewater Rate Case  
Docket No. 950387-SU**

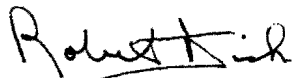
Dear Ms. Walla:

We are in receipt of your letter dated January 24, 1996 and received in our office February 2, 1996.

We were in the process of responding to your letter when we received the interrogatories you hand delivered today. Since the questions are essentially the same, we will respond to the interrogatories within the allotted time frame.

Sincerely,

**FLORIDA CITIES WATER COMPANY**



Robert Dick  
Division Manager

RD/cs

CERTIFICATE OF SERVICE  
DOCKET NO. 950387-SU

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by U.S. Mail or by \*Hand-delivery to the following party representatives on this 13th day of March, 1996:

Wayne L. Shiefelbein, Esquire  
Gatlin, Woods, Carlson  
& Cowdery  
The Mahan Station  
1709-D Mahan Drive  
Tallahassee, FL 32308

Dawn Coward  
951 Tropical Palm Ave.  
N. Fort Myers, FL 33903

Doris Hadley  
1740 Dockway Dr.  
N. Fort Myers, FL 33903

Eugene Brown, President  
Lakeside at Lockmoor Condo  
Assoc., Inc. #32  
2069 W. Lakeview Blvd.  
N. Fort Myers, FL 33903

Belle Morrow  
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N. Fort Myers, FL 33903

Eugene Retteselli  
4300 Glasgow Court  
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Lila Jaber, Esquire  
Division of Legal Services  
Fla. Public Service  
Commission  
101 E. Gaines Street  
Tallahassee, FL 32399

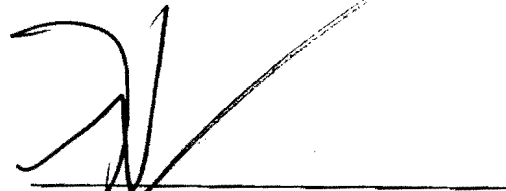
Mr. Paul H. Bradtmiller  
Florida Cities Water Co.  
Lee County Division  
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Harold McLean  
Associate Public Counsel