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B. KENNETH GATLIN, P.A.
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April 3, 1996

HAND DELIVERY

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

RE: Docket No. 950387-SU
Application of Florida Cities Water Company, North Ft. Myers Division,
for an Increase in Wastewater Rates in Lee County, Florida

Dear Ms. Bayo:

Enclosed for filing are an original and fifteen copies of our Certificate of Service and Rebuttal Testimony with Exhibits of the following persons:

- 1) Michael Acosta; 03833-96
- 2) Julie L. Karleskint with the following exhibit: 03834-96
Exhibit ___ (JLK-4) Letter to Jim Bishop, Lochmoor Country Club, with signed Reuse Agreement;
- 3) Robert Dick; 03835-96
- 4) Douglas R. Young; 03836-96
- 5) Larry N. Coel, with the following exhibits: 03837-96
Exhibit ___ (LC-3) Affiliate Transactions Audit Report
Exhibit ___ (LC-4) Letter from Charles Hill dated May 23, 1995 establishing the MFRs filing date
Exhibit ___ (LC-5) Rate Case Expenses (Through HEARING); and
- 6) Joseph Schifano; 03838-96
- 7) Thomas A. Cummings, with the following exhibit: 03839-96
Exhibit ___ (TAC-1) Notification of completion of construction

ACK ✓
 AFA 2
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 LEG 1
 LIN 3
 OPC _____
 RCH _____
 SEC _____
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 OTH _____

RECEIVED & FILED

[Signature]
FPSC-BUREAU OF RECORDS

Letter to Blanca S. Bayo, Director
April 3, 1996
Page 2 of 2

Please acknowledge receipt of foregoing by stamping the enclosed extra copy of this letter and returning same to my attention.

Very truly yours,

A handwritten signature in cursive script that reads "B. Kenneth Gatlin". The signature is written in dark ink and is positioned above the printed name.

B. Kenneth Gatlin

BKG/met
Enclosures

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Re: Application of Florida Cities Water)
Company, North Ft. Myers Division,)
for an increase in wastewater rates in)
Lee County, Florida)

Docket No. 950387-SU

Filed: April 3, 1996

CERTIFICATE OF SERVICE

I HERBY CERTIFY that a true and correct copy of the following Rebuttal Testimony and Exhibit:

- 1) Michael Acosta;
- 2) Julie L. Karleskint with the following exhibit:
Exhibit ___ (JLK-4) Letter to Jim Bishop, Lochmoor Country Club, with signed Reuse Agreement;
- 3) Robert Dick;
- 4) Douglas R. Young;
- 5) Larry N. Coel, with the following exhibits:
Exhibit ___ (LC-3) Affiliate Transactions Audit Report
Exhibit ___ (LC-4) Letter from Charles Hill dated May 23, 1995 establishing the MFRs filing date
Exhibit ___ (LC-5) Rate Case Expenses (Through HEARING)
- 6) Joseph Schifano;
- 7) Thomas A. Cummings, with the following exhibit:
Exhibit ___ (TAC-1) Notification of completion of construction

has been furnished by hand delivery to Mr. Ralph Jaeger, Esquire, Division of Legal Services, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, and to Harold McLean, Esquire, Office of Public Counsel, 111 W. Madison Street, Room 812, Claude Pepper Building, Tallahassee, Florida 32399-1400, and by regular U.S. Mail on this 3rd day of April, 1996 to:

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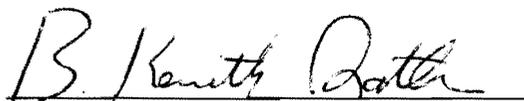
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Respectfully submitted



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**FLORIDA CITIES WATER COMPANY
NORTH FORT MYERS DIVISION
WASTEWATER OPERATIONS
REBUTTAL TESTIMONY OF MICHAEL ACOSTA
Docket No. 950387-SU**

- Q. Please state your name.
- A. Michael Acosta.
- Q. Have you previously provided testimony in this Docket?
- A. Yes.
- Q. What is the purpose of your rebuttal testimony?
- A. The purpose of my testimony is to rebut certain aspects of the direct testimony of Kimberly H. Dismukes, appearing on behalf of the Citizens of the State of Florida.
- Q. Specifically which part of Witness Dismukes testimony will you rebut?
- A. I will rebut Witness Dismukes' testimony regarding margin reserve, imputation of Contributions In Aid of Construction (CIAC) and Allowance for Funds Prudently Invested (AFPI).
- Q. On Page 25 Line 19 Witness Dismukes does not include margin reserve in the used and useful calculations which she performed. Do you agree with this position.
- A. Absolutely not. As stated in my direct testimony, it

1 has been longstanding Commission practice to include
2 margin reserve in used and useful plant because it is
3 recognized as necessary for a utility to meet its
4 statutory responsibility to have sufficient capacity
5 to serve the existing and changing demands of present
6 customers and the demands of potential customers
7 within a reasonable time period. In her testimony
8 Witness Dismukes says that "margin reserve
9 represents capacity required to serve future
10 customers, not current customers", this statement
11 fails to recognize several important issues
12 regarding margin reserve. First, the margin reserve
13 is in no way restricted only to future customers, the
14 changing demands of existing customers can use margin
15 reserve. Second, as stated in my direct testimony on
16 Page 2 lines 17-25 and Page 3 lines 1-25, the
17 requirements placed on wastewater utilities under
18 Section 62-600 F.A.C. are completely ignored by
19 Witness Dismukes. Finally, it is not practical from
20 an engineering, economic, or common sense points of
21 view to build capacity as each additional customer
22 connects to the system. It is in the best interests of
23 existing customers and future customers to build
24 economical increments of plant capacity to minimize
25 the cost per gallon of capacity. It must be

1 remembered that existing customers were once future
2 customers and capacity was available when they wanted
3 to connect.

4 Q. Witness Dismukes asserts that the Company will be
5 compensated for investment in margin reserve through
6 AFPI. Do you agree.

7 A. No. AFPI is used when non used and useful plant is
8 built to maximize economies of scale. In the instant
9 case, the expanded plant is 100% used and useful,
10 therefore AFPI does not apply.

11 Q. Witness Dismukes testifies that if the Commission
12 includes a margin reserve in used and useful plant
13 then a rate base adjustment should be made that
14 reflects the equivalent residential connections
15 represented by the margin reserve. Do you agree.

16 A. No. As stated in my direct testimony, to offset the
17 margin reserve by imputing anticipated CIAC
18 effectively takes away the ability to earn on the
19 investment in the margin reserve, thereby rendering
20 the margin reserve meaningless. No other component
21 of plant or expense is adjusted beyond the test
22 period. Adjusting the margin reserve by offsetting
23 anticipated CIAC, beyond the test period, leads to a
24 mismatch of speculative future CIAC collections
25 against current investment in used and useful plant.

1 It is my position that if the Commission recognizes
2 that margin reserve is a necessary component of used
3 and useful plant, the utility should be allowed to
4 earn a return on its investment.

5 Q. On Page 28 of her direct testimony Witness Dismukes
6 asserts that if the Commission did not impute CIAC on
7 margin reserve, FCWC collects CIAC from customers and
8 if this CIAC is not reflected in the rate base used to
9 set rates, then FCWC will overearn on its investment.
10 Do you agree?

11 A. No. Rate base changes continuously due to additional
12 investment in plant, depreciation and CIAC. The lack
13 of imputation of CIAC is not a causal factor that
14 ultimately leads to overearning on used and useful
15 investment.

16 Q. On page 28 of her direct testimony Witness Dismukes
17 states that even with imputation the company will
18 have the opportunity to earn in excess of the return
19 allowed by the Commission because the future revenue
20 is not recognized for ratemaking purposes. Do you
21 agree?

22 A. I agree that revenue from any future customers is not
23 included, beyond the test period, for ratemaking
24 purposes. However, expenses associated with serving
25 future customers beyond the test period are also not

1 recognized. Therefore the mismatch and opportunity
2 for overearning are simply not there.

3

4 Q. On page 29 of her direct testimony Witness Dismukes
5 insinuates that FCWC does not make economical
6 decisions because of the Commission's regulatory
7 policy. Do you have any comments?

8 A. Witness Dismukes' testimony is groundless, without
9 support and in gross error. To my knowledge she has
10 not made any attempt to audit the plant expansion
11 increment.

12 Witness Dismukes states that it is not the
13 Commission's responsibility to provide incentives
14 for the Company to make economical decisions. I
15 disagree, it would be in the best interest of all
16 parties to provide sufficient, necessary service to
17 both existing customers and future customers at the
18 minimum reasonable cost. This will necessarily
19 require investment in margin reserve to provide the
20 economies of scale that will lead to the minimization
21 of plant costs.

22 Witness Dismukes states that FCWC provided no
23 support for its suggestion that ratepayers are better
24 off with a larger plant today rather than smaller
25 plants built over time. FCWC built the increment of

1 capacity which would meet the regulatory
2 requirements of the Florida Department of
3 Environmental Protection. As I have previously
4 stated, it is not practical or economically feasible
5 to build plant capacity as each customer connects to
6 the system. In order to minimize costs and realize
7 economies of scale plant capacity must be built in
8 logical increments; this normally means building
9 capacity in larger, rather than smaller increments.

10 Q. Please summarize your rebuttal testimony.

11 A. The Commission should disregard Witness Dismukes
12 remarks regarding margin reserve, the imputation of
13 CIAC against the margin reserve and AFPI. The
14 Commission should recognize, as they have
15 historically done, margin reserve and not offset the
16 margin reserve, by imputing anticipated CIAC, beyond
17 the test period. AFPI should not be considered
18 because the plant is 100% used and useful.

19 Q. Does this conclude your rebuttal testimony?

20 A. Yes.