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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
 APP _____
 CAF _____
 CMU _____
 CTR _____
 EAG _____
 LEG 1
 LIN 3
 OPC _____
 RCH _____
 SEC _____
 WAS Willis
 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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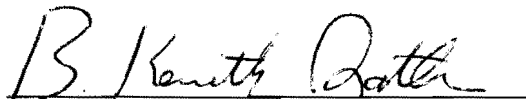
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Respectfully submitted



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Attorneys for
FLORIDA CITIES WATER COMPANY

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1 FLORIDA CITIES WATER COMPANY

2 NORTH FT. MYERS DIVISION

3 WASTEWATER OPERATIONS

4 REBUTTAL TESTIMONY OF JOSEPH SCHIFANO

5 TO

6 DIRECT TESTIMONY

7 OF

8 KIMBERLY H. DISMUKES

9 Docket No. 950387-SU

10 Q. State your name and business address.

11 A. Joseph Schifano, 4837 Swift Road Suite 100, Sarasota, FL,
12 34231.

13 Q. Are you the same Joseph Schifano who previously filed
14 testimony in this rate proceeding, Docket No. 950387-SU?

15 A. Yes.

16 Q. What is the purpose of this rebuttal testimony?

17 A. The purpose of this rebuttal testimony is to refute a
18 position of OPC witness Kimberly H. Dismukes (KHD).

19 Q. What issue addressed by KHD will you be refuting?

20 A. The issue of Allowance for Funds Purdently Invested
21 (AFPI).

22 Q. Witness KHD on Pages 26 and 27 of her testimony takes the
23 position that FCWC's North Fort Myers wastewater division
24 would not be harmed if she made a used and useful
25 adjustment because she assumes that FCWC would be allowed

1 to accrue an AFPI. Do you agree with her opinion?

2 A. No. FCWC believes that the position taken by Witness KHD
3 relating to AFPI is moot because the Wastewater Treatment
4 Plant is 100% used and useful (See direct testimony of
5 Douglas R. Young, Page 6 regarding used and useful
6 calculations). Regardless, the position that the accrual
7 of AFPI places the utility in the same financial position
8 as including utility plant in rate base is incorrect as
9 follows:

10 First, cash flow is delayed until the new customer
11 connects to the system. It is not possible to pay
12 current payables with accrued AFPI.

13 Second, accrued AFPI is generally only provided over a
14 five year period. After five years the utility
15 shareholder is charged with the cost of carrying any non
16 used and useful plant.

17 Finally, the accrual creates a deferred income tax credit
18 which is included in the cost of capital at zero cost.
19 The impact of the inclusion of the deferred tax,
20 regardless of the portion of the accrual that impacts
21 equity, is an overall reduction in the cost of capital.
22 With the negatives associated with AFPI it is difficult
23 to conceive that the utility is not "harmed" when rate
24 base is reduced by a non used and useful adjustment.

25 Q. Does that conclude your rebuttal testimony?

1 A. Yes.