STATE OF FLORIDA

OFFICE OF THE PUBLIC COUNSEL

c/o The Florida Legislature
111 West Madison Street
Room 812
Tallahassee, Florida 32399-1400
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JACK SHREVE
PUBLIC COUNSEL

May 21, 1996

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

RE: Docket No. 951056-WS

Dear Ms. Bayo:

Enclosed for filing in the above-captioned proceeding on behalf of the Citizens of the State of Florida are the original and 15 copies of the Direct Testimony of Kimberly H. Dismukes and Ted L. Biddy.

Please indicate the time and date of receipt on the enclosed duplicate of this letter and return it to our office.

Sincerely,

Stephen C. Reilly
Associate Public Counsel

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Biddy
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a rate increase Palm Coast Utility Corporation.	)))	Docket No. 951056-WS Filed: May 21, 1996.

Direct Testimony

of

Kimberly H. Dismukes

On Behalf of the Citizens of the State of Florida

Jack Shreve
Public Counsel

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c/o The Florida Legislature
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Attorney for the Citizens
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of the State of Florida

TESTIMONY
OF
KIMBERLY H. DISMUKES

On Behalf of the
Florida Office of the Public Counsel

Before the
FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 951056-WS

Q. What is your name and address?

A. Kimberly H. Dismukes, 5688 Forsythia Avenue, Baton Rouge, Louisiana 70808.

Q. By whom and in what capacity are you employed?

A. I am a self-employed consultant in the field of public utility regulation. I have been retained by the Office of the Public Counsel (OPC), on behalf of the Citizens of the State of Florida, to analyze Palm Coast Utility Corporation's (PCUC or the Company) rate filing in the instant docket.

Q. Do you have an appendix that describes your qualifications in regulation?

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

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

A. Yes. Exhibit__(KHD-1) contains 16 schedules that support my testimony.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to Palm Coast Utility Corporation's request to increase water rates by $1,479,626 and wastewater rates by $1,575,817.

My testimony is organized into five sections. In the first section of my testimony, I summarize my recommendations. In the second section, I address adjustments to the Company's proposed cost of capital. In the third section of my testimony, I address adjustments to test year revenue. In the fourth section of my testimony, I discuss certain expense adjustments. In the fifth section, I address adjustments to the Company's proposed rate base.

I. Summary of Recommendations

Q. Would you please summarize your recommendations?

A. Yes. Schedule 1 summarizes the adjustments that I propose and shows the revenue requirement impact of each adjustment. As shown, the adjustments that I recommend reduce the Company's revenue requirement by $2,471,765. I would note that I have not incorporated the used and useful recommendations of Mr. Biddy, due to time constraints. If his recommendations were incorporated, it would further decrease the Company's requested rate increase.

II. Cost of Capital

Q. What adjustments do you recommend concerning the Company's capital structure and overall cost of capital?

A. I have proposed four adjustments to the Company's cost of capital. The first adjustment, shown on Schedule 2, increases the amount of zero cost investment tax credits included in the Company's proposed capital structure by $125,569. In the Company's last rate case, Order No. 22843, the Commission found:

> PCUC failed to claim any ITCs on certain additions that were transferred from CWIP to plant in service.
>
> If the ITCs had been realized by the utility or its parent, they would have been included in the utility's capital structure at zero cost and amortized below-the-line. This would have had the effect of reducing the utility's overall rate of return.
>
> Since it was through its own error that the utility did not realize the benefits of the ITCs, we do not believe that the ratepayers should bear the additional costs. We find, therefore, that the ITCs should be imputed to PCUC's capital structure.
>
> Based upon the evidence and discussion above, we find that a net accumulated ITC balance of $185,050 on a thirteen month average basis should be imputed on PCUC's capital structure. [P. 45.]

Consistent with the Commission's decision in the Company's last rate case, I have calculated the amount of ITCs that should be imputed to PCUC's capital structure. As shown on Schedule 2, this amounts to $125,569.

Q. What is the next adjustment that you propose?

A. The next adjustment that I recommend concerns CIAC that I believe should be included in the Company's capital structure as cost-free funds. As shown on Schedule 3, I compared the Company's non-used and useful plant to non-used and useful CIAC. For the water operations, there is no excess non-used and useful CIAC when compared to the balance of non-used and useful plant in service. However, for the wastewater operations, there is a significant amount of excess non-used and useful CIAC compared to non-used and useful plant. Comparing the Company's year-end balance of non-used and useful plant of $13,246,623 to non-used and useful CIAC of $32,399,663 indicates that the Company has $19,153,040 of CIAC that exceeds its balance of non-used and useful plant. Subtracting the CIAC cash held in trust, which apparently is not available for use by PCUC, the net amount of CIAC in excess of non-used and useful plant is $11,028,664. I recommend that the Commission include this excess CIAC in the Company's capital structure as a source of cost-free capital.

Q. Did not the Commission reject this argument in the Company's last rate case?

A. Yes, it did. The Commission rejected the adjustment based upon three findings. First, the Commission found that the amount of CIAC held in trust should be offset against the CIAC balance for an appropriate comparison. As indicated above, I have offset the amount of excess CIAC with the CIAC held in trust.

Second, the Commission found that the combined water and wastewater rate base total requested by PCUC, which was $16,103,845, was less than PCUC's reported capital structure of $28,383,746. Based upon this finding the Commission concluded that PCUC has a significant investment in non-used and useful plant. I made a similar comparison for purposes of the instant case. As depicted on Schedule 4, I compared the rate base and total capital from Docket No. 951056 and Docket No. 890277 to the total rate base in these two cases. As shown, the rate base in the instant docket is $37,359,642 compared to the total capital of $39,453,807. This compares to the prior docket where the Company's total rate base was $16,103,845 and its total capital was $28,383,746. What is evident from this comparison is that while the Company increased its rate base by $21,255,797, it only increased its total capital by $11,070,061. This suggests that PCUC did not use investor supplied capital to fund approximately $10,185,736 of plant investments. Instead, it used the funds collected from customers in the form of prepaid CIAC to fund these investments. Since the Company has not made an investment in this plant, it would only be appropriate for the Commission to include in PCUC's capital structure the cost-free funds used to finance this additional investment. It is interesting that the rate base not funded by capital of $10,185,736 shown on Schedule 4 is about the same as the cost-free excess CIAC of $11,028,664 depicted on Schedule 3.

To further evaluate this issue, I examined the total amount of non-used and useful plant and the total amount of non-used and useful CIAC compared to the net income generated by the Company's non-used and useful plant. In theory, the income received by the Company on its non-used and useful plant should approximate a normal return. However, if the return is in excess of a normal return, one can reasonably conclude that the Company has not properly accounted for its non-used and useful assets, liabilities and related income. As shown on Schedule 5, the Company is earning excess of a normal return on its non-used and useful plant, because once non-used and useful CIAC is taken into consideration, the Company has no net investment in non-used and useful assets. As shown on Schedule 5, the Company has a negative investment of $10,550,236 in non-used and useful assets. My calculation of the net income received by PCUC on its non-used and useful assets is $465,636. Since PCUC has no non-used and useful assets that are not funded by prepaid CIAC, all profits earned on these negative assets are a windfall profit to stockholders.

Third, the Commission rejected a recommendation, similar to the one that I propose in the instant proceeding, because there was no precedent for treating prepaid CIAC as cost free capital. While true, this should not deter the Commission from making the adjustment that I propose. The facts of this case show that PCUC has used prepaid CIAC to fund used and useful plant investment. As such, the Commission should include these funds in the Company's capital structure. Furthermore, while the Commission has not made this adjustment in the past, PCUC is a unique utility that has substantial amounts of non-used and useful plant, non-used and useful CIAC, and several mechanisms to provide it with a return on its non-used and useful investments.

Accordingly, for the reasons discussed above, I recommend that the Commission include in the Company's capital structure cost-free CIAC in the amount of $11,028,664.

Q. What is the third adjustment that you recommend concerning the Company's cost of capital?

A. The third adjustment that I recommend relates to another adjustment made by the Commission in PCUC's last rate case. In that case, the Commission found that the Company failed to take accelerated depreciation on its tax returns due to purposes that served PCUC's parent company. In Order No. 22843, the Commission found:

> Notwithstanding the above, we believe that a prudent utility should attempt to provide the best possible service at the lowest possible cost. This includes paying the least amount of tax legally possible. Based upon this as well as other issues, we find that there has been a pattern, on PCUC's part, of not taking the cost of service into consideration when determining its tax policies. We believe that it is appropriate to send a signal to PCUC. Accordingly, we find it appropriate to assess an equity penalty of 50 basis points against PCUC for its failure to take the interests of its ratepayers into

consideration when determining its tax policies. [P. 48.]

Consistent with the Commission's decision in PCUC's last case, I have reduced the Company's requested cost of equity by 50 basis points. As shown on Schedule 2, this reduces the Company's requested cost of equity from 11.10% to 10.60%.

Q. What is the fourth adjustment that you recommend?

A. My fourth adjustment relates to the Company's treatment of customer deposits. In reconciling the Company's capital to rate base, PCUC reconciled, or reduced customer deposits. This is an inappropriate adjustment since all customer deposits support current plant in service. Accordingly, when developing my overall capital structure and cost of capital, I included 100% of the Company's customer deposits in the reconciled capital structure.

As shown on Schedule 2, the cost of capital that I recommend is 6.69%. This compares to the Company's requested cost of capital of 8.84%. As shown on Schedule 6, the revenue requirement impact of my recommended cost of capital reduces the Company's water revenue requirement by $769,049 and the wastewater revenue requirement by $578,045.

III. Revenue Adjustments

Q. What adjustments do you propose to the Company's revenue?

A. I am proposing several adjustments to test year revenue. The first set of adjustments is depicted on Schedule 7. As shown, I am recommending that the Commission increase test year revenue by $52,772 for the Company water operations and by $54,857 for its wastewater operations. The adjustments that I recommend relate to two items. The first, concerns the income earned by PCUC for services (operation and maintenance) rendered to one water system and three wastewater systems which are not owned by PCUC. The Company provides operations and maintenance services for these plants and records the associated income below the line for ratemaking purposes. It is not clear if the same individuals that perform operations and maintenance expenses for the Company also perform the services for these other plants, but it would seem reasonable that they would. While the Company has reduced the revenue received from these plants by the expenses incurred by the Company, it is not clear if the related expenses have been removed or credited to the appropriate accounts in the instant rate proceeding. In addition, it is not clear if the expenses charged for rendering services to these plants includes administrative and general expenses and other overhead costs which should properly be allocated to them. Since these services appear to be provided as a utility function of PCUC, I have included the income above the line for ratemaking purposes. I would note that there is still discovery outstanding on this issue. If necessary, I will modify my testimony based upon the Company's responses to OPC's discovery.

The next adjustment relates to revenue received from Aqua Tech Utility Services Corporation--a wholly owned subsidiary of PCUC. During 1995 PCUC recorded

$50.365 of revenue below the line associated with Aqua Tech Utility Services. It is not clear what services this company provides or to whom. The Company did not reveal in its MFRs that the subsidiary even existed. Since the Company has not explained the purpose of this subsidiary and how it relates to PCUC, I have included above the line for ratemaking purposes the revenue received from this subsidiary. As shown on Schedule 7, I recommend increasing test year revenue by $50,365. I would also note that there is discovery outstanding on this issue. I will update my testimony accordingly, if necessary.

The next group of revenue adjustments that I recommend is reflected on Schedule 8. This schedule merely updates the Company's miscellaneous service revenues as budgeted for the projected test year to actual. As shown, the adjustments that I recommend increase test year water revenue by $5,174 and wastewater revenue by $5,197.

Schedule 9 shows the next group of revenue adjustments that I recommend. As shown, my adjustments increase test year water revenue by $33,023 and wastewater revenue by $195,640, Which is the same figure the Company used in developing its wastewater rates. My adjustment merely moves this revenue into the determination of PCUC's revenue requirement.

The first adjustment relates to the Hammock Dunes community. According to the Company, Hammock Dunes flushed their lines often, but this frequency is not expected to continue into the future. Accordingly, PCUC reduced test year consumption for this customer by 39,681,000 gallons. I reviewed the Company's expenses associated with flushing the lines for Hammock Dunes in 1995 and did not see an appreciable decline compared to 1994. In addition, the actual consumption during 1995 was 83,796,400 gallons--only slightly less than experienced in the past. Accordingly, I recommend that the Commission not reduce the level of consumption as requested by the Company, but instead use actual test year consumption. As shown, I recommend that the Commission increase test year revenue by $33,024.

The second adjustment relates to reuse revenue that the Company expects to receive in the future. As shown on Schedule 9, I have increased test year revenue by $195,640.

IV. Expense Adjustments

Q. What adjustments to expenses are you proposing?

A. The adjustments that I recommend are presented on Schedules 10 through 16. Schedule 10 summarizes the adjustments that I recommend concerning the non-used and useful portion of the Company's operation and maintenance (O&M) expenses and administrative and general expenses. As shown on Schedule 10, I recommend that the Commission reduce test year water expenses by $58,783 for non-used and useful expenses. With respect to the Company's wastewater operations I recommend that the Commission reduce test year expenses by an additional $37,804 associated with non-used and useful O&M expenses.

The details of how I calculated my recommended used and useful percentages compared to the Company's percentages are depicted on Schedule 11. With respect to the Water Distribution expenses and Wastewater Collection expenses, the difference between my recommendation and that of the Company's relates to margin reserve. Consistent with my recommendations and that of Mr. Ted Biddy, I have excluded margin reserve from the used and useful calculations for operation and maintenance expenses.

With respect to Department 0770-Administrative, the Company estimated this department's expenses to be 80% used and useful based upon interviews with department personnel. In the Company's last rate case, this department's expenses were determined to be only 19.31% used and useful. The difference between the instant case and the prior case relates to the method used to determine used and useful. In the prior case the Company used the average ERCs to total lots to calculate the percentage of this department's costs that should be considered used and useful. However, in the instant case it was based upon an interview. There is considerable difference between the last case and the instant case that is not adequately explained.

For purposes of developing my recommended used and useful percentages, I used a factor weighted 50% based upon the used and useful percentage of collection and distribution lines and 50% based upon the Company's 80% interview estimate. As shown on Schedule 11, my recommended used and useful percentage is 65.30% compared to the Company's of 80%.

Concerning Department 0771-Controller, the Company has several different used and useful percentages. For the VP Finance the Company used 80% based upon an interview. For the reasons cited above, I recommend a used and useful percentage of 65.30%. (I would note that in the last case, the Company used connected to available lots as the method to determine used and useful for this position.) For the Executive Secretary, the Company determined the used and useful percentage to be 90% based upon interviews. My recommendation uses a weighted average factor consisting of 50% of used and useful lines and 50% of the 90% used by PCUC. As shown, my used and useful percentage is 70.30%. For the position Assistant Controller the Company determined that 80% of these expenses were used and useful. I am recommending a used and useful percentage of 65.30% for the reasons cited above. For the G/L Bookkeeper the Company estimated the used and useful percentage to be 90%. I recommend a used and useful percentage of 70.30% for the reasons given above.

The next Department is 0772-Engineering. There are only two differences between the used and useful percentage used by the Company and the one that I recommend. These relate to the Senior VP Engineering & Field Operations and Operation/Engineering Administration. The Company's used and useful percentage is based upon the composite for departments 0751, 0752, 0753, 0754, 0755, 0761, 0762, 0763, and 0772, which results in a used and useful percentage of 93.72%. I have used the same methodology employed by the Company, but substituted my used and useful recommendations to develop the composite for the departments listed. My recommended used and useful percentage is 93.25% compared to the Company's of 93.72%.

With respect to Department 0777-Purchasing and Safety, the Company used a composite used and useful percentage based upon departments 0751, 0752, 0753, 0754, 0755, 0761, 0762, and 0763, which results in a used and useful percentage of 93.39% for the purchasing coordinator. I have used the same methodology employed by the Company, but substituted my used and useful recommendations to develop the composite for the departments listed. My recommended used and useful percentage is 92.90%.

For Department 0778-Inventory Control, the Company used a composite based upon departments 0753 and 0763. The result is a used and useful percentage of 78.62%.

I used the same methodology, substituting my used and useful percentage for these departments which yields a used and useful percentage of 77.01%.

Although not reflected on this schedule, the Company assumed that personnel services were 100% used and useful. I have used a composite used and useful percentage of 90.61% based upon the total of all expenses excluding personnel services. The Company's rationale is that the cost of personnel services would not change even if only used and useful personnel were served. Accordingly, PCUC assumed that Department 0775 is 100% used and useful. As shown on Schedule 10, I disagree with the Company and believe that it would be more appropriate to determine the percentage of used and useful based upon a composite of all other departments. This is consistent with many cost allocation procedures where it is not possible to develop an independent allocation formula. Accordingly, as shown on Schedule 10, I recommend that the Commission remove 9.39% of these expenses as non-used and useful.

I would note that at this time, my recommendations do not include the non-used and useful plant recommendations of Mr. Ted Biddy, due to time constraints. If these recommendations were incorporated, the adjustments that I propose would be larger. Also, with the exceptions noted, I have used the same methodology employed by the Company to develop my used and useful O&M recommendations.

Q. What is the next expense adjustment that you recommend?

A. The next adjustment that I propose is shown on Schedule 12. The Company included in test year expenses the full cost of employee relations services that were provided by ITT Industries (ITT) during the historic and budgeted 1995 test year. This is a new service which was not previously provided by ITT, but the Company. While I do not dispute the amount charged by ITT, the Company did not remove other expenses in the account personnel services that will not or should not recur because of the change over in providing this service. As shown on Schedule 12, I have removed the non-recurring expenses that were incurred by PCUC during the first half of 1995. The adjustment that I recommend reduces test year water expenses by $9,246 and wastewater expenses by $6,260.

Q. What is the next adjustment that you propose?

A. The next adjustment is shown on Schedule 13. I am recommending that the Commission remove from test year expenses $21,201 for expenses charged from the parent company, ITT. The Company has included in test year expenses a contract service charge from ITT. According to the Company this cost is for administrative services and advice. The amount charged to subsidiaries of ITT range from .25% of revenue to 1.0% of revenue. The charge to PCUC is .25% of revenue. In my opinion, the Company has not justified the amount of the fee nor the method used to allocate the fee. In response to OPC's interrogatory 51, the Company refused to provide the amount of this fee charged to the other subsidiaries of ITT. Likewise, it refused to provide the number of employees of the other subsidiaries of ITT. This information was requested to test the reasonableness of the allocation method used by ITT. Since PCUC has not justified the expense and refused to provide information that would allow me to test the reasonableness of the expense, I do not believe that the Commission should approve this charge. The Company has provided no information concerning the types of services provided, if any. Accordingly, I recommend that the Commission remove from test year expenses $21,201.

The next adjustment shown on Schedule 13 relates to affiliate charges from ITT Community Development Corporation (ICDC). During 1995 ICDC began providing accounts payable processing services to PCUC. This function was apparently previously provided by the Company. The Company provided no justification for the change, other than a cryptic memo saying that "Per agreement between Jim Perry of PCUC and myself there will be [a] monthly fee of $1000 for accounting services provided to PCUC." The Company provided no information concerning how the fee was determined or that it is cost-effective for ICDC to provide this service. In the absence of supporting documents, I recommend that the Commission disallow the expense of $10,564.

As shown on Schedule 13, after considering used and useful, my recommendation for these two adjustments, reduces test year water expenses by $12,369 and wastewater expenses by $8,374.

Q. Would you describe the adjustments on Schedule 14

A. Yes. Schedule 14 consists of several adjustments recommended by the Commission's Staff Auditors in their audit of the Company's books and records. Included on Schedule 14 are those adjustments where the auditors' reasoning was persuasive and I agree with the proposed adjustment. With respect to expense adjustments, I recommend that O&M water expenses be reduced by $4,098 and wastewater expenses by increased by $585, for the reasons cited on Schedule 14 and the reasons given by the Staff's Auditors. These adjustments relate to expenses that were either not supported by the Company, relate to lobbying activities, and legal fees associated with the divestiture of PCUC. None of these expenses should be recovered from ratepayers.

The next adjustment on Schedule 14 that I recommend relates to rate case expense. According to the Staff Auditors the Company failed to reduce its rates consistent with Section 367.0816 of the Florida Statutes which provides that utilities are to reduce their rates at the conclusion of the recovery period (for rate case expense) by the amount of rate case expense previously included in rates.

To ensure that customers receive the benefit of the rate reduction that they did not receive, I calculated the amount by which current rate case expense should be reduced to recognize this over recovery. In my opinion, this provides a reasonable means by which the Commission can return to ratepayers the amount of rate case expense over recovered by the Company. I determined the amount of over recovery by first determining the annual expense included in customers rates of $101,892. I divided this amount by 12 to determine the monthly amount included in rates. Next I multiplied the number of months (40) the Company collected or will collect rate case expense to which it is not entitled. As shown on Schedule 14, this amounts to $339,641. I divided this amount by four to determine the amount by which current rate case expenses amortization should be reduced. As shown on this schedule, rate case expense amortization should be reduced by $84,910.

Q. What is the adjustment depicted on Schedule 15?

A. Schedule 15 reflects the revenue requirement impact of my recommendation to calculate the Company's test year income taxes using a 34% federal tax rate as opposed to a 35% federal tax rate. The Company has not explained why it used a 35% tax rate, but it may relate to the fact that PCUC files a consolidated return with its parent company ITT. While ITT's federal income tax rate may be 35%, the Company's income taxes for book and ratemaking purposes are calculated on a stand alone basis. The income generated by PCUC would only be taxed at the federal income tax rate of 34%, not the 35% suggested by PCUC. The impact of my recommendation is reflected on Schedule 15. As shown my recommendation reduces the Company's water revenue requirement by $22,395 and its wastewater revenue requirement by $23,858.

Q. Would you please describe the miscellaneous adjustments shown on Schedule 16?

A. Yes. The first adjustment removes from test year expenses $36,981 associated with rental expenses that apparently will not recur in the future. According to the Company's response to OPC's interrogatory 63, with respect to account 741 rental of building/real property, the agreement for rent expired in June 1995 and no expenses were projected for July through December 1995. Since this expense will not recur in the future, I removed from test year expenses the amount expensed during the months of January through June 1995.

The second adjustment removes from test year expenses chamber of commerce dues paid by PCUC in 1995 of $828. In past proceedings the Commission has disallowed chamber of commerce membership dues. For example, in Docket No. 810002-EU, the Commission stated as follows concerning chamber of commerce dues:

> ...it is our opinion that these dues serve to improve the image of the Company, with direct benefits accruing to the stockholders of the Company and with no benefits being received by ratepayers. [Florida Public Service Commission, Order No. 10306, p. 27.]

In addition, in the Commission's Order concerning Southern States Utilities, Inc. in Docket No. 920199-WS, the Commission confirmed its policy to disallow chamber of commerce dues and related expenses. I recommend that the Commission continue with its policy of not recovering these costs from ratepayers and disallow $541 of used and useful expenses included in the test year.

In the next adjustment, I recommend that the Commission reduce test year legal expenses by $6,100 to reflect the fact that these expenses are non-recurring. According to the Company's response to OPC's interrogatory 1, the Company incurred $9,342 in legal fees associated in defense of a lawsuit filed by Ferguson Enterprises. The description of this lawsuit indicates that the costs will not recur in the future. Accordingly, I have reduced test year expenses by $6,100.

V. Rate Base Adjustments

Q. What rate base adjustments do you recommend?

A. I am recommending several adjustments. The first group of adjustments, depicted on Schedule 14, relates to the adjustments and recommendations of the Commission's Staff Auditors. As indicated above, I have found the Auditors' reasoning for these adjustments to be persuasive and I agree with their rationale. Accordingly, I have included their recommendations concerning rate base adjustments on Schedule 14.

The first adjustment reduces the cost of land and a buffer site purchased by PCUC from ICDC. According to the Staff's Audit, the purchase price of the land and buffer zone should be reduced by $404,770.

The next adjustment is similar and related to the cost of land associated with a sprayfield. The cost of this land should be reduced by $268,509.

The third adjustment relates to the reclassification of the Rapid Infiltration Basin (RIB) site and the change in depreciation associated with the change in classification. If this cost is reclassified, depreciation expense should be reduced by $34,270 and accumulated depreciation should likewise be reduced by $34,270.

The final rate base adjustment on this schedule reduces the cost of water plant in service by $548,416 and wastewater plant in service by $504,537. According to the Staff's Audit, the Company capitalized some rehabilitation costs which should have been expensed. Accordingly, I have reduced plant in service by the amount indicated in the Audit. Additional adjustments for depreciation expense and accumulated depreciation should also be made.

Q. Did you make any adjustments to general plant?

A. Yes. Consistent with the Commission's decision in the Company's last rate case I adjusted general plant accounts structures and improvements and office furniture and equipment for their non-used and useful nature. In the Company's two previous rate cases, the Company and the Commission both adjusted these accounts using the non-used and useful factors associated with administrative and general expenses. As shown on Schedule 10, my recommended non-used and useful percentage for administrative and general expenses is 13.20%. Using this factor I reduced general water plant by $121,150 and general wastewater plant by $122,167. The associated reductions to accumulated depreciation and depreciation expense are also reflected on Schedule 10.

Q. Do you have any other recommendations concerning rate base issues that you would like to address?

A. Yes. Although I have not performed the calculations associated with my recommendation due to time constraints, I recommend that the Commission not include a margin reserve in the Company's used and useful calculations. In my opinion, it is not appropriate to include margin reserve in the used and useful calculations. Margin reserve represents capacity required to serve future customers, not current customers.

The inclusion of a margin reserve to account for future customers above and beyond the future test year level represents investment that will not be used and useful in serving current customers. If the Commission includes margin reserve in the used and useful calculations this will result in current ratepayers paying for plant that will be used to serve future customers. This causes an intergenerational inequity between ratepayers. If no margin reserve is allowed, the Company will still be compensated for the prudent cost of its plant with Allowance for Prudently Invested Funds (AFPI) or guaranteed revenue.

Q. If the Commission agrees with you, will PCUC be harmed?

A. Not if the plant was prudently constructed. The Company earns guaranteed revenue on its non-used and useful plant. In addition, if the plant was prudently constructed the Company would be permitted to accrue AFPI on plant that is not used and useful. The Commission established AFPI for the very purpose of protecting utilities from under recovering the cost of plant that is not used and useful, <u>but was prudently constructed</u>. Consequently, if the Commission does not grant the Company's request to include margin reserve in the used and useful calculations, PCUC could recover the carrying costs associated with the assets that are currently considered non-used and useful through the AFPI charges at some point in the future, through guaranteed revenue, and through non-used and useful compensation received from ICDC.

Q. If the Commission decides that margin reserve should be included in the used and useful calculations, should a corresponding adjustment be made to CIAC?

A. Yes. If margin reserve is included in the used-and-useful calculations, then, to achieve a proper matching, an amount of CIAC equivalent to the number of equivalent residential connections (ERCs) represented by the margin reserve should be reflected in rate base. This is especially important in this case because the Company is adding the cost of additional capacity to serve future customers. Because of this addition, the Company is proposing to increase its plant capacity charges. In calculating the imputation of CIAC, the Commission should use the final new capacity charges. The CIAC that will be collected from these future customers would at least serve to mitigate the impact on the existing customers resulting from requiring them to pay for plant that will be utilized to serve future customers.

Q. What are the two next rate base adjustment that you recommend?

A. I recommend that the Commission include in rate base a negative working capital requirement of $799,493 for the Company's water operations and negative $558,004 for the Company's wastewater operations. The Company has included in rate base a substantial amount of net debit deferred taxes. The Company's negative working capital should be used to offset these debit deferred taxes.

I also recommend that the Commission reduce the amount of net debit deferred taxes included in rate base by $218,090 for the water operations and by $160,539. The Company's requested net debit deferred taxes includes deferred taxes associated with an extraordinary property loss. I believe this relates to the faulty plant installed by ICDC that the Commission disallowed from rate base in the Company's last rate proceeding. Accordingly, it would not be appropriate to include the associated deferred taxes in rate base. These adjustments are reflected on Schedule 1.

Q. What is your final recommendation concerning rate base issues?

A. I recommend that the Commission use a 13-month average rate base for the Company's water operations. The Commission's Rule 25-30.433 (4), F.A.C. requires the use of a 13-month average rate base. The rule further allows that if an applicant can show an unreasonable burden there may be some deviation from rule. The Company has not demonstrated, with respect to its water operations, that there were any unusual or extenuating circumstances or that there were major plant additions added during the test year. Accordingly, the Commission should not approve the use of a year-end rate base for PCUC's water plant.

Q. Do you have any final comments before you conclude your testimony?

A. Yes. There is still discovery outstanding on several issues and the Company has objected to many of OPC's discovery. Once this discovery is received and the objection resolved, it may be necessary to file supplemental testimony. In addition, as stated elsewhere in my testimony, time constraints prevented me from quantifying the recommendations of Mr. Biddy. I anticipate quantifying the revenue requirement impact of his recommendations and providing updated testimony on this subject.

Q. Does this complete your direct testimony, prefiled on May 21, 1996?

A. Yes, it does.

APPENDIX

OF

KIMBERLY H. DISMUKES

APPENDIX I

QUALIFICATIONS

Q. What is your educational background?

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

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

A. In March of 1979 I joined Ben Johnson Associates, Inc., a consulting firm specializing in the field of public utility regulation. While at Ben Johnson Associates, I held the following positions: Research Analyst from March 1979 until May 1980; Senior Research Analyst from June 1980 until May 1981; Research Consultant from June 1981 until May 1983; Senior Research Consultant from June 1983 until May 1985; and Vice President from June 1985 until April 1992. In May 1992, I joined the Florida Public Counsel's Office, as a Legislative Analyst III. In July 1994 I was promoted to a Senior Legislative Analyst. In July 1995 I started my own consulting practice in the field of public utility regulation.

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

A. Yes. My duties have ranged from analyzing specific issues in a rate proceeding to managing the work effort of a large staff in rate proceedings. I have prepared testimony, interrogatories and production of documents, assisted with the preparation of cross-examination, and assisted counsel with the preparation of briefs. Since 1979, I have been actively involved in more than 160 regulatory proceedings throughout the United States.

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

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

Q. Have you previously assisted in the preparation of testimony concerning

revenue requirements?

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

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

Companies that I have analyzed include: Alascom, Inc. (Alaska), Arizona Public Service Company, Arvig Telephone Company, AT&T Communications of the Southwest (Texas), Blue Earth Valley Telephone Company (Minnesota), Bridgewater

Telephone Company (Minnesota), Carolina Power and Light Company, Central Maine Power Company, Central Power and Light Company (Texas), Central Telephone Company (Missouri and Nevada), Consumers Power Company (Michigan), C&P Telephone Company of Virginia, Continental Telephone Company (Nevada), C&P Telephone of West Virginia, Connecticut Light and Power Company, Danube Telephone Company (Minnesota), Duke Power Company, East Otter Tail Telephone Company (Minnesota), Easton Telephone Company (Minnesota), Eckles Telephone Company (Minnesota), El Paso Electric Company (Texas), Florida Cities Water Company (North Fort Myers, South Fort Myers and Barefoot Bay Divisions), General Telephone Company of Florida, Georgia Power Company, Jasmine Lakes Utilities, Inc. (Florida), Kentucky Power Company, Kentucky Utilities Company, KMP Telephone Company (Minnesota), Idaho Power Company, Oklahoma Gas and Electric Company (Arkansas), Kansas Gas & Electric Company (Missouri), Kansas Power and Light Company (Missouri), Lehigh Utilities, Inc. (Florida), Mad Hatter Utilities, Inc. (Florida), Mankato Citizens Telephone Company (Minnesota), Michigan Bell Telephone Company, Mid-Communications Telephone Company (Minnesota), Mid-State Telephone Company (Minnesota), Mountain States Telephone and Telegraph Company (Arizona and Utah), North Fort Myers Utilities, Inc., Northwestern Bell Telephone Company (Minnesota), Potomac Electric Power Company, Public Service Company of Colorado, Puget Sound Power & Light Company (Washington), Sanlando Utilities Corporation (Florida), Sierra Pacific

Power Company (Nevada), South Central Bell Telephone Company (Kentucky), Southern Union Gas Company (Texas), Southern Bell Telephone & Telegraph Company (Florida, Georgia, and North Carolina), Southern States Utilities, Inc. (Florida), Southern Union Gas Company (Texas), Southwestern Bell Telephone Company (Oklahoma, Missouri, and Texas), St. George Island Utility, Ltd., Tampa Electric Company, Texas-New Mexico Power Company, Tucson Electric Power Company, Twin Valley-Ulen Telephone Company (Minnesota), United Telephone Company of Florida, Virginia Electric and Power Company, Washington Water Power Company, and Wisconsin Electric Power Company.

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

A. My work in this area has primarily focused on issues related to costing. For example, I have assisted in the preparation of class cost-of-service studies concerning Arkansas Energy Resources, Cascade Natural Gas Corporation, El Paso Electric Company, Potomac Electric Power Company, Texas-New Mexico Power Company, and Southern Union Gas Company. I have also examined the issue of avoided costs, both as it applies to electric utilities and as it applies to telephone utilities. I have also evaluated the issue of service availability fees, capacity charges, and conservation rates as they apply to water and wastewater utilities.

Q. Have you testified before regulatory agencies?

A. Yes. I have testified before the Arizona Corporation Commission, the Connecticut Department of Public Utility Control, the Florida Public Service Commission, the

Georgia Public Service Commission, the Missouri Public Service Commission, the Public Utility Commission of Texas, and the Washington Utilities and Transportation Commission. My testimony dealt with revenue requirement, financial, policy, rate design, and class cost-of-service issues concerning AT&T Communications of Southwest (Texas), Cascade Natural Gas Corporation (Washington), Central Power and Light Company (Texas), Connecticut Light and Power Company, El Paso Electric Company (Texas), Florida Cities Water Company, Kansas Gas & Electric Company (Missouri), Kansas Power and Light Company (Missouri), Houston Lighting & Power Company (Texas), Lake Arrowhead Village, Inc. (Florida), Lehigh Utilities, Inc. (Florida) Jasmine Lakes Utilities Corporation (Florida), Mad Hatter Utilities, Inc. (Florida), Marco Island Utilities, Inc. (Florida), Mountain States Telephone and Telegraph Company (Arizona), North Fort Myers Utilities, Inc. (Florida), Southern Bell Telephone and Telegraph Company (Florida and Georgia), Southern States Utilities, Inc. (Florida), St. George Island Utilities Company, Ltd. (Florida), Puget Sound Power & Light Company (Washington), and Texas Utilities Electric Company.

I have also testified before the Public Utility Regulation Board of El Paso, concerning the development of class cost-of-service studies and the recovery and allocation of the corporate overhead costs of Southern Union Gas Company and before the National Association of Securities Dealers concerning the market value of utility bonds purchased in the wholesale market.

Q. Have you been accepted as an expert in these jurisdictions?

A. Yes.

Q. Have you published any articles in the field of public utility regulation?

A. Yes, I have published two articles: "Affiliate Transactions: What the Rules Don't Say", Public Utilities Fortnightly, August 1, 1994 and "Electric M&A: A Regulator's Guide" Public Utilities Fortnightly, January 1, 1996.

Q. Do you belong to any professional organizations?

A. Yes. I am a member of the Eastern Finance Association, the Financial Management Association, the Southern Finance Association, the Southwestern Finance Association, the Florida and American Water Association, and the National Society of Rate of Return Analysts.

EXHIBIT

OF

KIMBERLY H. DISMUKES

Table of Contents

Docket No. 951056-WS
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 1

Palm Coast Utility Corporation
Summary of Adjustments

Description	Adjustment	Net Operating Income	Revenue Requirement	Source Schedule
Change in Cost of Capital				
Water			($769,049)	6
Wastewater			($578,045)	6
Rate Base Adjustments				
Ribsite Land and Buffer - Wastewater	($404,770)	$27,079	($45,463)	14
Sprayfield Land Cost - Wastewater	($268,509)	$17,963	($30,158)	14
Misclassification of Rehabilitation to UPIS				
Water	($548,416)	$36,689	($61,597)	14
Wastewater	($504,537)	$33,754	($56,668)	14
Ribsite Reclassification				
Reduce Accumulated Depreciation	$34,270	($2,293)	$3,849	14
Reduce Depreciation Expense	($34,270)	$21,374	($35,885)	14
Reduce Working Capital				
Water	($799,493)	$53,486	($89,797)	
Wastewater	($558,004)	$37,330	($62,674)	
Non-Used and Useful General Plant				
Net Water Plant	($76,739)	$5,134	($8,619)	10
Water Depreciation Expense	($5,660)	$3,530	($5,926)	10
Net Wastewater Plant	($77,383)	$5,177	($8,691)	10
Wastewater Depreciation Expense	($5,707)	$3,560	($5,976)	10
Increase Credit Deferred Income Taxes				
Water	($218,090)	$14,590	($24,495)	
Wastewater	($160,539)	$10,740	($18,031)	
Revenue Adjustments				
Non-Utility Income/Revenue				
Water	$52,772	$31,432	($52,771)	7
Wastewater	$54,857	$32,674	($54,856)	7
Miscellaneous Revenue				
Water	$5,174	$3,082	($5,174)	8
Wastewater	$5,197	$3,095	($5,197)	8
Hammock Dunes	$33,023	$19,670	($33,023)	9
Reuse Revenue	$195,640	$116,528	($195,638)	9
Personnel Services				
Water	($9,246)	$5,767	($9,831)	12
Wastewater	($6,260)	$3,904	($6,656)	12
Affiliate Charges				
Water	($12,369)	$7,714	($13,151)	13
Wastewater	($8,374)	$5,223	($8,903)	13
Non-Used and Useful O&M				
Water	($58,783)	$36,663	($62,499)	10
Wastewater	($37,804)	$23,579	($40,194)	10
Staff Audit				
O&M Expenses-Water	($4,098)	$2,556	($4,357)	14
O&M Expenses-Wastewater	$585	($365)	$622	14
Rate Case Expense Overrecovery-Water	($42,455)	$26,479	($45,139)	14
Rate Case Expense Overrecovery-Wastewater	($42,455)	$26,479	($45,139)	14
Miscellaneous Adjustments				
Rental Expense	($36,981)	$23,065	($39,319)	16
Chamber Dues	($541)	$337	($575)	16
Legal Expense	($6,100)	$3,805	($6,486)	16
Revenue Effect of Tax Rate Change to 34%				
Water			($22,395)	15
Wastewater			($23,858)	15
Total-Reduction to Revenue Increase			($2,471,765)	
PCUC Requested Revenue Increase			$3,055,443	
Difference			$583,678	

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Docket No. 951056-WS
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 2

Palm Coast Utility Corporation
Cost of Capital

Class of Capital	Test Year 12/31/95	Adjustments	Test Year Adjusted	Reconciled To Rate Base
	Balance @ Year End			66.89%
Year-End Capital Structure				
Long-Term Debt	$ 12,125,000	-	$ 12,125,000	$ 8,111,000
Short-Term Debt	4,312,000		4,312,000	2,884,506
Preferred Stock	-		-	-
Common Equity	20,265,735	-	20,265,735	13,556,732
Customers Deposits	485,000		485,000	485,000
Tax Credits - Zero Cost	2,266,072	125,569 (1)	2,391,641	1,599,885
Tax Credits - Wtd. Cost	-		-	-
Accumulated Deferred Income Tax	-		-	-
Cost Free CIAC	-	11,028,664 (2)	11,028,664	7,377,608
Total	$ 39,453,807	$ 11,154,233	$ 50,608,040	$ 33,854,171

Rate Base	
Water	$ 19,762,435
Wastewater	$ 14,091,736
Total	$ 33,854,171
Ratio	66.89%

Capital Structure	Amount	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	$ 8,111,000	23.85%	7.24%	1.73%
Short-Term Debt	$ 2,884,506	8.48%	7.73%	0.66%
Preferred Stock	$ -	0.00%	0.00%	0.00%
Common Equity	$ 13,556,732	39.86%	10.60% (3)	4.22%
Customers Deposits	$ 485,000	1.43%	6.00%	0.09%
Tax Credits - Zero Cost	$ 1,599,885	4.70%	0.00%	0.00%
Tax Credits - Wtd. Cost	$ -	0.00%	0.00%	0.00%
Accumulated Deferred Income Tax	$ -	0.00%	0.00%	0.00%
Other (Explain)	$ 7,377,608	21.69%	0.00%	0.00%
Total	$ 34,014,731	100.00%		$\boxed{6.69\%}$

(1) Imputed ITCs associated with the Company's failure to take ITCs in 1978.
(2) Cost Free CIAC used to finance current plant, per Schedules 3 and 4.
(3) .50% penalty to ROE for Company's failure to utilize accelerated depreciation, per Order No. 22843.

Source: Palm Coast Utility Corporation, MFRs; Order No. 22843.
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Docket No. 951056-WS
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 3

Palm Coast Utility Corporation
CIAC Comparision

Description	Water Year-End	Water Average	Wasewater Year-end	Wastewater Average
Non-Used and Useful Plant				
Plant in Service	$13,213,707	$13,615,786	$19,735,097	$20,664,039
Accumulated Depreciation	(3,753,245)	(3,896,893)	(6,488,474)	(6,771,213)
Net Plant	$9,460,462	$9,718,893	$13,246,623	$13,892,826
Non-Used and Useful CIAC				
CIAC	$1,048,001	$1,319,118	$43,170,697	$43,537,577
Amortization of CIAC	(190,343)	(202,778)	(10,771,034)	(11,299,063)
Net CIAC	$857,658	$1,116,340	$32,399,663	$32,238,514
Excess CIAC	$0	$0	$19,153,040	$18,345,688
Cash Held in Trust			$8,124,376	$7,982,435
Cost Free Capital			$11,028,664	$10,363,253

Source: Palm Coast Utility Corporation, MFRs.

Palm Coast Utility Corporation
Comparison of Total Capital to Total Rate Base

Description	Docket No. 951056	Docket No. 890277	Difference
Rate Base	$37,359,642	$16,103,845	$21,255,797
Total Capital	$39,453,807	$28,383,746	$11,070,061
Rate Base Not Funded By Capital			$10,185,736

Source: Palm Coast Utility Corporation, MFRs.

Palm Coast Utility Corporation
Analysis of Non-Used and Useful Plant and Guaranteed Revenue

Description	Water Year-End	Water Average	Wastewater Year-End	Wastewater Average	Total Year-End
Non-Used and Useful Plant					
Plant in Service	$13,213,707	$13,615,786	$19,735,097	$20,664,039	$32,948,804
Accumulated Depreciation	(3,753,245)	(3,896,893)	(6,488,474)	(6,771,213)	(10,241,719)
Net Plant	$9,460,462	$9,718,893	$13,246,623	$13,892,826	$22,707,085
Non-Used and Useful CIAC					
CIAC	$1,048,001	$1,319,118	$43,170,697	$43,537,577	$44,218,698
Amortization of CIAC	(190,343)	(202,778)	(10,771,034)	(11,299,063)	(10,961,377)
Net CIAC	$857,658	$1,116,340	$32,399,663	$32,238,514	$33,257,321
Net Non-Used and Useful Plant	$8,602,804	$8,602,553	($19,153,040)	($18,345,688)	($10,550,236)
Non-Used and Useful Expenses					
O&M Expenses					$379,910
Depreciation					(207,164)
Regulatory Assessment					48,381
Property Taxes					97,681
Total Expenses					$318,808
Interest Expense-Long-Term Debt					$46,595
Interest Expense-Short-Term Debt					$17,692
Guaranteed Revenue					$1,129,666
Taxable Income					$746,571
State Income Tax					$41,061
Federal Income Tax					$239,873
Net Income					$465,636

Source: Palm Coast Utility Corporation, MFRs.

Palm Coast Utility Corporation
Revenue Requirement Impact of Change in Cost of Capital

	Water	Wastewater
Requested Rate Base	$21,328,433	$16,031,209
Cost of Capital-PCUC	8.84%	8.84%
Cost of Capital-Recommended	6.69%	6.69%
Cost of Capital-Difference	2.15%	2.15%
Change in Required NOI	$458,071	$344,303
Recommended Revenue Conversion Factor	1.67888475	1.67888475
Change in Required Revenue Increase	($769,049)	($578,045)

Source: Palm Coast Utility Corporation, MFRs.

Docket No. 951056-WS
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 7

Palm Coast Utility Corporation
Non-Utility Income/Revenue

	Water	Wastewater
Non-Utility Income		
Plantation Bay WTP	$2,407	
Searay WWTP		$12,330
Matanzas Shores Lines		$3,000
Matanzas		$38,504
Other	$1,023	$1,023
Total	$2,407	$54,857
Revenue From Aqua Tech		
1995 Revenue	$50,365	
Total Adjustments	$52,772	$54,857

Source: Palm Coast Utility Corporation, Response to OPC Interrogatory 23; MFRs.

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Docket No. 951056-WS
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 8

Palm Coast Utility Corporation
Miscellaneous Revenue Adjustments

	Water	Wastewater
Miscellaneous Service Revenue		
Miscellaneous Service Revenue-Actual	$95,285	
Miscellaneous Service Revenue - Company	$84,937	
Adjustment to Revenue	$10,348	
Allocate to Wastewater	($5,174)	$5,174
Net Adjustment	$5,174	$5,174
Other Sewer Revenue		
Other Sewer Revenue - Actual		$16,577
Other Sewer Revenue - Company		$16,554
Adjustment		$23
Total Adjustment	$5,174	$5,197

Source: Palm Coast Utility Corporation, Response to OPC Interrogatory 15; MFRs.

Docket No. 951056-WS
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 9

Palm Coast Utility Corporation
Other Revenue Adjustments

	Water	Wastewater
Hammock Dunes		
Gallons	83,796,400	
Rate per 1,000 Gallons	$1.01	
Revenue	$84,634	
Company Revenue	$51,611	
Adjustment (1)	$33,023	
Reuse Revenue		
Reuse Revenue		$195,640

(1) Variable expenses would also need to be adjusted accordingly.

Source: Palm Coast Utility Corporation, MFRs; Response to OPC Interrogatory 39.

Palm Coast Utility Corporation
O&M and General Plant Used and Useful Adjustment

	Amount	Company NU&U	Company NU&U Amount	Recommended NU&U	Recommended NU&U Amount	Recommended Adjustment
Water						
Department 0751 - Raw Water Supply #1	$191,294	0.00%	$0	0.00%	$0	$0
Department 0752 - Water Treatment #1	628,974	0.00%	-	0.00%	-	-
Department 0753 - Water Distribution	594,899	24.96%	148,487	26.71%	158,897	(10,410)
Department 0754 - Membrane Supply #2	38,709	0.00%	-	0.00%	-	-
Department 0755 - Water Treatment #2	416,239	0.00%	-	0.00%	-	-
Depts. 0770-0778 - A&G	1,156,223	9.02%	104,291	13.20%	152,665	(48,373)
Total Water O&M	$3,026,338		$252,778		$311,561	($58,783)
Wastewater						
Department 0761 - Wastewater Pumping	$258,873	0.00%	$0	0.00%	$0	$0
Department 0762 - Treatment	632,031	0.00%	-	0.00%	-	-
Department 0763 - Wastewater Collection	375,364	15.05%	56,492	16.40%	61,543	(5,051)
Depts. 0770-0778 - A&G	782,886	9.02%	70,616	13.20%	103,370	(32,754)
Total Wastewater O&M	$2,049,154		$127,109		$164,913	($37,804)
Administrative and General						
Department 0770 - Administrative	$469,986	20.00%	$93,997	34.70%	$163,085	($69,088)
Department 0771 - Controller	451,429	14.51%	65,502	15.18%	68,511	(3,008)
Department 0772 - Engineering	163,733	2.09%	3,422	2.25%	3,680	(258)
Department 0773 - System & Data Processing	(108)	0.00%	-	0.00%	-	-
Department 0774 - Customer Accounts	501,992	0.00%	-	0.00%	-	-
Department 0775 - Personnel Services	83,906	0.00%	-	9.39%	7,877	(7,877)
Department 0776 - Community Affairs	72,917	0.00%	-	0.00%	-	-
Department 0777 - Purchasing & Safety	159,021	2.67%	4,246	2.86%	4,552	(306)
Department 0778 - Inventory Control	36,233	21.38%	7,747	22.99%	8,330	(583)
Total A&G	$1,939,109	9.02%	$174,914	13.20%	$256,035	($81,121)
Total Excluding Personnel Service	$4,991,586		$379,887	9.39%	$468,597	
General Plant-Water						
Structures and Improvements	$529,769	0.00%	-	13.20%	$69,949	($69,949)
Office Furniture and Equipment	387,772	0.00%	-	13.20%	51,200	(51,200)
	$917,541				$121,150	($121,150)
General Plant Accumulated Depreciation-Water						
Structures and Improvements	$136,640	0.00%	-	13.20%	$18,042	($18,042)
Office Furniture and Equipment	199,711	0.00%	-	13.20%	26,369	(26,369)
	$336,351				$44,411	($44,411)
General Plant Net-Water						
Structures and Improvements	$393,129	0.00%	-	13.20%	$51,908	($51,908)
Office Furniture and Equipment	188,061	0.00%	-	13.20%	24,831	(24,831)
	$581,190				$76,739	($76,739)
General Plant Depreciation Expense-Water						
Structures and Improvements	$13,103	0.00%	-	13.20%	$1,730	($1,730)
Office Furniture and Equipment	29,761	0.00%	-	13.20%	3,930	(3,930)
	$42,864				$5,660	($5,660)
General Plant-Wastewater						
Structures and Improvements	$534,224	0.00%	-	13.20%	$70,537	($70,537)
Office Furniture and Equipment	391,023	0.00%	-	13.20%	51,630	(51,630)
	$925,247				$122,167	($122,167)
General Plant Accumulated Depreciation-WW						
Structures and Improvements	$137,789	0.00%	-	13.20%	$18,193	($18,193)
Office Furniture and Equipment	201,390	0.00%	-	13.20%	26,591	(26,591)
	$339,179				$44,784	($44,784)
General Plant Net-Wastewater						
Structures and Improvements	$396,435	0.00%	-	13.20%	$52,344	($52,344)
Office Furniture and Equipment	189,633	0.00%	-	13.20%	25,039	(25,039)
	$586,068				$77,383	($77,383)
General Plant Depreciation Expense-Wastewater						
Structures and Improvements	$13,213	0.00%	-	13.20%	$1,745	($1,745)
Office Furniture and Equipment	30,011	0.00%	-	13.20%	3,963	(3,963)
	$43,224				$5,707	($5,707)

Palm Coast Utility Corporation
Adjustment to Affiliate Charges

	Water	Wastewater
ITT-Contract Service Charge	$21,201	
ICDC-Accounts Payable Processing	$10,564	
Total	$31,765	
Used and Useful Percentage	65.30%	
Used and Useful Amount	$20,743	
Allocation to Water/Wastewater	59.63%	40.37%
Adjustment	($12,369)	($8,374)

Palm Coast Utility Corporation
Staff Audit Adjustments

	Water	Wastewater
RIB Site Land and Buffer Adjustments		($404,770)
Sprayfield Land Cost		($268,509)
RIB Site Reclassification		
Reduce Depreciation Expense		($34,270)
Reduce Accumulated Depreciation		$34,270
Misclassification of Rehabilitation to UPIS		
Water Plant	($548,416)	
Wastewater Plant		($504,537)
O&M Expenses		
No Supporting Documentation	($1,194)	
Lobbying and Non-Utility Expenses	(6,406)	
Audit Fees	2,385	1,615
Legal Fees Related to Sale of Utility	(1,061)	(719)
Total (Used and Useful @ 65.30%)	($4,098)	$585
Overrecovery of Rate Case Expense		
Total	$305,677	
Three Year Amortization	101,892	
Monthly Recovery	8,491	
Months Overrecovered	40	
Overrecovery	339,641	
Four Year Amortization	($84,910)	
Water./Wastewater Distribution	($42,455)	($42,455)

Source: Palm Coast Utility Corporation, Staff Audit.

Palm Coast Utility Corporation
Income Effect of Tax Rate of 34%

	Water	Wastewater
Requested Rate Base	$21,328,433	$16,031,209
Cost of Capital	8.84%	8.84%
Required NOI	$1,885,433	$1,417,159
Actual NOI	$1,018,395	$493,465
NOI Deficiency	$867,038	$923,694
Revenue Conversion Factor - PCUC	1.70471375	1.70471375
Required Revenue Increase	$1,478,052	$1,574,634
Recommended Revenue Conversion Factor	1.67888475	1.67888475
Required Revenue Increase	$1,455,658	$1,550,776
Difference Due to Tax Rate	($22,395)	($23,858)

Source: Palm Coast Utility Corporation, MFRs.

Palm Coast Utility Corporation
Miscellaneous Expense Adjustments

	Water	Wastewater
Remove Non-Recurring Rental Expense		$36,981
Used and Useful Percentage		100.00%
Adjustment		($36,981)
Remove Chamber of Commerce Dues	$828	
Used and Useful Percentage	65.30%	
Adjustment	($541)	
Allocation to Water/Wastewater	($322)	($218)
Remove Non-Recurring Legal Expense	$9,342	
Used and Useful Percentage	65.30%	
Adjustment	($6,100)	
Allocation to Water/Wastewater	($3,638)	($2,463)

Source: Palm Coast Utility Corporation, MFRs; Response to OPC Interrogatories 63 and 26.