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PALM COAST UTILITY CORPORATION

DOCKET NO. 951056-WS

REBUTTAL TESTIMONY & EXHIBITS

OF

FRANK SEIDMAN

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FILED JUNE 17, 1996

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1                                   REBUTTAL TESTIMONY OF FRANK SEIDMAN  
2                                   BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
3                                   REGARDING THE APPLICATION FOR INCREASED RATES FOR  
4                                   PALM COAST UTILITY CORPORATION  
5                                   IN FLAGLER COUNTY  
6                                   DOCKET NO. 951056-WS  
7

8       **Q.    Please state your name, profession and address.**

9       A.    My name is Frank Seidman.    I am President of  
10           Management and Regulatory Consultants, Inc.,  
11           consultants in the utility regulatory field.    My  
12           mailing address is P.O. Box 13427, Tallahassee, FL  
13           32317-3427.

14  
15       **Q.    Have you previously submitted direct testimony in**  
16           **this proceeding?**

17       A.    Yes.

18  
19       **Q.    What is the purpose of your rebuttal testimony?**

20       A.    To respond to the direct testimony of Public  
21           Counsel witnesses Kimberly H. Dismukes and Ted L.  
22           Biddy and Commission staff witness Robert F.  
23           Dodrill.

24  
25  
26

1                   **A. REBUTTAL TO TESTIMONY OF KIMBERLY DISMUKES**

2           **Q.    Would you please address the testimony of witness**  
3                   **Dismukes?**

4           **A.    Yes. Ms. Dismukes has organized her testimony into**  
5                   **the subjects of Cost of Capital, Revenue**  
6                   **Adjustments, Expense Adjustments and Rate Base**  
7                   **Adjustments. I will address it in the same order.**

8

9                   **Cost of Capital**

10          **Q.    At page 3 of her testimony, Ms. Dismukes's proposes**  
11                   **to impute \$125,569 in ITC's. Do you agree with that**  
12                   **adjustment?**

13          **A.    Yes. As Ms. Dismukes points out, in Order No.**  
14                   **22843, the Commission determined that the utility**  
15                   **did not claim on its books certain amounts of ITC**  
16                   **in 1978 to which it would otherwise have been**  
17                   **entitled, and imputed the unamortized amount. Ms.**  
18                   **Dismuke's adjustment carries that unamortized**  
19                   **amount forward to the 1995 test year. That**  
20                   **adjustment was not made on the books as it is**  
21                   **imputed and not realized, but we will stipulate to**  
22                   **its being recognized for ratemaking purposes.**

23

24          **Q.    At pages 4 through 7 of her testimony, Ms.**  
25                   **Dismukes recommends that nonused CIAC be included**

1           in the capital structure as cost free capital. Do  
2           you agree with this recommendation?

3       A.   No. This is the same recommendation that Public  
4       Counsel made in PCUC's last rate case, Docket No.  
5       890277-WS which, as Ms. Dismukes notes, was  
6       rejected by the Commission in Order No. 22843. The  
7       facts in this case are no different from the last  
8       case regarding this issue.

9  
10      Q.   In rejecting Public Counsel's position in Order No.  
11           22843, the Commission said, "We do not believe that  
12           nonused CIAC should be considered in capital  
13           structure. Mr. DeWard could cite no precedent for  
14           such treatment." ( underlining added) Has Ms.  
15           Dismukes found any precedent for such treatment?

16      A.   No. She specifically states at page 7 of her  
17           testimony that no such precedent exists. There is  
18           no basis for the Commission to reverse its  
19           decision.

20  
21      Q.   What is the primary reason that the Commission  
22           should continue to reject this adjustment?

23      A.   The adjustment proposed by Ms. Dismukes violates  
24           utility regulatory accounting principles and is  
25           without precedent in this jurisdiction or any other

1 jurisdiction of which we are aware. Her proposal  
2 is contrary to the concept developed and  
3 consistently applied in Florida, namely to treat  
4 CIAC as in offset to plant in service in rate base.  
5 CIAC has not been treated as a part of the  
6 utility's capital structure. NONUSED CIAC is not  
7 and should not be an offset to used plant in rate  
8 base, but Ms. Dismukes' proposal effectively does  
9 just that. It is contrary to any regulatory  
10 philosophy with which I am familiar to consider  
11 NONUSED components in determining the revenue  
12 responsibility of current customers. Ms. Dismukes'  
13 proposal to make NONUSED CIAC a part of capital  
14 structure results in a discriminatory mismatch of  
15 funds by crediting CIAC from future customers  
16 against the cost of serving current customers.

17

18 **Q. Ms. Dismukes suggests that the Commission should**  
19 **not let precedent stand in its way. Do you agree?**

20 **A.** No. It is improper to disregard precedent just  
21 because doing so produces a result that Ms.  
22 Dismukes would rather see. Ms. Dismukes has not  
23 shown that the precedent of offsetting plant with  
24 CIAC in determining rate base is improper. She has  
25 not shown that there is any precedent to include

1 CIAC, whether used or nonused, in the cost of  
2 capital. She has not shown that including nonused  
3 components in rate base or the capital structure is  
4 proper. In fact, Ms. Dismukes wants CIAC treated  
5 both ways. She recognizes used CIAC as a deduction  
6 in determining rate base and at the same time  
7 recommends NONUSED CIAC to be a part of the cost of  
8 capital with respect to that rate base.

9  
10 Q. In the last case, the Commission observed that the  
11 utility had a significant investment in nonused  
12 facilities. Ms. Dismukes points out that in this  
13 case it has a smaller investment in nonused  
14 facilities. Is this a reason to include nonused  
15 CIAC as capital?

16 A. Not at all. All it shows is that investment in  
17 nonused plant has been reduced as additional  
18 customers have connected to the system over the  
19 seven years that have passed since the last rate  
20 case. Regardless, the Commission does not set rates  
21 for nonused facilities. It sets rates for used  
22 facilities. That's what rate base is - the  
23 investment of the utility in property used and  
24 useful in the public service. This is a fundamental  
25 ratemaking concept, universally accepted, and is

1           the requirement under Chapter 367, Florida  
2           Statutes. Whether the utility has a large, small or  
3           no investment in nonused facilities is of no  
4           consequence.

5

6       **Q. How has the relationship of capital to rate base**  
7       **changed since PCUC's last case?**

8       A. It has improved considerably. In the last case,  
9       capital exceeded rate base by \$12.2 million. In  
10      this case, capital only exceeds rate base by \$2.1  
11      million. However, if some of the proposals by  
12      intervenors to reduce used and useful, reduce  
13      margin reserve, impute CIAC against margin reserve,  
14      etc. are adopted by the Commission, rate base will  
15      be reduced and the gap between rate base and  
16      capital will increase.

17

18      **Q. In determining rate base, has the company properly**  
19      **accounted for all used CIAC?**

20      A. Yes it has. All of the CIAC paid by PCUC's current  
21      customers has been properly accounted for in the  
22      utility's books.

23

1 Q. Were there any exceptions in the Commission staff  
2 audit report that would indicate that CIAC was not  
3 properly accounted for?  
4 A. No.  
5  
6 Q. Please turn to Ms. Dismukes' Schedule 3. What is  
7 your understanding of the purpose of that schedule?  
8 A. My understanding of the purpose of the schedule is  
9 to show the relationship of nonused CIAC to nonused  
10 plant, and specifically that nonused CIAC is  
11 greater than nonused plant.  
12  
13 Q. Do you agree with the relationships presented in  
14 the schedule and its conclusion?  
15 A. No, for several reasons. Her schedule does not  
16 appear to recognize all nonused components nor does  
17 it include any means of reconciling those  
18 components to the balance sheet and capital  
19 structure. It is necessary to reconcile to the  
20 capital structure and balance sheet in order to  
21 assure that all components are accounted for. I  
22 cannot tell whether all components are accounted  
23 for or not.  
24  
25



1 Q. Have you made a determination of used and nonused  
2 components and reconciled them to the capital  
3 structure?

4 A. Yes. I have prepared Exhibit \_\_\_\_ (FS-6) for that  
5 purpose. Exhibit \_\_\_\_ (FS-6) shows all the  
6 investment in used and nonused assets and  
7 reconciles it with the year end capital structure.  
8 All components are accounted for. The entries in  
9 the "Y/E 1995" column come directly from the  
10 balance sheet and the total agrees with the total  
11 unreconciled capital shown in MFR Schedule D-2. The  
12 "Used [Rate Base]" column matches adjusted year end  
13 rate base as shown on MFR Schedule D-2. Contrary to  
14 Ms. Dismukes' conclusion, my exhibit shows that net  
15 nonused CIAC is not in excess of net nonused plant.

16  
17 Another problem with Ms. Dismukes' Schedule 3 is  
18 that it incorrectly assumes that all prepaid CIAC  
19 is applicable to the wastewater system. Although  
20 all prepaid CIAC is recorded in one CIAC wastewater  
21 subaccount, prepaid CIAC does, in fact, include  
22 prepayments turned over to PCUC by ITT Comunity  
23 Development Corporation (ITTCDC) for both water  
24 and wastewater. The reason these amounts are not  
25 broken out is that funds are turned over to PCUC

1 from the developer in lump sums and the components  
2 are not identified until a customer requests  
3 service. At that time, the customer's prepayments  
4 are specifically identified. For that reason,  
5 neither the MFR's nor my Exhibit \_\_\_\_ (FS-6) show  
6 water and wastewater prepayments separately.

7

8 **Q. What else does your Exhibit \_\_\_\_ (FS-6) show?**

9 A. It shows that in addition to an investment in  
10 nonused plant, net of nonused depreciation, the  
11 utility also has an investment in nonused deferred  
12 tax debits. When all accounts are reconciled, PCUC  
13 has a net investment of some \$2,000,000 in nonused  
14 assets, as shown in the column titled "NonUsed" in  
15 Exhibit \_\_\_\_ (FS-6).

16

17 **Q. What does this mean as it effects the determination**  
18 **of rates?**

19 A. Nothing. All it reveals is a difference in the  
20 timing of the construction of the assets that will  
21 be used to eventually serve the total built-out  
22 system and the collection of CIAC to be used to  
23 offset a portion of that total built-out cost.

24

1       **Q. Will a substantial amount of plant additions be**  
2       **required to serve at build out?**

3       A. Yes. Palm Coast is platted for some 46,000 lots,  
4       but presently serves just under 12,000 customers.  
5       Additions will have to be made to the water  
6       transmission system, the wastewater PEP system and  
7       incremental additions will be necessary for water  
8       supply and storage capacity and wastewater  
9       treatment and disposal capacity. PCUC has filed,  
10      under separate docket, a request to increase its  
11      service availability charges (SAC) because the  
12      current SAC level will not produce net CIAC equal  
13      to 75% of net plant even at the next buildout  
14      horizon. Since PCUC strives to prudently phase in  
15      its supply, treatment and disposal facilities to  
16      match need, a considerable amount of plant will be  
17      necessary to serve at buildout.

18

19      **Q. What would be the result of the Commission adopting**  
20      **Ms. Dismukes' proposal?**

21      A. If Ms. Dismukes' proposal were to be adopted, the  
22      cost of serving current customers would be  
23      understated and their rates would be subsidized by  
24      the utility's shareholders. This would have been  
25      obvious had Ms. Dismukes proposed to treat nonused

1 CIAC as a deduction from rate base, as this  
2 Commission requires used CIAC to be treated,  
3 rather than proposing to treat it as a component of  
4 capital.

5

6 **Q. Would you explain further.**

7 A. All of the CIAC paid by current customers of PCUC  
8 has been properly accounted for and is reflected in  
9 rate base as a reduction of used & useful plant.  
10 Only the CIAC paid by current customers is used and  
11 useful and only used and useful CIAC, or any used  
12 component for that matter, is considered in  
13 determining rate base. If Ms. Dismukes' proposed  
14 adjustment were properly reflected it would show up  
15 as a line item called "nonused CIAC" on the rate  
16 base schedule. But it would be offsetting used and  
17 useful plant since there cannot be any nonused  
18 plant in rate base for it to offset. Since a  
19 nonused component, be it CIAC or otherwise, is not  
20 allowed in rate base, Ms. Dismukes elected to add  
21 nonused CIAC to the capital structure where the  
22 revenue impact is theoretically the same, but where  
23 the violation of accepted ratemaking treatment is  
24 not so obvious.

25

1 Q. Is there a simple way to illustrate the affect of  
2 Ms. Dismuke's proposal and its impact on the  
3 utility?

4 A. Yes. I have prepared Exhibit \_\_\_\_\_ (FS-7) for that  
5 purpose. Turning to page 1 of the exhibit, Table 1  
6 shows combined water and wastewater rate base as  
7 determined in accordance with traditional  
8 ratemaking treatment, as followed by this  
9 Commission. This restatement of rate base ties to  
10 Schedules A-1 and A-2 of the MFR. In Table 1,  
11 Traditional Rate Base, rate base is equal to net  
12 used plant less net used CIAC plus used advances,  
13 used deferred debits and working capital. Table 2,  
14 Dismukes Implied Rate Base - Reduced by Nonused  
15 CIAC, restates the traditional rate base as shown  
16 in Table 1, but in addition it deducts from net  
17 used plant the amount of net NONUSED CIAC  
18 identified by Ms. Dismukes in Schedule 2 of her  
19 Exhibit \_\_\_\_\_ (KHD)-1, as "Cost Free CIAC.". As you  
20 can see, although we show \$37.4 million of rate  
21 base, Ms. Dismukes' adjustment would allow us to  
22 earn on only \$26.3 million of it.

23  
24 Finally in Table 3 I show the impact on the  
25 utility's ability to a earn a return on equity.

1           After covering the cost of the debt portion of rate  
2           base, the amount available for a return on equity,  
3           under Ms. Dismukes' proposal, would only be  
4           sufficient to provide a 6.02% return, even though,  
5           under the leverage formula, PCUC should be allowed  
6           the opportunity to earn 11.10%. On page 2 of  
7           Exhibit \_\_\_\_ (FS-7), I repeat the same comparison  
8           assuming that all of Ms. Dismukes' adjustment is  
9           applied only to wastewater rate base. In that  
10          case, the effective rate of return on the equity  
11          portion of wastewater rate base is reduced to a  
12          negative 0.74%.

13

14          **Q.    Would you please summarize your conclusions**  
15          **regarding Ms. Dismukes' proposal to include nonused**  
16          **CIAC as a component of capital structure?**

17          **A.    It is Commission policy and established regulatory**  
18          precedent that neither nonused CIAC nor nonused  
19          portions of any asset or offset to asset accounts  
20          are included in determination of rate base. As  
21          shown, the proposal to include a nonused CIAC  
22          component in capital is equivalent to including a  
23          nonused CIAC component in rate base. If a component  
24          is not allowed to be in rate base directly, it  
25          cannot be allowed indirectly. That is what Ms.

1 Dismukes' proposal does and that is why it should  
2 be rejected. If the Commission accepts the  
3 proposal, it will be establishing a precedent of  
4 including nonused components in rate base that will  
5 have ramifications for all regulated utilities, not  
6 just Palm Coast. The Commission should reaffirm its  
7 position in Order No. 22843 that nonused CIAC not  
8 be considered in capital structure.

9

10 Q. Please turn to Ms. Dismukes' Schedule 5, in which  
11 she portrays an analysis of nonused and useful  
12 plant and guaranteed revenue. What is your  
13 interpretation of the basis for and intent of her  
14 schedule?

15 A. The basis for her schedule is a guaranteed revenue  
16 agreement between PCUC and ITT Community  
17 Development Corporation (ITTCDC). That agreement  
18 provides a mechanism through which PCUC recovers  
19 from ITTCDC, period costs associated with  
20 unimproved lots in completed subdivisions; i.e.,  
21 nonused plant. Apparently, the intent of her  
22 schedule is to show that there is no nonused plant  
23 and to allege that the return under the agreement  
24 is "excessive."

25

1 Q. Do you agree with her conclusions?

2 A. No.

3

4 Q. Why not?

5 A. Ms. Dismukes' conclusions are erroneous because her  
6 schedule does not correctly portray the calculation  
7 performed under the agreement. First, Ms. Dismukes  
8 understates nonused investment because she does not  
9 include construction work in progress. CWIP is a  
10 part of the utility's investment upon which it not  
11 allowed to earn in rate base. Second, and more  
12 importantly, she calculates the "used" components  
13 using the used and useful methodology proposed in  
14 this proceeding rather than the actual methodology  
15 in effect in 1995, as approved by the Commission.  
16 The actual amount charged in the 1995 historical  
17 year is not supposed to match costs determined  
18 using a proposed, but not yet approved, used and  
19 useful methodology. The methodology actually in  
20 effect during 1995 produces a lower rate base  
21 (used) and a higher nonused investment than the  
22 methodology being proposed by PCUC in this case.  
23 Ms. Dismukes' resulting nonused investment is  
24 severely understated, as are the associated period  
25 costs.



1 Q. Other than the fact that Ms. Dismukes' Schedule 5  
2 is incorrect, is there any significance to the  
3 schedule for this proceeding?

4 A. No. The purpose of the charges calculated under  
5 the revenue agreement are to recover the costs  
6 associated with nonused plant. Whether those  
7 charges are high or low, or whether they exist at  
8 all, has no impact on and is of no consequence in  
9 the determination of the cost to serve current  
10 customers.

11

12 Q. At page 7 of her testimony, Ms. Dismukes recommends  
13 reducing PCUC's requested cost of equity by 50  
14 basis points. Do you agree with this  
15 recommendation?

16 A. No. In Order No. 22843 the Commission applied a 50  
17 basis point penalty to the equity cost "to send a  
18 signal to PCUC" that not taking accelerated  
19 depreciation on its tax returns was not in the best  
20 interest of its customers. PCUC responded to that  
21 "signal" and MFR Schedule C-6, page 3, reflects  
22 accumulated deferred taxes related to accelerated  
23 depreciation taken in every year since the last  
24 case. The continuation of a penalty ad infinitum is  
25 inappropriate. Even in the case when a utility was

1           punished for mismanagement, as happened in Gulf  
2           Power Company Docket No. 891345-EI, the Commission  
3           limited the basis point reduction to two years.  
4           This penalty has been in effect for nearly six  
5           years.

6

7           **Q.    At page 8 of her testimony, Ms. Dismukes recommends**  
8           **that the total amount of customer deposits be**  
9           **included in the cost of capital and not subject to**  
10          **rate base reconciliation. Do you agree?**

11          **A.    Yes. Ms. Dismukes is correct. Customer deposits**  
12          **should not be subject to rate base reconciliation.**  
13          **I agree with her adjustment.**

14

15                   **Revenue Adjustments**

16          **Q.    At pages 9 and 10, Ms. Dismukes proposes to**  
17          **increase test year revenues by the amounts earned**  
18          **by PCUC in performing services to other utility**  
19          **systems and from Aqua Tech Utility Services. Do you**  
20          **agree?**

21          **A.    No. First, I believe that Ms. Dismukes has**  
22          **misinterpreted how services to other utility**  
23          **systems are provided and as result has counted the**  
24          **revenues related to those services twice.**

25

1 are properly booked as nonutility income because  
2 they arise from services not related to the utility  
3 owned facilities or facilities providing service to  
4 PCUC customers. The services are performed by PCUC  
5 personnel, but the expenses for these personnel,  
6 including allocated overheads, are already excluded  
7 from the O&M expenses charged to ratepayers by  
8 reflecting them in Account 690, Services (net), on  
9 MFR Schedules B-5 and B-6. Including this income  
10 on a gross or net basis overstates the revenues  
11 received for utility services and understates the  
12 revenue requirement properly assessable to utility  
13 customers.

14

15 Q. At page 10 of her testimony Ms. Dismukes proposes  
16 to adjust Misc. Revenues from the proposed amount  
17 to the actual amount for the test year. Do you  
18 agree with the adjustment?

19 A. No. This rate application is based on a 1995 test  
20 year that, for all line items, is 6 months actual  
21 and 6 months projected. It is inappropriate to pick  
22 one line item and update it to the actual amount.

23

24 Q. At page 11 Ms. Dismukes recommends that the  
25 consumption for Hammock Dunes not be adjusted to

1 reflect the proposed consumption level. Do you  
2 agree.

3 A. No. The consumption levels for all customers has  
4 been calculated to reflect anticipated levels. As  
5 pointed out in my direct testimony, the consumption  
6 level for Hammock Dunes has been adjusted to  
7 reflect the anticipated level under normal, ongoing  
8 conditions. Hammock Dunes experienced a level of  
9 consumption in the first half of 1995 that is not  
10 expected to recur because it has taken action that  
11 will substantially reduce its needs for flushing.  
12 The comparison of period consumption levels made by  
13 Ms. Dismukes does not reflect that change. During  
14 late 1994 and early 1995, Hammock Dunes  
15 temporarily employed high levels of flushing to  
16 maintain required chlorine residual levels. In the  
17 summer of 1995, Hammock Dunes completed the  
18 installation of chloramine booster stations in  
19 order to maintain chlorine levels without resorting  
20 to high levels of flushing. The water consumption  
21 experienced in late 1994 and early 1995 will not  
22 recur. When this is taken into account, there is a  
23 significant decrease in annual consumption. When  
24 Ms. Dismukes compared annual 1995 to annual 1994  
25 consumption she noted a small drop in consumption

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from 98 million gallons per year to 84 million, or about 15%. Comparing those periods does not fully reflect the difference in flushing associated with the installation of the booster stations. However, when you compare the more recent 12 month periods, ending April, 1995 and April, 1996 you see the full effect of the operational changes instituted by Hammock Dunes in mid 1995. As shown in Exhibit \_\_\_\_\_(FS-8), for this period annual consumption dropped from approximately 127 million gallons per year to 40 million, or about 70%. PCUC's test year revenues are based on an annual consumption of 51 million gallons for Hammock Dunes compared to the 40 million gallons actually consumed in the 12 months ending April, 1996. If the test year revenues are based on 84 million gallons as proposed by Ms. Dismukes, they will be severely overstated. The effect is that PCUC could not achieve its allowed rate of return.

1 Q. Ms. Dismukes also proposes, at page 11 of her  
2 testimony, that the test year revenue be increased  
3 by the amount of reuse revenues requested by PCUC.  
4 Do you agree with this adjustment?

5 A. No. PCUC does not now have reuse sales as a  
6 revenue source, and adding such revenue to the test  
7 year base only serves to understate the amount of  
8 increase necessary to meet revenue requirements.  
9 Whether or not the Commission authorizes a reuse  
10 rate does not change the calculation of the amount  
11 of increase necessary to meet authorized revenue  
12 requirements. The only thing that the reuse revenue  
13 does is reallocate the source of necessary revenues  
14 from one customer class (wastewater) to another  
15 customer class (effluent reuse) in the rate design.  
16

17 Q. Beginning at page 12 of her testimony, Ms. Dismukes  
18 recommends several changes to the used and useful  
19 percentages for O&M expenses. Would you please  
20 comment on these recommendations?

21 A. Ms. Dismukes makes adjustments that affect the used  
22 and useful percentages for seven departments, but  
23 some of those adjustments are the fallout result of  
24 carrying forward changes in composite calculations.

1           Substantively, her recommendations are based on two  
2           differences from my approach to the calculations.  
3  
4           First, consistent with OPC's general position, she  
5           has removed any effect of margin reserve on used  
6           and useful. The recognition of margin reserve is  
7           the generally accepted policy of this Commission  
8           and it should continue to be recognized where it is  
9           used in these calculations. The use of a margin  
10          reserve in the analysis for this case is consistent  
11          with previous cases and has been accepted by the  
12          Commission.  
13  
14          Second, she takes issue with my reliance upon used  
15          and useful factors based on actual employee  
16          interviews for certain top level PCUC management  
17          positions rather than reliance on a lot ratio used  
18          and useful percentage calculation. She sees this a  
19          deviation from the methodology used in previous  
20          cases. It is not. And although Ms. Dismukes'  
21          proposal does not change the used and useful  
22          percentage significantly, I believe an explanation  
23          is warranted. In this case and in each of the  
24          previous cases for which an analysis of O&M  
25          expenses was prepared, the evaluation of used and

1           useful was based on employee interviews. Based on  
2           the input from these interviews, choices were made  
3           as to the best means of reflecting used and useful  
4           for each employee and/or department. Based on  
5           interviews in prior cases, it was decided the lot  
6           ratio calculation best reflected the amount of time  
7           necessary for management personnel to deal with  
8           long term development related issues. Current  
9           interviews reveal that the utility is operating in  
10          a more mature stage. Based on those interviews I  
11          concluded that the lot ratio calculation no longer  
12          reflected time spent and I ,therefore, elected to  
13          rely on the best estimates of the specific  
14          personnel as to the time they devoted directly to  
15          near term utility operations. In my opinion, Ms.  
16          Dismukes proposal would understate that time and  
17          the related costs.

18

19        **Q.    On pages 15 and 16 of her testimony, Ms. Dismukes**  
20        **proposes two adjustments to the expenses for**  
21        **personnel services, Department 0775. Do you agree**  
22        **with those adjustments?**

23        **A.    No. The first adjustment proposed is to express the**  
24        **percent used and useful as a composite for all**  
25        **other departments. I have proposed that the**



1 expenses for personnel services, Department 0775,  
2 be 100% used and useful because the cost of  
3 providing the service remains the same regardless  
4 of whether a portion of any individual's time might  
5 be adjusted for used and useful. This is not a case  
6 of cost allocation as suggested by Ms. Dismukes,  
7 but rather a recognition that the costs incurred by  
8 this department will be incurred regardless, and  
9 should be recovered through rates.

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Ms. Dismukes' second adjustment, the purpose of  
which is to remove nonrecurring charges, is  
calculated incorrectly. She deducts payroll taxes  
from the departmental O&M expense when they had not  
been included in O&M expenses in the MFR. As shown  
in my Exhibit \_\_\_\_\_ (FS-9), her adjustment is  
overstated by \$3,281 assuming her composite used  
and useful adjustment is recognized. If the  
Commission recognizes that Dept 0775 expenses are  
100% used and useful, as we propose, her adjustment  
is overstated by \$9,893.

1 Q. Ms. Dismukes, at page 16 of her testimony, removes  
2 the \$21,201 administrative service charge from ITT.  
3 Do you agree with this adjustment?  
4 A. No. This is a charge made by ITT for the  
5 availability of expertise at the parent level. The  
6 Commission, in prior PCUC rate cases, has allowed  
7 the ITT administrative service charge requested in  
8 this proceeding, as a part of used and useful O&M  
9 expenses. The services provided by ITT include  
10 corporate administrative, legal, accounting and tax  
11 expertise. The services are not necessarily person  
12 specific, although they can be. Rather they are  
13 made available through the administrative,  
14 corporate and financial policies; through auditing  
15 and tax guidelines and advice; through the health  
16 and safety programs; and through insurance  
17 management and counsel for workers compensation  
18 claims.  
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1 processing at an annual expense of \$23,706  
2 including benefits. This year, PCUC is paying  
3 ITTCDC \$1,000 per month or \$12,000 annually for  
4 this service. This information, shown on MFR p. 51  
5 speaks for itself. If there is a question as to the  
6 cost effectiveness of the change, the proper  
7 adjustment would be to reflect the cost before the  
8 change which is \$11,000 more per year.

9  
10 Q. On page 18 of her testimony, Ms. Dismukes  
11 recommends the adoption of four adjustments to O&M  
12 expenses proposed in the PSC Staff audit. Do you  
13 agree with those adjustments?

14 A. Yes, we do.

15  
16 Q. Also on page 18, Ms. Dismukes recommends that  
17 recoverable rate case expense be reduced by an  
18 amount allegedly over recovered from the last case.  
19 Do you concur?

20 A. No. Ms. Dismukes adopts a position expressed in the  
21 PSC staff audit which is factually incorrect and  
22 suggests a solution which results in retroactive  
23 ratemaking.

24

1 Ms. Dismukes claims that "the company failed to  
2 reduce its rates consistent with Section 367.0816  
3 of the Florida Statutes." However, the company was  
4 not subject to Section 367.0816, F.S. in the last  
5 case, because, as stated by the Commission at page  
6 62 of Order No. 22843, "PCUC, however, filed its  
7 application before the that section became  
8 effective." In Order No. 22843, the Commission  
9 authorized an amortization period of three years  
10 because the new statutory requirement for four  
11 years was not applicable. In addition, the  
12 Commission did not order the company to reduce  
13 rates at the end of the amortization period. Had  
14 the new statute been applicable, this also would  
15 have been required. The position taken by the  
16 Commission in Order No. 22843 is consistent with  
17 the Commission's policy regarding rate case  
18 expense prior to Section 367.0816, F.S. becoming  
19 law. Prior to this section of statute becoming  
20 law, the Commission used its discretion in  
21 approving an amortization period and did not  
22 require a reduction in rates at the end of the  
23 amortization period.  
24

1 Further, Ms. Dismukes' proposal to reduce future  
2 rates to recover a past expense involves  
3 retroactive ratemaking.

4  
5 Q. With regard to income taxes, Ms. Dismukes, at page  
6 19 of her testimony, recommends that the  
7 appropriate federal tax rate for PCUC is 34% rather  
8 than the 35% used in the MFR. Would you please  
9 respond to her proposal?

10 A. The appropriate federal tax rate for PCUC is 35%.  
11 PCUC files its income tax return as a part of the  
12 ITT consolidated return. However, in its workpapers  
13 for the consolidated return and in its calculations  
14 for ratemaking purposes, its taxable income is  
15 determined on a stand alone basis. The marginal  
16 tax rate to which PCUC is subject, is the same as  
17 for ITT or 35%.

18  
19  
20 Q. Ms. Dismukes reasons that since the Commission  
21 treats PCUC on a stand alone basis for tax  
22 purposes, the 34% should apply rather than the 35%  
23 rate. Do you agree?

24 A. I would agree if the Commission truly treated PCUC  
25 on a stand alone basis, but it does not. The

1 Commission takes advantage of the consolidated  
2 relationship by requiring PCUC to make a parent  
3 debt adjustment to interest expense for ratemaking  
4 purposes. Based on the income level proposed in the  
5 MFR, the revenue requirement difference between a  
6 34% tax rate and a 35% tax rate is \$47,000. But,  
7 the parent debt adjustment saves the ratepayers  
8 \$499,000 in revenue requirements. The net parent  
9 debt tax savings of \$452,000 [\$499,000-\$47,000] is  
10 only possible because of the consolidated  
11 relationship. If the Commission were to ignore the  
12 consolidated relationship to justify a stand alone  
13 34% tax rate, it follows that it should also ignore  
14 the parent debt adjustment that is only possible  
15 because of consolidation.

16  
17 Q. On page 20 of her testimony, Ms. Dismukes  
18 recommends two adjustments to miscellaneous  
19 expense. One removes a nonrecurring expense and  
20 another removes chamber of commerce dues for  
21 ratemaking purposes, per Commission policy. Do you  
22 agree with these adjustments?

23 A. Yes. I agree with both of these adjustments.

24

1 Q. Ms. Dismukes also recommends, on page 21 of her  
2 testimony, an adjustment for a nonrecurring legal  
3 expense. Do you concur with this adjustment?  
4 A. No. Although the charges from the specific law firm  
5 may not recur, legal expenses of this magnitude  
6 most likely will recur. The total legal expense  
7 projected for 1995, including the amount identified  
8 by Ms. Dismukes, is already less than what would be  
9 expected if measured against the combined increase  
10 in customer growth and CPI since the last  
11 authorized level.

12

13 **Rate Base**

14 Q. Beginning on page 21 of her testimony, Ms. Dismukes  
15 addresses rate base related adjustments. Would you  
16 please provide your response to those adjustments?  
17 A. Yes. In her first three adjustments, she adopts the  
18 recommendation of PSC staff auditor Dodrill with  
19 regard to the cost of the land purchased for a  
20 rapid infiltration basis (RIB) site and a  
21 sprayfield site and with regard to reclassification  
22 of the primary subaccount for the RIB site with its  
23 related depreciation expense adjustment. Ms.  
24 Dismukes merely adopts Mr. Dodrill's conclusions.  
25 I and Mr. Spano have prepared rebuttal to Mr.

1           Dodrill's testimony as he is the primary source of  
2           these adjustments, I will address the adjustments  
3           later in this rebuttal testimony. My conclusion is  
4           that I disagree with Mr. Dodrill's position and his  
5           adjustments are inappropriate.

6  
7           **Q.    On page 25 of her testimony, Ms. Dismukes**  
8           **recommends that the Commission include a negative**  
9           **working capital to offset debit deferred taxes. Do**  
10           **you agree with this adjustment?**

11           **A.    No. The Commission has required PCUC, a class A**  
12           **utility, to calculate working capital using the**  
13           **balance sheet approach. Under the balance sheet**  
14           **approach, current assets are matched against**  
15           **current liabilities. MFR Schedule A-17 shows the**  
16           **calculation of working capital using the balance**  
17           **sheet approach. Net debit deferred taxes are not a**  
18           **component of working capital since they clearly are**  
19           **long term assets related to tax timing differences**  
20           **of CIAC and depreciation and are amortized**  
21           **generally over the life of related assets. The**  
22           **Commission more clearly acknowledges this**  
23           **distinction in its rule for the calculation of**  
24           **working capital for Class B and C utilities. That**  
25           **rule, which authorizes the calculation of working**



1 capital as one-eighth of O&M expenses, specifically  
2 requires the offsetting of debit deferred taxes  
3 against credit deferred taxes as a calculation  
4 separate from working capital, under a separate  
5 subparagraph. Beyond that, the inclusion of a  
6 negative working capital at all in rate base  
7 violates the intent of making working capital a  
8 rate base component. Its intent is to recognize  
9 that a utility has an ongoing need for liquid  
10 assets to pay its current payables. A zero working  
11 capital fails to recognize that need and is penalty  
12 enough; a negative working capital further reduces  
13 the cost basis of long term assets upon which the  
14 utility is entitled an opportunity to earn.

15

16 **Q. Ms. Dismukes final recommendation, at page 25 of**  
17 **her testimony, is that water rates should be based**  
18 **on a 13 month average rate base rather than a year**  
19 **end rate base. Do you concur?**

20 **A. Obviously no, as we have requested that rates be**  
21 **based on a year end projected rate base. With**  
22 **regard to Ms. Dismukes reliance on Rule 25-**  
23 **30.433(4), F.A.C., she is incorrect. First, this**  
24 **rule does not address whether a utility may file on**  
25 **an average or year end basis. It merely says:**

1           (4) The averaging method used by the  
2           Commission to calculate rate base and  
3           cost of capital shall be a 13-month  
4           average for Class A utilities and the  
5           simple beginning and end-of-year average  
6           for Class B and C utilities.

7           The purpose of this rule was to distinguish between  
8           averaging methods for different classes of  
9           utilities, not to require that rate base only be  
10          based on an average year.

11  
12          Second, her comment regarding a showing of  
13          unreasonable burden is off point. The general  
14          statement in the rule allows any party to deviate  
15          from any rule upon a showing of unreasonable  
16          burden. PCUC made no such claim. Its MFR's show  
17          both year end and average balances on each schedule  
18          and, in accordance with Rule 25-30.433(4), F.A.C.,  
19          used a 13 month average to determine average  
20          balances.

21  
22          Third, neither the Commission rules nor the  
23          regulatory statute addresses average versus year  
24          end rate base. That choice has always been one for

1           the utility to request and the Commission to  
2           consider.  
3  
4           PCUC has proposed a year end 1995 rate base because  
5           significant amounts of plant added during 1995  
6           would only be partially recognized if presented on  
7           an average basis. In addition, PCUC has annualized  
8           the revenues and incremental expenses to the year  
9           end customers which this plant will serve. This  
10          provides a better indication than an average rate  
11          base of the cost of operations during the period  
12          when adjusted rates would be in affect. It is  
13          within the Commission's authority under the statute  
14          to determine the prudent cost of providing service  
15          during the period of time that rates will be in  
16          effect following the entry of a final order. A  
17          final order will not be forthcoming until late in  
18          1996, nearly a year after the end of the rate base  
19          and it will be another year before the full effect  
20          of any allowed increase will be realized. A year  
21          end rate base is appropriate in this case.  
22  
23  
24

1 Q. Did Ms. Dismukes propose to use an average rate  
2 base for the wastewater system?

3 A. No. Only for the water system because most of the  
4 increase in plant additions is for the wastewater  
5 system. It would be impractical to evaluate  
6 revenue requirements on a split test year basis.  
7 And it would be even more difficult to monitor the  
8 earnings of the utility or to reconcile schedules  
9 going into any future rate proceeding. The proposal  
10 for a split test year should be rejected.  
11

12 B. REBUTTAL TO TESTIMONY OF TED BIDDY

13 Q. Please turn to the testimony of Ted Bidy. Do you  
14 have any responses to his testimony?

15 A. Yes. At page 5 of his testimony, Mr. Bidy  
16 expressed concern with a negative unaccounted for  
17 water amount in one month. He characterized it as  
18 unusual. Neither negative amounts nor high amounts  
19 of unaccounted for water in some months are at all  
20 unusual. As Mr. Bidy should know, they result from  
21 timing differences between the cycles when meters  
22 are read and recorded and the calendar month  
23 summaries for water pumped. This Commission has  
24 always evaluated the level of unaccounted for water

1 on a 12 month basis to normalize any anomalies  
2 resulting from these timing differences.

3  
4 Mr. Bidy also testified that the Commission should  
5 allow no more than 10% unaccounted for water to  
6 encourage efficiency. For the test year, PCUC shows  
7 only 4.68% unaccounted for water. No adjustments to  
8 expenses or plant consumption have been made to  
9 reflect a greater percentage of unaccounted for  
10 water. Nevertheless, I believe it would be  
11 inappropriate for the Commission to arbitrarily  
12 limit the amount of unaccounted for water to a  
13 specific percentage without looking at the specific  
14 circumstances. The Commission should continue its  
15 policy of allowing a specific percentage without  
16 explanation, and then requiring the utility to  
17 justify amounts greater than that.

18  
19 **Q. Do you have any response to Mr. Bidy's testimony**  
20 **on inflow and infiltration?**

21 **A.** Yes. At page 11 of testimony, Mr. Bidy comments  
22 that MFR engineering schedule F-2(S) did not show  
23 the inflow and infiltration condition of the system  
24 and he therefore could not reach a conclusion as  
25 whether it was excessive. He is correct that the

1           referenced schedule did not include such  
2           information. It was not designed to. The schedule,  
3           as designed by the Commission, only asks for plant  
4           flow data. However, MFR Schedule E-13 does show the  
5           wastewater gallons billed, so the information  
6           necessary to estimate infiltration and inflow was  
7           available.

8

9           **Q. Mr. Bidy states that 200 gallons per inch of**  
10           **pipe diameter per mile per day is the**  
11           **guideline recommended. Do you agree?**

12           **A. No. First, that is the guideline for testing newly**  
13           **installed pipe. Second, it is a criterion to test a**  
14           **section of pipe, not for evaluating total system**  
15           **infiltration. Third, it is a guideline for**  
16           **infiltration only and does not consider inflow. The**  
17           **standard allowance recognized by this Commission**  
18           **for infiltration only for an operating system is**  
19           **500 gallons for a system rather than the design**  
20           **specification of 200 gallons for new sections of**  
21           **pipe. PCUC is a working system for which the**  
22           **majority of the gravity system is close to 20 years**  
23           **old. In spite of the age of the system, the**  
24           **infiltration and inflow for the total system is**  
25           **only 210 GPD/inch diameter/mile.**

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C. REBUTTAL TO TESTIMONY OF ROBERT DODRILL

Q. Please turn now to the testimony of Commission staff witness Dodrill. Do you have any responses to his testimony?

A. Yes. I have responses to several of the exceptions and disclosures in the audit report he is sponsoring as Exhibit \_\_\_\_\_ (RFD-1).

Q. Did PCUC file a formal response to the staff audit?

A. Yes. The company's response to the audit is contained in Exhibit \_\_\_\_\_ (FS-10).

Q. In Audit Exception No.1, summarized on page 2 of his testimony, Mr. Dodrill proposes to reduce the cost of 81.576 acres of land purchased for the RIB site and an additional 4.601 acres for the buffer strip adjacent to the RIB site. Do you agree with his adjustment?

A. No. His adjustment is based on two erroneous premises. The first premise is that someone other than PCUC first devoted the land to utility service. His second premise is that the independent appraisal upon which the purchase cost of the land is based is incorrect. I am not in a position to argue the merits of the appraisal. Neither I nor

1 Mr. Dodrill are certified real estate appraisers  
2 and I will not impose my judgement on the  
3 appraiser's expertise, as Mr. Dodrill has  
4 attempted. Mr. Spano, the certified appraiser who  
5 conducted the appraisal is presenting testimony to  
6 support his conclusions. I will, however, address  
7 the portions of the exception as related to the  
8 regulatory proposition that someone other than PCUC  
9 dedicated this land to utility service.

10

11 **Q. When was the RIB site devoted to utility service.**

12 A. After considering alternative sites, the RIB site  
13 was purchased by PCUC on July 12, 1991 and devoted  
14 to utility service that same year. It was entered  
15 on the books on June 30, 1995 at the value  
16 appraised in October, 1990. Exhibit \_\_\_\_ (FS-10)  
17 contains a copy of the deed, as contained in Mr.  
18 Dodrill's exhibits, and a copy of the general  
19 ledger entry.

20

21 **Q. Prior to 1991, who owned the land?**

22 A. The last owner before PCUC was ITT Community  
23 Development Corporation (ITTCDC).

24

25



1 Q. To what use had ITTCDC put the land?  
2 A. It had been put to no use; the land was idle and  
3 available for agriculture or development.  
4  
5 Q. Is there any indication that this land had been  
6 previously designated as a utility site by ITTCDC?  
7 A. No.  
8  
9 Q. Who is the party that first devoted this land to  
10 utility service?  
11 A. PCUC. It is the entity that purchased the land for  
12 utility purposes.  
13  
14 Q. The staff auditor, Mr. Dodrill, says that the first  
15 person devoting this land to utility service is the  
16 "ITT Group of Corporations." Why is that not  
17 correct?  
18 A. There is no legal entity called "the ITT Group of  
19 Corporations." Mr. Dodrill may believe that this  
20 is an insignificant point, but it becomes  
21 significant when he is tries to justify a nearly  
22 \$400,000 downward adjustment by attributing initial  
23 devotion of service to a non-entity.  
24

1 Q. Why is it so important to properly identify the  
2 first person devoting the land to utility service?

3 A. Because Accounting Instruction No. 18A of NARUC  
4 Uniform System of Accounts for Class A Sewer  
5 Utilities, which this Commission has adopted  
6 states:

7

8 18. Utility Plant - To Be Recorded at Cost

9 A. All amounts included in the accounts for  
10 utility plant acquired as an operating unit or  
11 system, shall be stated at the cost incurred  
12 by the person who first devoted the property  
13 to utility service. [Emphasis added]

14

15 Q. Why could not ITTCDC, the previous owner, have been  
16 the one that devoted it to utility service?

17 A. The amount to be recorded is the cost to the first  
18 person to "devote" the land to utility service, not  
19 just the cost to the first owner. According to  
20 Webster's dictionary, to devote is to dedicate, and  
21 to dedicate is to "set apart to a definite use."  
22 In order for ITTCDC to have set this land apart for  
23 definite use for utility service it would have had  
24 to be able to identify the parcel and know for what  
25 purpose it was going to be used. ITTCDC purchased

1 the land, circa 1968 along with thousands of other  
2 acres of land in Flagler County. It could not have  
3 known, when it purchased the land, that this  
4 specific parcel would be needed or used for utility  
5 purposes. Unless it were the party responsible for  
6 the design of the utility system, which it was not,  
7 it would not be aware of when, where or for what  
8 purpose the utility would require land. Certainly  
9 it cannot be logically concluded that all land  
10 owned by ITTCDC, wherever located, is automatically  
11 devoted to utility service merely because there  
12 exists a related company that is a public utility.  
13 ITTCDC is not the party that placed this land in  
14 utility service, and the cost to ITTCDC is not a  
15 proper basis for the original cost of land devoted  
16 to utility service.

17  
18 The only party responsible for the design of the  
19 utility system is PCUC and therefore only PCUC can  
20 be and is identified as the party devoting this  
21 land to utility service. The proper cost to be  
22 stated, in accordance with the NARUC uniform system  
23 of accounts is the original cost to PCUC.  
24

- 1       **Q.    Hasn't the Commission previously recognized PCUC as**  
2       **the person devoting property to utility service?**
- 3       A.    Yes. In Docket No. 890277-WS, as a part of a rate  
4       case and in-depth investigation of the original  
5       costs of PCUC's assets, the Commission examined the  
6       transactions and valuations relating to 88  
7       separate parcels purchased by PCUC from ITTCDC. In  
8       Order No. 22843, at page 36, the Commission  
9       recognized, without exception, that "... it was  
10      PCUC, not I[TT]CDC, that actually devoted the land  
11      to public service." [Emphasis added]. The  
12      circumstances surrounding the purchase of the RIB  
13      site, and the sprayfield which Mr. Dodrill  
14      addresses in Audit Disclosure No.1, are no different  
15      than for those 88 other parcels. It is PCUC that  
16      has devoted this land to utility service.
- 17
- 18      **Q.    Is it your understanding that Mr. Dodrill's concern**  
19      **regarding the cost of this parcel is because it was**  
20      **purchased from a related company?**
- 21      A.    Yes. That is a major concern to PCUC also. PCUC,  
22      having made several land purchases from ITTCDC, is  
23      very much aware that the Commission closely  
24      scrutinizes the purchase cost. That is exactly why  
25      every major land parcel has been purchased from

1 ITTCDC at the value determined by an independent  
2 certified appraiser. In this case, the property was  
3 appraised in October, 1990 and purchased at the  
4 October, 1990 appraised value in July, 1991.

5

6 **Q. Is there a second piece of land that was purchased**  
7 **for this RIB site?**

8 A. Yes. On January 24, 1995, PCUC purchased an  
9 additional 4.601 acre strip adjacent to the RIB  
10 site in order to comply with the Florida Department  
11 of Environmental Protection buffer requirements. A  
12 copy of the deed, as contained in Mr. Dodrill's  
13 audit workpapers, is included in Exhibit \_\_\_\_ (FS-  
14 10), as is the book entry to the ledger in 1995.

15

16 **Q. Was a new appraisal performed to determine a cost**  
17 **for this parcel?**

18 A. No. Because the land was contiguous to and similar  
19 in character to the first purchase, and relatively  
20 small, it was concluded that a new appraisal was  
21 not warranted. The land was purchased in January,  
22 1995 at the same per unit cost determined for the  
23 RIB site in October, 1990.

24

1 Q. Is it unusual for the Commission to accept an  
2 independent appraisal as the cost basis when land  
3 is purchased from a related party?  
4 A. No. It is consistent the Commission's historic  
5 position for this utility. In Order No. 22843, the  
6 last rate order for this utility, the Commission  
7 stated, "A review of the prior order indicates a  
8 preference to use independent appraisals when those  
9 reports provide reasonable land values." The  
10 Commission further stated, "Use of the original  
11 cost to the developer plus allowances for inflation  
12 may result in unreasonable and unrealistic  
13 valuations and should only be used when reasonable  
14 appraisals are not available." A certified  
15 appraisal is available in this case and basing the  
16 cost on indexed developer costs, as proposed by Mr.  
17 Dodrill results in an unqualified valuation. The  
18 cost of the RIB site and buffer zone should not be  
19 adjusted.  
20  
21  
22  
23  
24

1 Q. Mr. Dodrill, in Audit Disclosure No. 1, summarized  
2 at page 3 of his testimony, recommends also  
3 reducing the cost of sprayfield land purchased in  
4 1985 based on his analysis regarding the cost of  
5 the RIB site. Would you please respond to his  
6 recommendation?

7 A. The cost of the sprayfield land was accepted by the  
8 Commission at its appraised value without  
9 modification in PCUC's rate base in Docket Nos.  
10 870166-WS and 890277-WS. The wastewater rate base  
11 schedule on page 27 of Order No. 18625 and on page  
12 75 of Order No. 22843 reflects the recorded cost of  
13 the sprayfield land. The sprayfield land cost,  
14 recorded in 1986, is the appraised cost as of 1979,  
15 the year PCUC devoted the land to utility service.  
16 This is consistent with the Commission's treatment  
17 in prior orders wherein the actual transfer of land  
18 was at a different date from the date at which PCUC  
19 devoted the land to utility service. Exhibit \_\_\_\_  
20 (FS-11) contains copies of the schedules from the  
21 respective referenced orders as well as page 13 of  
22 PCUC's audit response, which reconciles the cost of  
23 the sprayfield to the costs in the orders.

24

1 Mr. Dodrill's unqualified analysis of the RIB site  
2 costs is not a reasonable basis for reversing a  
3 transaction based on an independent appraisal which  
4 has been accepted by the Commission in the  
5 utility's last two rate cases.

6  
7 Q. At page 2 of his testimony, Mr. Dodrill summarizes  
8 Audit Exception No. 2, in which he states his  
9 opinion that the cost of improvements to the RIB  
10 site should be reclassified from Plant Account 380,  
11 Treatment and Disposal Facilities to Plant Account  
12 354, Structures and Improvements. Do you concur in  
13 his opinion?

14  
15 A. No. Based on the general descriptions in Account  
16 380, PCUC has consistently classified RIB's as  
17 treatment and disposal facilities and the  
18 Commission has accepted this classification through  
19 its approval of the related depreciation rates.  
20 PCUC believes that the guideline depreciable life  
21 for Account 380 fairly represents the expected life  
22 of its RIB's. Neither Mr. Dodrill nor Ms. Dismukes  
23 has provided any data to justify a change from the  
24 guideline depreciation rate currently approved for  
25 RIB's for this utility. We do not agree that this



1 RIB should be treated differently and reclassified  
2 to Account 354 - Structures and Improvements.

3  
4 The RIB's were designed and are being used for  
5 further treatment and reuse/disposal of reclaimed  
6 water. The reclaimed water is applied to the bottom  
7 of the RIB's to allow for percolating through the  
8 soil for further treatment prior to infiltration to  
9 the ground water. The use of rapid infiltration  
10 technology is relatively new and was not  
11 specifically envisioned in the NARUC Uniform System  
12 of Accounts, but a RIB is similar in function to  
13 the oxidation ponds, lagoons and filtering  
14 equipment described in Account 380 of the Uniform  
15 System of Accounts.

16  
17 Q. On page 3 of his testimony, Mr. Dodrill summarizes  
18 Audit Exception No. 3 which calls for eliminating  
19 certain capitalized major rehabilitation costs  
20 from plant because, in his opinion, they are  
21 recurring expenses. Do you agree with his  
22 recommendation?

23 A. No. The projects in question are not routine, on-  
24 going, recurring events.

25

1           Each line rehabilitation and replacement project  
2           was a unique circumstance that required a response  
3           to a failure which affected service continuity.  
4           Each rehabilitation resulted in replacement and  
5           retirement of line segments. The costs incurred, as  
6           well as the costs of the retired property, were  
7           properly accounted for as a retirement in  
8           accordance with the uniform system of accounts. If,  
9           as Mr. Dodrill suggests, the cost of the  
10          replacement plant is expensed and the plant  
11          balances are additionally reduced by the cost of  
12          the retired units, there will be no cost on the  
13          books for these line segments.

14  
15          With regard to the cited projects for structural  
16          interior and exterior elevated water tanks and  
17          water plant softening basins, these are  
18          nonrecurring major rehabilitation projects that add  
19          to the life of the equipment and are properly  
20          capitalized.

21  
22          With regard to the cited well programs, each is  
23          specifically a capital project. The first project,  
24          costing approximately \$49,000 is for activation of  
25          a new well. The second project, costing about

1           \$51,000 is for four new back-up diesel generators.  
2           The third project, costing approximately \$115,000  
3           is for redrilling two wells.  
4

5           **Q.    Mr.    Dodrill    recommended    the    removal    of**  
6           **approximately \$1.1 million from plant for the above**  
7           **discussed projects. Does he recommend how to treat**  
8           **these costs if they are removed from plant?**

9           **A.    No. The audit report and his testimony are silent**  
10           **on this. But if these costs are not capitalized,**  
11           **they must be expensed. If the projects are**  
12           **recurring, as Mr. Dodrill suggests, then we**  
13           **estimate test year water expenses would have to**  
14           **increased by \$54,000 to amortize the well projects**  
15           **over four years. Wastewater test year expenses**  
16           **would have to be increased by about \$100,000 to**  
17           **recognize the average level of annual sewer line**  
18           **replacement projects.**

19  
20           **Q.    The audit exception also notes that the test year**  
21           **contains expenses for a well rehabilitation**  
22           **program. Why do think that was mentioned?**

23           **A.    Since his audit exception identified capitalized**  
24           **well projects that he believes were**  
25           **rehabilitative, I assume he thought the company was**

1 both expensing and capitalizing the same type of  
2 work. That, however, is not the case. The costs  
3 the company capitalized were for new wells,  
4 redrilled wells and generators. The expenses  
5 included in the test year for the ongoing,  
6 recurring, well rehabilitation program, are to  
7 restore the productivity of existing well by  
8 inspecting them, acidizing them and redeveloping  
9 the existing well areas to restore porosity. There  
10 is no conflict between the well projects that are  
11 capitalized and those that are expensed.

12

13 **Q. Do you have any comments regarding Audit Exception**  
14 **Nos. 4 and 5?**

15 **A. PCUC accepts the recommendations in these**  
16 **exceptions.**

17

18 **Q. What is the company's response to Audit Disclosure**  
19 **No. 2?**

20 **A. PCUC agrees with the auditor's opinion.**

21

22

23

24

1 Q. At page 4 of his testimony, Mr. Dodrill summarizes  
2 Audit Disclosure No. 3 wherein he concludes that  
3 revenues from the last price index are understated.  
4 Do you agree?

5 A. No. The disclosure concludes that the last price  
6 index, effective October 24, 1995 was not applied  
7 to the November billing, therefore revenues for the  
8 test year were understated. This is incorrect. The  
9 indexed rates were applied to service rendered  
10 after the effective date. However, because of the  
11 difference between billing cycles and the  
12 accounting closing dates, billings for November at  
13 the indexed rate did not appear on the books until  
14 December. The 1995 revenues are correctly stated.

15  
16 However, whether PCUC applied the price index rates  
17 in November is of no consequence to this  
18 proceeding. The starting point for determining  
19 revenue requirements in this proceeding is the  
20 adjusted revenue shown in column (5), line 1 of MFR  
21 Schedules B-1 and B-2. This adjusted revenue for  
22 1995 assumes the price index rate was in effect for  
23 all 12 months of 1995 and was applicable to year  
24 end 1995 customers.

25

1 Q. Mr. Dodrill summarizes Audit Disclosure No. 4 at  
2 page 4 of his testimony, which alleges that PCUC  
3 was required to and failed to reduce its rates  
4 after the rate case amortization period approved in  
5 Order No. 22843. Would you please respond to this  
6 disclosure?

7 A. I responded to this disclosure in my rebuttal to  
8 the testimony of OPC witness Dismukes, who adopted  
9 Mr. Dodrill's opinion. The conclusion of my  
10 response was that Order No. 22843 did not require  
11 PCUC to reduce its rates. Neither the statutory nor  
12 rule authority relied on by Mr. Dodrill were  
13 applicable to PCUC.  
14

15 Q. Do you have any response to Audit Disclosure No. 5  
16 regarding reuse plant?

17 A. Mr. Guastella will address that disclosure in his  
18 rebuttal.  
19

20 Q. Would you please address Audit Disclosure No. 6  
21 regarding capital structure?

22 A. This is a most difficult disclosure to respond to,  
23 because, frankly I don't understand its rationale  
24 or intent. Audit Disclosure No. 6, summarized at  
25 page 4 of Mr. Dodrill's testimony, apparently

1 concludes that the lower debt cost benefits  
2 available to PCUC as a result of a parent company  
3 guarantee somehow "impairs" that debt.

4  
5 We do not understand the auditor's opinion. The  
6 interest rate is enhanced, not impaired by the  
7 guarantee. The purpose of any guarantee is to  
8 reduce the risk of non-payment and provide a basis  
9 for a lower, or enhanced, interest rate. For stand  
10 alone water and sewer utilities, lenders almost  
11 always require the unconditional guarantee of the  
12 individual stockholders. For affiliated companies,  
13 such as PCUC, the unconditional guarantee of the  
14 parent provides a similar benefit.

15  
16 The auditor correctly points out that the cost rate  
17 for PCUC's debt does not include a component for  
18 "credit risk" because there is no risk of non  
19 payment. To us that means, the interest rate is  
20 again enhanced, not impaired. It almost appears  
21 that the auditor would have preferred that PCUC  
22 obtain debt without the parent guarantee in order  
23 that a "true" market rate, one not influenced by  
24 the parent-subsidiary relationship, would result,

1 even though the rate would most assuredly be  
2 higher.

3

4 Q. Is the use of a parent guarantee a new means for  
5 PCUC to secure debt?

6 A. No. A parent guarantee has always been part of all  
7 debt issued to PCUC.

8

9 Q. As part of this disclosure, Mr. Dodrill recommends  
10 that the Commission use the parent's capital  
11 structure. Do you agree?

12 A. No. The disclosure suggests that because of the  
13 parent guarantee, PCUC's outstanding debt is in  
14 essence outstanding debt of the parent. If so he  
15 recommends that the Commission require PCUC to use  
16 the parent's capital structure for this rate  
17 proceeding. But the debt obtained by PCUC is  
18 clearly PCUC debt. The requirement for a guarantor  
19 does not change that. If it did, in every case in  
20 which debt was required to be guaranteed by  
21 stockholders [which would include most small water  
22 and wastewater utilities operating Florida], the  
23 Commission would look to the capital structure of  
24 the stockholder; i.e., recognize 100% equity  
25 financing. PCUC has been treated as a stand alone



1 utility by this Commission in all of its rate  
2 proceedings. There is no basis for substituting the  
3 capital structure of the parent in this case. There  
4 is no indication that either the capital structure  
5 of the utility is unreasonable or that the cost of  
6 debt is unreasonable.

7

8 **Q. What is the policy of the Commission regarding the**  
9 **choice of capital structure for setting rates?**

10 A. The policy of this Commission, expressed in Order  
11 No. 21415, issued 6/20/89, is to use the capital  
12 structure at the first level that attracts funding  
13 from outside sources, regardless of whether a  
14 guarantee exists. The Commission should continue  
15 to use the capital structure of PCUC has it has in  
16 all previous proceedings.

17

18 **Q. Finally, would you address Audit Disclosure No. 7**  
19 **regarding presentation of the capital structure of**  
20 **the parent company?**

21 A. Mr. Dodrill points out differences in the MFR  
22 presentation of parent company and PCUC capital  
23 structure as well as that the parent company of  
24 PCUC reorganized as of November 30, 1995. However,  
25 he also notes that this disclosure is to be

1            considered only if Disclosure No.6 is acted upon by  
2            the Commission. It is my opinion that Mr. Dodrill's  
3            recommendation to use the parent capital structure  
4            for PCUC is not in accord with Commission policy,  
5            and Disclosure No.7 need not be considered.

6

7

8            **Q. Does that conclude your rebuttal testimony?**

9            **A. Yes it does.**

10

11

12

13

14

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21

PALM COAST UTILITY CORPORATION  
 ALLOCATED INVESTMENT IN USED AND NONUSED ASSETS  
 RECONCILED TO YEAR END CAPITAL STRUCTURE MFR Schedule D-2 [NOTE 1]

	Y/E 1995 Assets	Used [Rate Base]	NonUsed
Gross Utility Plant	124,054,100	87,571,619	36,482,481
Accumulated Depreciation	(39,103,672)	(28,359,734)	(10,743,938)
Net Plant	84,950,428	59,211,885	25,738,543
CIAC, Net of Trust	(69,311,450)	(32,579,131)	(36,732,319)
Amort CIAC	19,752,955	8,251,114	11,501,841
Net CIAC	(49,558,495)	(24,328,017)	(25,230,478)
Net Plant less Net CIAC	35,391,933	34,883,868	508,065
Deferred Taxes, Net	8,126,500	3,060,314	5,066,186
Advances For Construction	(3,662,212)	(584,539)	(3,077,673)
Working Capital [see NOTE 2]	(402,414)	0	(402,414)
Net Investment	39,453,807	37,359,643	2,094,164

NOTE 1:  
 YEAR END CAPITAL STRUCTURE

Long Term Debt	12,125,000
Short Term Debt	4,312,000
Common Equity	20,265,735
Customer Deposits	485,000
Investment Tax Credits	2,266,072
Total	39,453,807

Source: MFR Schedule D-2

NOTE 2:  
 YEAR END WORKING CAPITAL

Current assets	1,051,000
Unamort Debt Disc.	24,444
Other Misc. Def. Debits	128,573
A/P	(82,231)
A/P Assoc. Cos.	(308,000)
Accrued Taxes	(704,200)
Accrued Interest	(60,000)
Misc. Accrued Liab.	(452,000)
Total	(402,414)

Source: MFR Schedule A-17

RESTATEMENT OF DISMUKES ADJUSTMENT AS DEDUCTION FROM  
 COMBINED RATE BASE  
 AND AFFECT ON EARNINGS

TABLE 1

TRADITIONAL RATE BASE – PER MFR SCH A-1, A-2

Line No.	Description	Amount
1	Plant in Service, net of Accum Deprec. – Used	59,211,885
2	Less: CIAC, net of Amort – Used	(24,328,017)
3	Advances for Construction – Used	(584,539)
4	Net Deferred Debits – Used	3,060,314
5	Working Capital	0
6	<b>RATE BASE</b>	<b>37,359,643</b>
7	<b>RETURN @ Requested 8.84%</b>	<b>3,304,210</b>

TABLE 2

DISMUKES IMPLIED RATE BASE – REDUCED BY NONUSED CIAC

Line No.	Description	Amount
1	Plant in Service, net of Accum Deprec. – Used	59,211,885
2	Less: CIAC, net of Amort – Used	(24,328,017)
2A	Less: CIAC, net of Amort – NONUSED	(11,028,664)
3	Advances for Construction – Used	(584,539)
4	Net Deferred Debits– Used	3,060,314
5	Working Capital	0
6	<b>DISMUKES IMPLIED RATE BASE</b>	<b>26,330,979</b>
7	<b>RETURN @ Requested 8.84%</b>	<b>2,327,659</b>

TABLE 3

AFFECT OF DISMUKES ADJUSTMENT ON EARNINGS

Effective Return on Rate Base	2,327,659
Effective Rate of Return on Rate Base	6.23%
Effective Rate of Return on Equity (SEE NOTE)	6.02%
Allowable Return per Leverage Formula	11.10%

NOTE:

CALCULATION OF EFFECTIVE RATE OF RETURN ON RATS BASE AND EQUITY

	Traditional	Dismukes
Traditional Rate Base	37,359,643	37,359,643
Return on Rate Base, Traditional	3,304,210	
Return Allowable If Rate Base is Reduced by Nonused CIAC		2,327,659
Rate of Return on Rate Base	8.84%	6.23%
Less: Interest Expense:		
Weighted Cost of Debt [MFR p. 86]	3.14%	3.14%
Interest Expense for Rate Base	1,173,093	1,173,093
Income Available for Return on Equity	2,131,117	1,154,566
Equity Portion of Rate Base	19,191,649	19,191,649
Effective Rate of Return on Equity	11.10%	6.02%

RESTATEMENT OF DISMUKES ADJUSTMENT AS DEDUCTION FROM  
 WASTEWATER RATE BASE  
 AND AFFECT ON EARNINGS

TABLE 1

TRADITIONAL RATE BASE - PER MFR SCH A-2

Line No.	Description	Amount
1	Plant in Service, net of Accum Deprec. - Used	26,971,199
2	Less: CIAC, net of Amort - Used	(12,295,854)
3	Advances for Construction - Used	(584,539)
4	Net Deferred Debits - Used	1,940,403
5	Working Capital	0
6	RATE BASE	16,031,209
7	RETURN @ Requested 8.84%	1,417,853

TABLE 2

DISMUKES IMPLIED RATE BASE - REDUCED BY NONUSED CIAC

Line No.	Description	Amount
1	Plant in Service, net of Accum Deprec. - Used	26,971,199
2	Less: CIAC, net of Amort - Used	(12,295,854)
2A	Less: CIAC, net of Amort - NONUSED	(11,028,664)
3	Advances for Construction - Used	(584,539)
4	Net Deferred Debits - Used	1,940,403
5	Working Capital	0
6	DISMUKES IMPLIED RATE BASE	5,002,545
7	RETURN @ Requested 8.84%	442,225

TABLE 3

AFFECT OF DISMUKES ADJUSTMENT ON EARNINGS

Effective Return on Rate Base	442,225
Effective Rate of Return on Rate Base	2.76%
Effective Rate of Return on Equity [SEE NOTE]	-0.74%
Allowable Return per Leverage Formula	11.10%

NOTE:

CALCULATION OF EFFECTIVE RATE OF RETURN ON RATE BASE AND EQUITY

	Traditional	Dismukes
Traditional Rate Base	16,031,209	16,031,209
Return on Rate Base, Traditional	1,417,853	
Return Allowable If Rate Base is Reduced by Nonused CIAC		442,225
Rate of Return on Rate Base	8.84%	2.76%
Less: Interest Expense:		
Weighted Cost of Debt [MFR p. 86]	3.14%	3.14%
Interest Expense for Rate Base	503,380	503,380
Income Available for Return on Equity	914,473	(61,155)
Equity Portion of Rate Base	8,235,232	8,235,232
Effective Rate of Return on Equity	11.10%	-0.74%

Hammock Dunes  
 Actual Monthly Consumption – Gallons

	1994	1995	1996
Jan	7,726,100	20,068,000	3,175,400
Feb	5,017,200	13,089,000	10,381,000 *
Mar	5,491,600	10,066,900	(5,522,000)
Apr	7,591,700	11,448,100	2,852,600
May	5,145,900	5,395,800	
Jun	4,590,600	3,457,600	
Jul	4,190,500	4,716,400	
Aug	4,805,000	4,369,600	
Sep	7,426,400	2,825,400	
Oct	19,478,000	2,543,100	
Nov	15,125,000	2,626,000	
Dec	11,563,000	3,190,500	
Totals	98,151,000	83,796,400	
Pct Decrease		14.63%	

Most Recent Period, Reflecting Change in Flushing

12 months ending April 1995	126,996,400
12 months ending April 1996	40,011,400
Pct decrease	68.49%

TY Consumption Projected for Dunes in MFR	51,100,000
---	------------

\* – Meter reading error compensated for in the following month.

Correction to Dismukes Adjustments to Dept 0775

Line			Source
1	Dept 0775 1995 Expense	83,906	MFR p. 53
	Less: Nonrecurring O&M Exp.		
2	Acct 408 Payroll Taxes	3,623	Ex KHD-1 (Dismukes), Sch 12
3	Deduct Taxes [not O&M Exp]	(3,623)	MFR p. 53
4	Acct 601 Salaries & Wages	254	Ex KHD-1 (Dismukes), Sch 12
5	Acct 604 Pensions & Benefits	7,823	Ex KHD-1 (Dismukes), Sch 12
6	Acct 620 Materials & Supplies	739	Ex KHD-1 (Dismukes), Sch 12
7	Acct 635 Contr. Services - Other	85	Ex KHD-1 (Dismukes), Sch 12
8	Acct 675 Misc. Expenses	4,589	Ex KHD-1 (Dismukes), Sch 12
9	Total Non Recurring Exp.	<u>13,490</u>	
10	Remaining Dept. Expenses	70,416	
11	Composite Pct U/U	<u>90.61%</u>	Ex KHD-1 (Dismukes), Sch 10, 12
12	U/U Dept 0775 Expense	63,804	
13	Adjustment	20,102	line 1 - line 12
	Adj. proposed by Dismukes		
14	(A) composite U/U	7,877	Ex KHD-1 (Dismukes), Sch 10
15	(B) Nonrecurring Expense	<u>15,506</u>	Ex KHD-1 (Dismukes), Sch 12
16		23,383	
	Overstatement of Adjustment if Composite U/U is accepted	3,281	line 16-line13
	Overstatement of Adjustment if Dept is 100% U/U per MFR	9,893	line 16-line9

RUN 6/22/95  
TIME 9.55.34  
PAGE 7

COMPANY 003

PALM COAST UTILITY CORPORATION  
BOOK LEDGER REPORT BY COST CD  
5/28/95 THROUGH 7/01/95

FAR817P MGRFA5 5.0  
YYN  
SANDI FCUASSETCC

KEY	DESCRIPTION	DATE ACQUIRED	DATE DISPOSED	DATE SERVICE	TYPE/ METH	ELIFE	RLIFE	COST	YTD DEPR	ACCUM DEPR	NET VALUE
TREAT/DISP. PLNT-LAND & LAND RG LDB 103-93534											
0038063700	LAND TRANSFERRED FROM ITT	12/15/72		12/15/72	BK	.000	.000	14505.09			14505.09
00392263	1 LS LAND PURCH W/TP	1/15/84		1/15/84	BK	50.000	.000	4212.80			4212.80
00392642	LS REC FEE 83 LAND	1/15/85		1/15/85	BK	50.000	.000	7.80		.71	7.09
00392741	LS LAND APPRAISAL	4/15/85		4/15/85	BK	50.000	.000	1500.00		60.19	1439.81
00393361	83.305 ACRES W/ DISP	1/15/86		1/15/86	BK	.000	.000	366126.00			366126.00
00396450	4.601 ACRES MED RIB SITE	6/30/95		6/30/95	BK	.000	.000	560136.95			560136.95
LOC	103-S3534				TREAT/DISP. PLNT-LAND & LAND RG	BK		946488.64		60.90	946427.74

Includes:

81.576 acre RIB Site - \$530,000.00  
4.601 acre buffer strip - 30,136.95  
\$560,136.95

Sprayfield



PALM COAST UTILITY CORP.  
PALM COAST-FLAGLER CO.  
DOCKET #951056-WS

RATE CASE TYE 12-31-85

8/15/96

REC-045 PAGE 0696

WARRANTY DEED  
FROM CORPORATION

This Warranty Deed Made and executed the 27th day of July A.D. 1985 by  
ITT COMMUNITY DEVELOPMENT CORPORATION and  
ITT LAND CORPORATION  
a corporation existing under the laws of Delaware and having its principal place of  
business at 1 Corporate Drive, Palm Coast, Florida 32137-0001  
hereinafter called the grantor, to

PALM COAST UTILITY CORPORATION  
whose postoffice address is 2 Utility Drive, Palm Coast, Florida 32137  
hereinafter called the grantee:

Witnesseth: That the grantor, for and in consideration of the sum of \$10.00 and other  
valuable considerations, receipt whereof is hereby acknowledged, by these presents does grant, bargain, sell,  
alien, remise, release, convey and confirm unto the grantee, all that certain land situate in Flagler  
County, Florida, viz:

See Exhibit A Attached hereto

Together with all the tenements, hereditaments and appurtenances thereto belonging or in any  
wise appertaining  
To Have and to Hold, the same in fee simple forever  
And the grantor hereby covenants with said grantee that it is lawfully seized of said land in fee  
simple that it has good title and lawful authority to sell and convey said land that it hereby fully warrants  
the title to said land and will defend the same against the lawful claims of all persons whomsoever  
and that said land is free of all encumbrances

In Witness Whereof

ARTIST  
ROBERT G. COFF, JR.  
Signed, sealed and delivered in the presence of  
PAMELA THOMPSON  
VICTORIA P. GARD

ITT Community Development Corp  
1 Corporate Drive  
Palm Coast, FL 32137

STATE OF FLORIDA  
COUNTY OF FLAGLER  
I HEREBY CERTIFY that the foregoing is a true and correct copy of the original as the same appears in the public records of the State and County aforesaid in the office of the  
Recorder of Deeds  
WITNESSED my hand and the seal of the County and State in the presence of the undersigned on the 15th day of August, A.D. 1985.

17.6 (2/27)  
↓  
0.\*  
530,000.00+  
530,000.000  
530,000.000  
ACAFS 81.567=K  
6,497.73\*\*  
N

		\$530,000	RIB SITE LAND	
Source:	Co. Courtbook		PROVE OF OWNERSHIP RIB SITE LAND	17-4

PALM COAST UTILITY CORP.  
PALM COAST-FLAGLER CO.  
DOCKET #951056-WS

Docket No. 951056-WS  
Frank Seidman  
Exhibit (FS-10)  
Page 3 of 11

STATE CASE TYPE 12-31-85

*Handwritten signature/initials*

Proposed Palm Coast "R.I.B." Site No. 2

OFF REC 0454 PAGE 0698

LEGAL DESCRIPTION - Proposed 81.576-acre "R.I.B." Site 11/27/90

Part of Government sections 20, 29 and 52, Township 11 South, Range 31 East, Flagler County, Florida, being more particularly described as follows:

From a Point of Reference being the intersection of the north line of said Government Section 29 with the east right of way line of Old Kings Road (a 66-foot right of way): thence N88°57'36"E along the south line of said section 29 for a distance of 757.30 feet to the POINT OF BEGINNING of this description: thence N00°34'43"W 92.26 feet; thence N89°25'17"E 1263.73 feet; thence S00°34'43"E 62.14 feet to point no. 258; thence S46°11'56"E 28.06 feet to point no. 257; thence N79°42'21"E 24.45 feet to point no. 256; thence S13°55'38"E 15.42 feet to point no. 255; thence S78°14'10"W 40.24 feet to point no. 254; thence S17°10'26"W 25.63 feet to point no. 253; thence S24°12'22"E 35.42 feet to point no. 252; thence S26°00'58"E 37.24 feet to point no. 251; thence S22°25'29"E 41.62 feet to point no. 250; thence S12°11'06"E 30.64 feet to point no. 249; thence S12°43'33"E 43.16 feet to point no. 248; thence S01°54'07"W 64.57 feet to point no. 247; thence S11°45'24"E 55.02 feet to point no. 246; thence S60°04'51"E 51.63 feet to point no. 245; thence S14°31'39"E 32.19 feet to point no. 244; thence S52°12'45"E 29.65 feet to point no. 243; thence S21°22'56"E 34.15 feet to point no. 242; thence S14°10'42"E 53.81 feet to point no. 241; thence S00°34'32"E 29.86 feet to point no. 240; thence S39°38'28"E 32.25 feet to point no. 239; thence S33°13'47"E 33.74 feet to point no. 238; thence S30°57'18"E 45.31 feet to point no. 237; thence S39°01'01"E 43.19 feet to point no. 236; thence S03°46'45"W 33.40 feet to point no. 235; thence S17°08'23"E 28.12 feet to point no. 234; thence S23°57'51"E 47.12 feet to point no. 233; thence S11°51'24"E 39.25 feet to point no. 232; thence S59°10'41"E 38.12 feet to point no. 231; thence S10°10'26"E 64.30 feet to point no. 230; thence S14°32'10"E 65.24 feet to point no. 229; thence S45°25'08"E 46.71 feet to point no. 228; thence S53°44'26"E 44.92 feet to point no. 227; thence S64°44'25"E 34.37 feet to point no. 226; thence S56°00'08"E 52.44 feet to point no. 225; thence S39°53'20"E 44.55 feet to point no. 224; thence S65°22'43"E 46.82 feet to point no. 223; thence N83°29'15"E 28.25 feet to point no. 222; thence S37°13'44"E 29.01 feet to point no. 221; thence S22°05'54"E 66.56 feet to point no. 220; thence S13°03'41"W 70.14 feet to point no. 219; thence S45°02'12"W 82.19 feet to point no. 218; thence S27°53'30"W 39.45 feet to point no. 217; thence S15°51'10"E 26.34 feet to point no. 216; thence S08°19'48"E 67.90 feet to point no. 215; thence S53°27'03"E 45.14 feet to point no. 214; thence S10°36'17"E 41.99 feet to point no. 213; thence S62°01'40"E 39.11 feet to point no. 212; thence S69°51'56"E 73.51 feet to point no. 211; thence S15°32'48"E 96.50 feet to point no. 210; thence S11°27'11"W 55.98 feet to point no. 209; thence S86°01'40"E 47.05 feet to point no. 208; thence S32°20'14"E 89.94 feet to point no. 207; thence S45°18'35"W 57.05 feet to point no. 206; thence S25°38'42"E 35.26 feet to point no. 205; thence S16°14'18"E 63.02 feet to point no. 204; thence S30°32'48"E 56.54 feet to point no. 203; thence S49°39'12"E 49.08 feet to point no. 202; thence S16°35'16"E 63.26 feet to point no. 201; thence S21°04'31"E 88.80 feet; thence S68°55'29"W 1362.34 feet to point no. 152; thence N01°36'34"W 58.21 feet to point no. 151; thence N10°51'52W 46.75 feet to point no. 150; thence N23°33'20"E 23.32 feet to point no. 149; thence N57°55'00"E 19.30 feet to point no. 148; thence S63°32'21"E 24.22 feet to point no. 147; thence N23°26'01"W 36.35 feet to point no. 146; thence N27°31'23"W 57.25 feet to point no. 145; thence N78°05'32"W 35.38 feet to point no. 144; thence N74°13'45"W 47.16 feet to point no. 143; thence N42°46'27"W 41.28 feet to point no. 142; thence N23°06'38"W 96.85 feet to point no. 141; thence N34°53'06"W 86.96 feet to point no. 140; thence N39°42'44"W 126.30 feet to point no. 139; thence N33°33'09"W

EXHIBIT A

*Handwritten number 3/4*

			\$30,000 RIB SITE LAND	
	Source: FLAGLER		PROOF OF OWNERSHIP RIB SITE LAND	17-4
	Co. CONTRACTOR			

PALM COAST UTILITY CORP.  
PALM COAST-FLAGLER CO.  
DOCKET #951056-WS

RATE CASE TYE 12-31-85

8/13/90

REC 0454 PAGE 0697

Signed, sealed and delivered  
in the presence of:

Lillian D. Megoney  
Lillian Megoney

Victoria P. Gard  
VICTORIA P. GARD

ITT LAND CORPORATION

By: T. Avery Nye  
President T. Avery Nye

Attest: Robert G. Cuff  
Secretary  
ROBERT G. CUFF, JR.

STATE OF FLORIDA  
COUNTY OF FLAGLER

ITT Land Corporation  
1 Corporate Drive  
Palm Coast, FL 32151

I HEREBY CERTIFY that on this day, before me, an officer duly  
authorized to take acknowledgements, personally appeared  
T. Avery Nye and Robert G. Cuff

well known to me to be the President and Secretary  
respectively of the corporation named as Grantor in the foregoing  
deed, and that they severally acknowledged executing the same in  
the presence of two subscribing witnesses freely and voluntarily  
under authority duly vested in them by said corporation and that  
the seal affixed thereto is the true corporate seal of said  
corporation.

WITNESS my hand and official seal in the County and State last  
aforesaid this 12<sup>th</sup> day of JULY, 1991.



Victoria P. Gard  
Notary Public VICTORIA P. GARD  
State of Florida at Large  
My Commission Expires:

Notary Public, State of Florida  
My Commission Expires June 1, 1992

2/4

			\$530,000	RIB SITE LAND	
Source:	FLAGLER	Co. CONTRACT		Part of Ownership	RIB SITE LAND
					17-4

WARRANTY DEED

THIS WARRANTY DEED made this 24th day of JANUARY, 1995, between ITT COMMUNITY DEVELOPMENT CORPORATION, a Delaware corporation, Grantors, and PALM COAST UTILITY CORPORATION, a Florida corporation, whose address is 2 Utility Drive, Palm Coast, Florida 32137, Grantee.

Reserved for Recording Information

W I T N E S S E T H :

THAT Grantors, for and in consideration of the sum of TEN (\$10.00) DOLLARS, and other good and valuable consideration, receipt of which is acknowledged, does hereby grant and convey to the Grantee in "AS IS" condition all that land in Flagler County, Florida, specifically described as follows:

See Exhibit A attached hereto and made a part hereof

TO HAVE AND TO HOLD THE SAME in fee simple, subject to the following covenants, restrictions, agreements and limitations:

- (a) All laws, ordinances, zoning restrictions, prohibitions and regulations of competent governmental authorities.
- (b) Covenants, declarations, easements, restrictions, liens and assessments of record.
- (c) Facts which would be disclosed by a survey or personal inspection of the land.
- (d) Taxes for the year 1995, and thereafter.

AND GRANTORS do hereby warrant the title to said lands, and will defend the same against the lawful claims of all persons, whomsoever.

IN WITNESS WHEREOF, the Grantors have executed this deed in their corporate names and their corporate seals have been affixed on the date set forth above.

WITNESSES:

ITT COMMUNITY DEVELOPMENT CORPORATION

Victoria P. Gard  
Victoria P. Gard

By: James E. Gardner  
President - James E. Gardner

Dianne Bourke  
Dianne Bourke

Attest: Robert G. Cuff  
Secretary - Robert G. Cuff

Address for all signatories:  
ITT Community Development Corporation  
1 Corporate Drive  
Palm Coast, FL 32151

STATE OF FLORIDA  
COUNTY OF FLAGLER

The foregoing instrument was acknowledged before me this 24th day of JANUARY, 1995 by James E. Gardner and Robert G. Cuff, the President and Secretary of ITT Community Development Corporation, a Delaware corporation, on behalf of the corporation. They are personally known to me and did not take an oath.

Victoria P. Gard  
Victoria P. Gard  
Notary Public, State of Florida

My Commission Expires:

\$30,136.95  
- 4.6  
\$25,531.35 / AC

The following legal Description prepared by Clyde W. Beach, Palm Coast Engineering and Design Services, Inc. 5 Marygrove Circle, Palm Coast, Florida.

Date: December 22, 1984.

Additional lands along the West side of the new PCUC R.I.B. site.

DESCRIPTION: PARCEL "A"

A parcel of land lying East of Old Kings Road (66'R/W) in Government Sections 20 and 29, Township 11 South, Range 31 East, Flagler County, Florida, being more particularly described as follows;

A POINT OF REFERENCE being the intersection point of the easterly right-of-way line of Old Kings Road (66'R/W) with the North line of Government Section 29, Township 11 South, Range 31 East, said point being on a curve concave Easterly, thence Southerly a distance of 93.38 feet along the Arc of said curve to the left having a central angle of 00°57'37", a radius of 5869.37 feet, a chord bearing of South 21°04'39" East and a chord distance of 98.38 feet to a point of tangency, thence South 21°33'27" East a distance of 310.83 feet, thence North 75°25'34" East a distance of 581.63 feet to the POINT OF BEGINNING of this description, thence North 23°56'28" East a distance of 37.00 feet, thence North 05°10'37" West a distance of 39.63 feet, thence North 00°34'43" West a distance of 266.92 feet, thence North 89°25'17" East a distance of 35.00 feet, thence South 00°34'43" East a distance of 265.51 feet, thence South 05°10'37" East a distance of 47.31 feet, thence South 23°56'28" West a distance of 18.23 feet, thence South 75°25'34" West a distance of 44.73 feet to the POINT OF BEGINNING, Parcel containing 0.2710 acres of land more or less.

DESCRIPTION: PARCEL "B"

A parcel of land lying East of Old Kings Road (66'R/W) in Government Section 29, Township 11 South, Range 31 East, Flagler County, Florida, being more particularly described as follows;

A POINT OF REFERENCE being the intersection point of the easterly right-of-way line of Old Kings Road (66'R/W) with the North line of Government Section 29, Township 11 South, Range 31 East, said point being on a curve concave Easterly, thence Southerly a distance of 98.38 feet along the Arc of said curve to the left having a central angle of 00°57'37", a radius of 5869.37 feet, a chord bearing of South 21°04'38" East and a chord distance of 98.38 feet to a point of tangency, thence South 21°33'27" East along the easterly right-of-way line of Old Kings Road a distance of 411.58 feet, thence North 75°25'34" East a distance of 562.56 feet to the POINT OF BEGINNING of this description, thence North 75°25'34" East a distance of 38.35 feet, thence South 38°42'08" East a distance of 23.91 feet, thence South 08°06'04" East a distance of 56.87 feet, thence South 08°20'20" East a distance of 54.41 feet, thence South 29°28'16" East a distance of 74.90 feet, thence South 21°29'33" East a distance of 38.72 feet, thence South 20°45'59" East a distance of 37.08 feet, thence South 13°08'37" East a distance of 67.14 feet, thence South 28°59'44" East a distance of 48.68 feet, thence South 12°24'13" East a distance of 89.27 feet, thence South 16°50'18" East a distance of 91.60 feet, thence South 12°44'41" East a distance of 57.95 feet, thence South 22°32'51" East a distance of 148.98 feet, thence South 33°35'32" East a distance of 101.51 feet, thence South 32°03'50" East a distance of 101.45 feet, thence South 04°40'30" West a distance of 75.69 feet, thence South 19°56'22" East a distance of 105.17 feet, thence South 51°14'40" East a distance of 35.99 feet, thence South 43°26'40" East a distance of 28.84 feet, thence South 11°22'26" East a distance of 42.50 feet, thence South 00°45'14" West a distance of 51.01 feet, thence South 25°33'50" East a distance of 48.10 feet, thence South 11°36'43" West a distance of 43.67 feet, thence South 03°29'05" East a distance of 47.43 feet, thence South 22°36'49" East a distance of 68.21 feet, thence South 25°20'20" East a distance of 56.65 feet, thence South 07°44'50" East a distance of 49.04 feet, thence South 37°17'04" East a distance of 20.92

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feet, thence South 00°17'07" East a distance of 73.43 feet, thence South 31°18'23" East a distance of 60.34 feet, thence South 26°25'43" East a distance of 33.94 feet, thence South 81°32'59" East a distance of 33.37 feet, thence South 33°33'09" East a distance of 50.74 feet, thence South 39°42'44" East a distance of 126.30 feet, thence South 34°53'06" East a distance of 86.96 feet, thence South 23°06'38" East a distance of 96.85 feet, thence South 42°46'27" East a distance of 41.28 feet, thence South 74°13'45" East a distance of 47.16 feet, thence South 78°05'32" East a distance of 35.38 feet, thence South 27°31'23" East a distance of 57.25 feet, thence South 23°26'01" East a distance of 36.35 feet, thence North 63°32'21" West a distance of 24.22 feet, thence South 57°55'00" West a distance of 19.30 feet, thence South 23°33'20" West a distance of 23.32 feet, thence South 10°51'52" East a distance of 46.75 feet, thence South 01°36'34" East a distance of 58.21 feet, thence South 68°55'29" West a distance of 37.12 feet, thence North 01°36'34" West a distance of 67.75 feet, thence North 10°51'52" West a distance of 54.76 feet, thence North 23°33'20" East a distance of 44.98 feet, thence North 57°55'00" East a distance of 14.69 feet, thence North 27°31'23" West a distance of 21.87 feet, thence North 74°13'45" West a distance of 79.45 feet, thence North 42°46'27" West a distance of 57.20 feet, thence North 23°06'38" West a distance of 99.31 feet, thence North 34°53'06" West a distance of 81.88 feet, thence North 39°42'44" West a distance of 126.71 feet, thence North 33°33'09" West a distance of 37.04 feet, thence North 81°32'59" West a distance of 36.05 feet, thence North 26°25'43" West a distance of 50.72 feet, thence North 31°18'23" West a distance of 68.56 feet, thence North 00°17'07" West a distance of 71.43 feet, thence North 37°17'04" West a distance of 18.44 feet, thence North 07°44'50" West a distance of 52.85 feet, thence North 25°20'20" West a distance of 52.07 feet, thence North 22°36'49" West a distance of 74.94 feet, thence North 03°29'05" West a distance of 57.97 feet, thence North 11°36'43" East a distance of 41.54 feet, thence North 25°33'50" West a distance of 44.51 feet, thence North 00°45'14" East a distance of 55.47 feet, thence North 11°22'26" West a distance of 28.72 feet, thence North 43°26'40" West a distance of 16.39 feet, thence North 51°14'40" West a distance of 43.41 feet, thence North 19°56'22" West a distance of 122.61 feet, thence North 04°40'30" East a distance of 71.70 feet, thence North 32°51'15" West a distance of 193.77 feet, thence North 22°32'51" West a distance of 155.37 feet, thence North 12°44'41" West a distance of 59.70 feet, thence North 16°50'18" West a distance of 91.70 feet, thence North 12°24'13" West a distance of 85.52 feet, thence North 28°59'44" West a distance of 48.45 feet, thence North 13°08'37" West a distance of 69.68 feet, thence North 21°08'14" West a distance of 70.58 feet, thence North 29°28'16" West a distance of 78.99 feet, thence North 08°20'20" West a distance of 61.01 feet, thence North 08°06'04" West a distance of 47.37 feet, thence North 38°42'08" West a distance of 30.01 feet to the POINT OF BEGINNING, Parcel containing 2.0877 acres of land more or less.

The above description is accompanied by an attached drawing titled "SKETCH OF LEGAL DESCRIPTION".

Parcels "A" and "B" containing 2.3587 acres more or less.

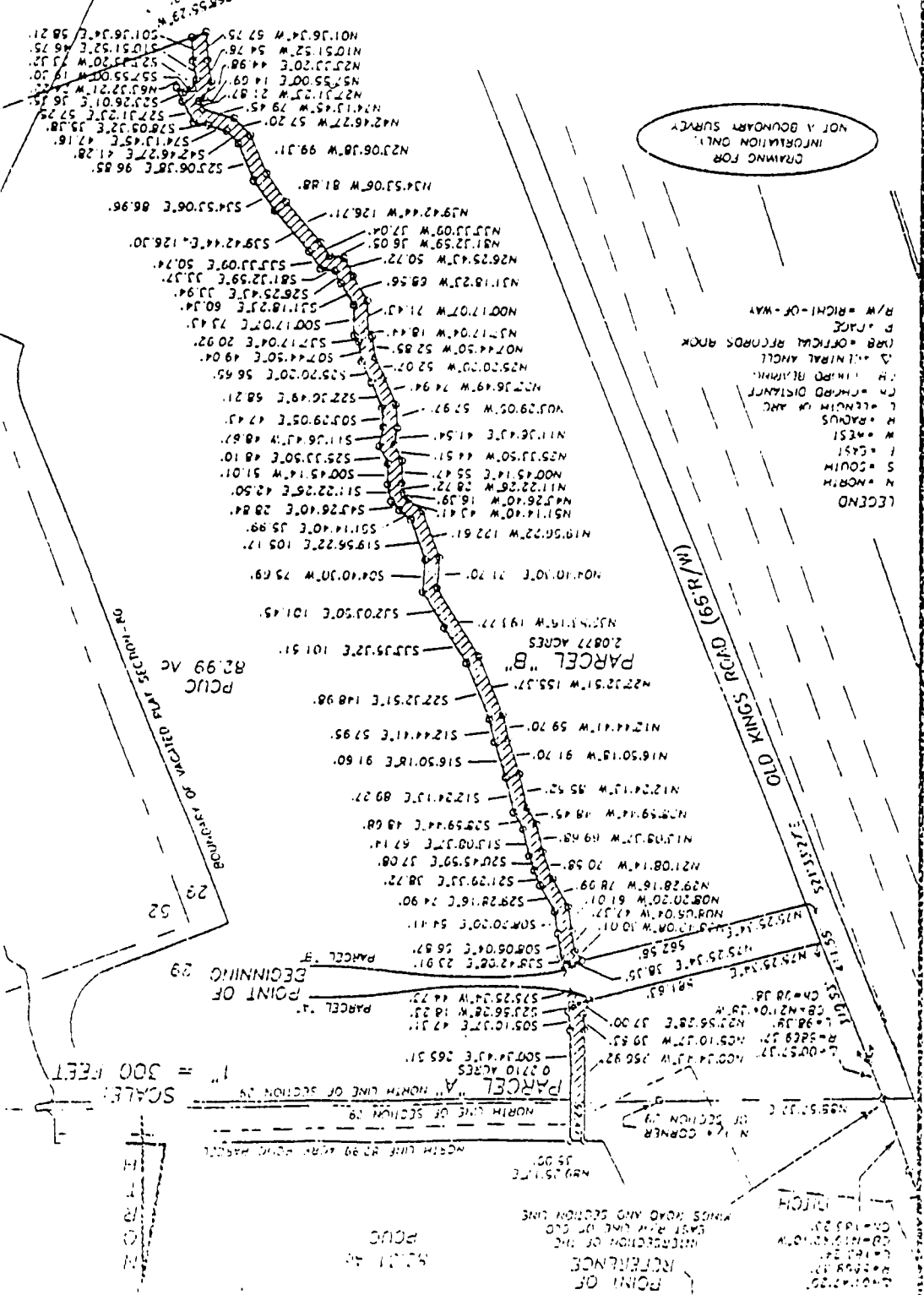
Bearings refer to the Transverse Mercator Grid System of the East Zone of Florida and locally referenced to the North line of the Northwest Quarter (1/4) of Government Section 29, Township 11 South, Range 31 East, being North 88°57'37" East.

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A PARCEL OF LAND LYING WITHIN  
 GOVERNMENT SECTIONS 20 AND 29, TOWNSHIP 11 SOUTH,  
 RANGE 31 EAST, FLAGLER COUNTY, FLORIDA.

SKETCH OF LEGAL DESCRIPTION



DRAWING FOR  
 INFORMATION ONLY  
 NOT A BOUNDARY SURVEY



REF 0527 1708

The following Legal Description prepared by Clyde H. Rowson, Palm Coast Engineering and Design Services, Inc. 5 Hargrove Circle, Palm Coast, Florida.

Date: December 21, 1994.

Additional lands along the East side of the new R.F.B. site, PCUC.

DESCRIPTION:

A parcel of land lying East of Old Kings Road in Government Sections 20, 29 and 32, Township 11 South, Range 31 East, Flagler County, Florida, being more particularly described as follows:

A POINT OF REFERENCE being the intersection of the East right-of-way line of Old Kings Road (66'R/W) with the North line of Section 29, Township 11 South, Range 31 East, thence North 88°57'37" East along the northerly line of Section 29 a distance of 538.09 feet to the north quarter corner, thence North 88°56'15" East along the northerly line of Section 29 a distance of 219.21 feet, thence North 00°34'43" West along the West line of Palm Coast Utility Co. (PCUC) lands a distance of 92.17 feet, thence North 89°25'12" East along the northerly line of PCUC lands a distance of 1263.73 feet to the POINT OF BEGINNING of this description, thence North 89°25'17" East a distance of 35.00 feet, thence South 00°34'43" East a distance of 43.70 feet, thence North 79°42'21" East a distance of 36.14 feet, thence South 13°55'38" East a distance of 84.62 feet, thence South 78°14'10" West a distance of 50.37 feet, thence South 25°31'12" East a distance of 52.05 feet, thence South 22°25'29" East a distance of 45.85 feet, thence South 12°11'06" East a distance of 33.61 feet, thence South 12°43'33" East a distance of 47.49 feet, thence South 01°54'07" West a distance of 64.87 feet, thence South 11°45'24" East a distance of 35.13 feet, thence South 60°04'51" East a distance of 50.62 feet, thence South 14°31'39" East a distance of 34.94 feet, thence South 52°12'45" East a distance of 27.36 feet, thence South 21°22'56" East a distance of 46.00 feet, thence South 14°10'42" East a distance of 60.19 feet, thence South 00°34'32" East a distance of 21.62 feet, thence South 39°38'28" East a distance of 21.79 feet, thence South 33°13'47" East a distance of 36.40 feet, thence South 30°57'18" East a distance of 43.54 feet, thence South 39°01'01" East a distance of 54.44 feet, thence South 03°46'45" West a distance of 40.65 feet, thence South 17°08'22" East a distance of 19.57 feet, thence South 23°57'51" East a distance of 48.74 feet, thence South 11°51'24" East a distance of 27.63 feet, thence South 59°10'41" East a distance of 38.74 feet, thence South 10°10'26" East a distance of 78.92 feet, thence South 14°32'10" East a distance of 55.24 feet, thence South 45°25'08" East a distance of 34.50 feet, thence South 53°44'26" East a distance of 39.00 feet, thence South 64°44'25" East a distance of 33.67 feet, thence South 56°00'08" East a distance of 60.07 feet, thence South 39°53'20" East a distance of 41.59 feet, thence South 65°22'43" East a distance of 29.15 feet, thence North 83°29'15" East a distance of 38.42 feet, thence South 37°13'44" East a distance of 53.57 feet, thence South 22°05'54" East a distance of 84.60 feet, thence South 13°03'41" West a distance of 91.26 feet, thence South 45°02'12" West a distance of 86.94 feet, thence South 27°53'30" West a distance of 20.12 feet, thence South 15°51'10" East a distance of 14.59 feet, thence South 08°19'48" East a distance of 55.66 feet, thence South 53°27'03" East a distance of 44.33 feet, thence South 10°36'17" East a distance of 38.37 feet, thence South 68°26'20" East a distance of 108.78 feet, thence South 15°32'48" East a distance of 122.86 feet, thence South 11°27'11" West a distance of 24.49 feet, thence South 86°01'40" East a distance of 24.87 feet, thence South 32°20'14" East a distance of 135.82 feet, thence South 45°18'35" West a distance of 57.82 feet, thence South 16°14'18" East a distance of 75.69 feet, thence South 30°32'48" East a distance of 46.36 feet, thence South 49°39'12" East a distance of 53.58 feet, thence South 16°35'16" East a distance of 72.28 feet, thence South 21°04'31" East a distance of 87.43 feet, thence South 58°55'39" West a distance of 35.00 feet, thence along the easterly line of PCUC lands the following courses North 21°04'31" West a distance of 88.80 feet, thence North 16°35'16" West a distance of 63.26 feet, thence North 49°39'12" West a distance of 49.08 feet, thence North 30°32'48" West a distance of 56.54 feet.

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M/C



chance North 15.14.15" West a distance of 33.03 feet, thence North  
 25.38.42" West a distance of 35.05 feet, thence North 45.18.18" East a  
 distance of 37.05 feet, thence North 32.20.14" West a distance of 30.34  
 feet, thence North 06.01.40" West a distance of 47.05 feet, thence North  
 11.27.11" East a distance of 55.98 feet, thence North 19.32.43" West a  
 distance of 56.50 feet, thence North 69.51.56" West a distance of 33.31  
 feet, thence North 62.01.40" West a distance of 33.11 feet, thence North  
 10.36.17" West a distance of 41.99 feet, thence North 53.27.01" West a  
 distance of 45.14 feet, thence North 08.19.48" West a distance of 37.00  
 feet, thence North 15.51.10" West a distance of 26.34 feet, thence North  
 27.53.30" East a distance of 39.45 feet, thence North 45.02.12" East a  
 distance of 82.19 feet, thence North 13.03.41" East a distance of 70.14  
 feet, thence North 22.05.54" West a distance of 60.85 feet, thence North  
 37.13.14" West a distance of 29.01 feet, thence South 83.29.15" West a  
 distance of 28.25 feet, thence North 65.22.43" West a distance of 46.82  
 feet, thence North 39.53.20" West a distance of 44.55 feet, thence North  
 56.00.08" West a distance of 52.44 feet, thence North 64.14.25" West a  
 distance of 34.37 feet, thence North 53.44.26" West a distance of 41.92  
 feet, thence North 45.25.08" West a distance of 46.71 feet, thence North  
 14.32.10" West a distance of 66.24 feet, thence North 10.10.26" West a  
 distance of 64.30 feet, thence North 59.10.41" West a distance of 38.12  
 feet, thence North 11.51.24" West a distance of 39.25 feet, thence North  
 23.57.51" West a distance of 47.12 feet, thence North 17.08.23" West a  
 distance of 28.12 feet, thence North 03.46.45" East a distance of 33.40  
 feet, thence North 39.01.01" West a distance of 43.19 feet, thence North  
 30.57.18" West a distance of 45.11 feet, thence North 33.13.47" West a  
 distance of 33.74 feet, thence North 39.38.28" West a distance of 32.25  
 feet, thence North 00.34.32" West a distance of 29.86 feet, thence North  
 14.20.42" West a distance of 53.81 feet, thence North 21.22.56" West a  
 distance of 34.15 feet, thence North 52.12.45" West a distance of 29.65  
 feet, thence North 14.31.39" West a distance of 32.19 feet, thence North  
 60.04.51" West a distance of 51.63 feet, thence North 11.45.24" West a  
 distance of 55.02 feet, thence North 01.54.07" East a distance of 64.57  
 feet, thence North 12.43.33" West a distance of 43.16 feet, thence North  
 12.11.06" West a distance of 30.64 feet, thence North 22.25.29" West a  
 distance of 41.62 feet, thence North 26.00.58" West a distance of 37.24  
 feet, thence North 24.12.22" West a distance of 35.42 feet, thence North  
 17.10.26" East a distance of 25.63 feet, thence North 78.14.10" East a  
 distance of 40.24 feet, thence North 13.55.38" West a distance of 15.42  
 feet, thence South 79.42.21" West a distance of 24.45 feet, thence North  
 46.11.56" West a distance of 28.06 feet, thence North 00.34.43" West a  
 distance of 62.14 feet to the POINT OF BEGINNING.

The above description is accompanied by an attached drawing titled "SKETCH OF LEGAL DESCRIPTION".

Parcel containing 2.2426 acres more or less.

Bearings refer to the Transverse Mercator Grid System of the East Zone of Florida and locally referenced to the North line of the Northwest Quarter (1/4) of Government Section 29, Township 11 South, Range 11 East, being North 88.57.37" East.

7/c

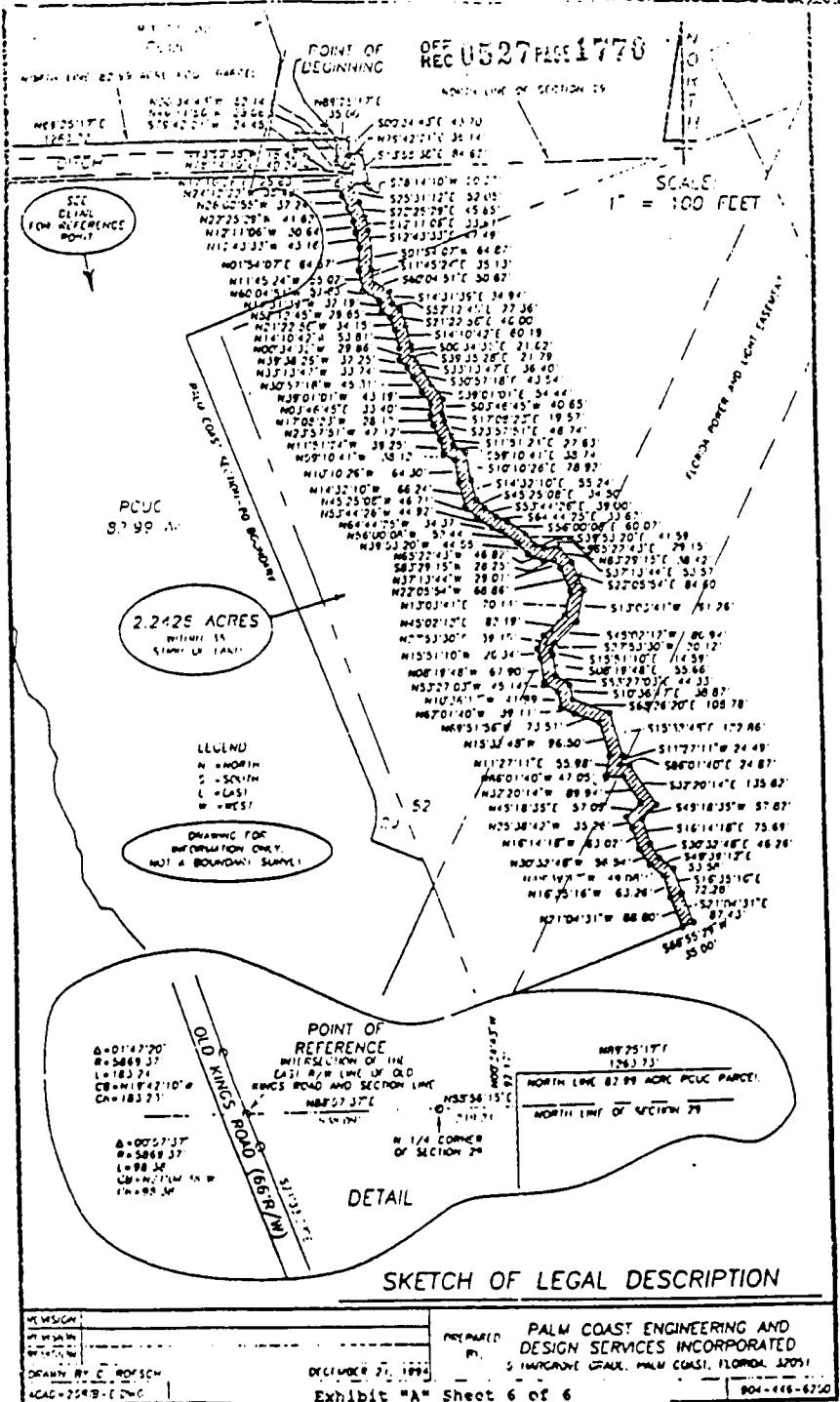
Docket No. 951056-WS  
 Frank Seidman  
 Exhibit  
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PALM COAST UTILITY CORP.  
PALM COAST-FLAGLER CO.  
DOCKET #951056-WS

*Handwritten:* 9/14/00

RATE CASE TYE 12-31-95



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FLORIDA #30,137 BUFFER LAND  
 Source: C. Carthage  
 POE OF ORIGINAL BUFFER LAND  
 17-5

PALM COAST UTILITY CORPORATION  
 SCHEDULE OF RATE BASE  
 TEST YEAR ENDED 12/31/86

SCHEDULE NO. 1  
 DOCKET NO. 870166-WS

	(A) AVERAGE TEST YEAR PER UTILITY	(B) UTILITY ADJUSTMENTS	(C) UTILITY ADJUSTED TEST YEAR	(D) COMMISSION ADJUSTMENTS	(E) COMMISSION ADJUSTED TEST YEAR
1 WATER					
2					
3 UTILITY PLANT IN SERVICE	\$ 40,179,695	\$ (24,723,362)	\$ 15,456,333	\$ (971,595)	\$ 14,484,738
4 LAND AND LAND RIGHTS	302,113	(84,318)	217,795	(22,626)	195,169
5 CONTRIBUTIONS IN AID OF CONSTRUCTION	(4,013,476)	603,556	(3,409,920)	(603,556)	(4,013,476)
6 ACCUMULATED DEPRECIATION	(6,540,503)	3,066,850	(2,673,653)	(116,150)	(2,789,811)
7 ACCUMULATED AMORTIZATION OF CIAC	435,170	(65,443)	369,727	65,443	435,170
8 ADVANCES FOR CONSTRUCTION	(772,943)	772,943	0	(499,967)	(499,967)
9 MATERIALS AND SUPPLIES	97,369	(23,356)	74,013	(74,013)	0
10 UNAMORTIZED RATE CASE EXPENSE	16,946	36,527	53,473	(53,473)	0
11 ALLOWANCE FOR WORKING CAPITAL	0	0	0	0	0
12					
13					
14 TOTAL WATER RATE BASE	\$ 29,704,371	\$ (19,616,603)	\$ 10,087,768	\$ (2,275,945)	\$ 7,811,823
15					
16					
17 SEWER					
18					
19 UTILITY PLANT IN SERVICE	\$ 41,492,499	\$ (30,456,851)	\$ 11,035,648	\$ (64,820)	\$ 10,970,828
20 LAND AND LAND RIGHTS	508,895	(297,089)	291,806	0	291,806
21 CONTRIBUTIONS IN AID OF CONSTRUCTION	(39,022,100)	33,725,845	(5,296,335)	(1,190,392)	(6,486,727)
22 ACCUMULATED DEPRECIATION	(6,954,725)	4,959,857	(1,995,668)	(2,414)	(1,998,082)
23 ACCUMULATED AMORTIZATION OF CIAC	4,231,060	(3,656,794)	574,266	129,071	703,337
24 MATERIALS AND SUPPLIES	70,361	(16,877)	53,484	(53,484)	0
25 UNAMORTIZED RATE CASE EXPENSE	16,946	36,527	53,473	(53,473)	0
26 ALLOWANCE FOR WORKING CAPITAL	0	0	0	0	0
27					
28					
29 TOTAL SEWER RATE BASE	\$ 422,856	\$ 4,293,818	\$ 4,716,674	\$ (1,235,512)	\$ 3,481,162
30					
31					

FPSC

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Docket No. 951056-WS  
 Frank Seidman  
 Exhibit (FS-11)  
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RESPONSE TO AUDIT DISCLOSURE NO. 1

SUBJECT: Sprayfield Land Cost

COMMENTS:

1. PSC Auditor Opinion: Auditor recommends substantial disallowance of cost of sprayfield placed in service on 1/15/86, basing his valuation on the indexed cost of land purchased by Ray-Florida Company in 1968.

Utility Response: PCUC disagrees with the auditor's opinion. See Response to Audit Exception No. 1.

Further, the auditor ignores the fact that the independently appraised value of the sprayfield (\$364,500) has been included by the PSC in rate base in PCUC's last two rate cases.

See Order No. 22843 (4/23/90), p. 75, which reflects \$588,895 in approved wastewater rate base for land and land rights. This ties to Schedule A-9 of the MFRs filed in that case, which shows Account 353.3 System Pumping Plant Land and Land Rights of \$282,543, and Account 353.4 Treatment and Disposal Plant Land and Land Rights of \$386,352, for a total of \$588,895. As reflected on PCUC's books, the \$386,352 for Treatment and Disposal Plant Land and Land Rights consists of five entries:

1.	Land Transferred from ITT	12/15/72	\$ 14,505.09
2.	LS Land Purchase - WWTP	1/15/84	4,212.80
3.	LS Rec Fee 83 Land	1/15/85	7.80
4.	LS Land Appraisal	4/15/85	1,500.00
5.	83.305 Acres WWDISP	1/15/86	<u>366,126.00</u> *
			\$386,351.69

[\*Sum of \$364,500 appraised value plus appraiser's fee]

See also Order No. 18625 (1/4/88), at p. 27, which reflects the same \$588,895 in wastewater rate base for land and land rights, prior to used and useful adjustments.

The auditor's justification for reversing these PSC findings appears to rest solely on his concocted 1968 cost to the ITT Group of Companies and Audit Staff's discussions with the Flagler County Appraiser regarding a March, 1996 sale of land (all discussed at length in response to Exception No. 1). The attenuated "logic" of this analysis is not a reasonable basis for reversing a transaction based on an independent appraisal which has been accepted by the PSC in the Utility's last two rate cases.