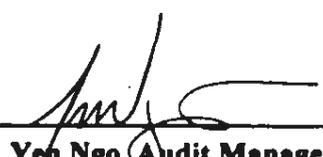


**FLORIDA PUBLIC SERVICE COMMISSION
AUDIT REPORT
PROJECTED TEST YEAR END
DECEMBER 31, 1996**

**FIELD WORK COMPLETED
NOVEMBER 12, 1996**

**GULF UTILITY COMPANY
LEE COUNTY
RATE CASE**

**DOCKET NUMBER 960329-WS
AFAD NUMBER 96-233-4-1**



Yen Ngo, Audit Manager

**Ron Mayes
Iliana Piedra**

**Minority Opinion
Yes ___ No ___
Yes ___ No 12/8**



**Kathy L. Welch,
Regulatory Analyst Supervisor
Miami District Office**

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L EXECUTIVE SUMMARY

Audit Purpose: We have applied the procedures described in Section II of this report to audit the components of Rate Base, Net Operating Income and Cost of Capital for the forecasted period ending December 31, 1996.

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

Opinion: Subject to the exceptions and disclosures which follow, the books and records of Gulf Utility Company are maintained in substantial compliance with Commission Directives; The expressed opinions extend only to the scope of work described in Section II of this report. Actual ledger balances as of August 1997 were not reflective of the company's forecast. Several exceptions and disclosures are presented to correct the company forecast.

Several of the exhibits contained errors. The company provided revised exhibits which are attached to this report. They were used as a basis for the audit.

The forecast was based on zero based budgeting and not related to the historic year. Comparison of year to date figures revealed several discrepancies in the forecast.

II. AUDIT SCOPE

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

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

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

RATE BASE: Examined Plant in Service. Reconciled Contributed Plant to the CIAC detail. For all other additions since the last audit reviewed invoices, AFUDC, and other supporting documentation. Reconciled beginning balances to last audits.

Examined CIAC. Selected CIAC entries to determine if the company maintained supporting documentation from the developer for contributed assets. Determined that fees were computed at tariff amounts. Reconciled beginning balances to last audited amounts. Determined if forecast compared to actual to date.

Recomputed depreciation and amortization of CIAC. Determined that contributed property was amortized at the same rate the property was depreciated at.

Computed 13-month average working capital. Reviewed cash accounts for interest earning balances. Traced to bank statements. Reviewed detail for deferred accounts, both invoices and amortization. Reviewed inventory methodology.

COST OF CAPITAL: Computed 13-month average cost of capital. Traced debt issuances to notes.

NET OPERATING INCOME:

Determined that the proper tariff rates were being used in the current billing period.

Examined expenses. For the period September 1995 to August 1996, performed the following. Determined detailed payroll by employee. Examined all FPL bills. Examined all large dollar invoices for various accounts. Examined all contract service invoices. Examined taxes other than income accounts. Determined reasonableness of affiliate transactions. Prepared proforma adjustments for known changes in expenses and revenues. Determined possible changes in September to December 96 period and compared to the company forecast. The scope was limited

in that all forecast numbers from the University and the Corkscrew additions were passed to the staff engineer for review.

Income taxes and deferred taxes were not reviewed due to time restrictions. However, the company reported to staff that they will not be paying taxes in 1996.

III. AUDIT EXCEPTIONS

AUDIT EXCEPTION NO. 1

SUBJECT: ADJUSTMENTS FROM PRIOR ORDERS NOT POSTED

STATEMENT OF FACT: The last rate order contained an adjustment to water plant to adjust for the cost of a Lexus. The adjustment in order 24735 reduced plant by \$20,721 and reduced accumulated depreciation by \$9,648. These adjustments are not booked.

OPINION: Adjustments from the order should be booked. The amount removed is 72% of the cost of the vehicle. Therefore, accumulated depreciation and depreciation expense are also being adjusted at 72% of the total amount. The Lexus will be fully depreciated by October 1, 1996. Therefore, no adjustment is being made in this case.

AUDIT EXCEPTION NO. 2

SUBJECT: COMPOSITE AMORTIZATION RATES FOR CIAC

STATEMENT OF FACT: The utility has amortized contributed property consistent with the related asset, but the cash received is being amortized at a rate of 4.35% for water and 3.13% for wastewater. The company does a true up to come to a composite rate. The company takes total depreciation for water divided by total plant for water and the same for wastewater. They then take total CIAC amortization for each divided by total CIAC and come up with a rate. They then multiply the difference in these two rates times the ending balance of CIAC and make an adjustment.

According to rule 25-30.140, "The CIAC plant shall then be amortized either by account, function or bottom line depending on availability of supporting information. The amortization rate shall be that of the appropriate account or function of the related CIAC plant. Otherwise, the composite plant amortization rate shall be used."

Although this was pointed out as an audit exception in the last audit, no adjustment was made.

OPINION: The composite depreciation rates excluding intangible and common plant for 1996 using the plant at 8/96, is 3.2 for water and 3.5 for wastewater. The company should be computing yearly composite rates to amortize their cash CIAC. By correcting everything to the composite rate the company is eliminating their computations of amortizing the contributed plant at the same rate as the plant. This was the proper treatment. The true up should only be on the cash CIAC.

Staff computed amortization for projected 1996, using 8/96 CIAC. The computation follows on the next page. The two pages following compute the composite rate by staff for cash contributions. The difference between projected amortization by the company and by staff follows.

	Water	Wastewater
Per Staff -attached sheets	\$ 351,175.85	\$ 282, 877.33
Per Co MFR B-13	338,209.00	290,206.00
Difference	\$ 12,966.85	\$ (7,328.67)

Staff determined 13 month average accumulated amortization using the company number and compared these amounts to the company projected accumulated amortization of CIAC

	Water	Wastewater
Per staff 13 mth. avg. 9/96	\$2,826,953.53	\$1,877,617.73
Per company A-14	2,942,325.00	1,976,074.00
Difference	\$ (115,371.53)	\$ (98,456.33)

The staff computation does not include forecasted CIAC not yet recorded. This CIAC is for the University of \$261,350 and for the Force main on Corkscrew of \$127,525.92. Even if these were amortized for an entire year, using the average CIAC amortization, the increase would only be \$11,588 for both water and wastewater, not the \$213,827.86 difference above.

RECOMMENDATION: The company should recompute amortization on cash using a yearly composite and not true-up contributed property to those rates. Staff did not compute the effects on accumulated amortization.

Water expenses need to be reduced by \$12,966.85 and wastewater expenses increased by \$7,328.67.

Rate base should be decreased by \$115,371.53 for water and \$98,456.33 for wastewater.

COMPANY: GULF UTILITY COMPANY
 TITLE: ANALYSIS OF AMORTIZATION CIAC
 TEST YEAR: DECEMBER 31, 1996
 SOURCE: 8/96 DEPRECIATION EXPENSE PRINTOUT

ACCOUNT	SERIAL	CATEGORY	CIAC	RATE	CIAC AMORTIZATION
271.1	100	1	2,973,206.80	3.20%	95,142.61
271.1	100	2	1,517,478.99	3.20%	48,559.33
271.1	101	2	558,258.85	2.50%	13,908.47
271.1	101	4	1,045.00	2.50%	26.13
271.1	102	2	122,117.00	2.50%	3,052.93
271.1	103	2	1,457,433.22	2.33%	33,958.19
271.1	103	3	83,887.02	2.33%	1,954.57
271.1	103	3	2,091,493.72	2.22%	46,431.16
271.1	103	3	591,241.82	2.50%	14,781.05
271.1	103	3	312,576.16	4.00%	12,503.05
271.1	103	3	158,331.60	2.85%	4,512.45
271.1	103	3	33,506.76	5.00%	1,675.34
271.1	103	4	615,177.88	2.33%	14,333.64
271.1	104	3	393,410.46	2.22%	8,733.71
271.1	105	2	63,855.00	2.50%	1,586.38
271.1	106	2	299,156.21	4.35%	13,013.30
271.1	107	2	484,860.58	5.00%	24,243.03
271.1	107	3	30,930.43	5.00%	1,546.52
271.1	107	4	3,202.79	5.00%	160.14
271.1	108	3	432,026.82	2.50%	10,800.67
271.1	300	2	7,363.44	3.33%	245.20
WATER			12,228,560.35		351,175.85
271.2	200	1	1,361,201.60	3.50%	47,642.06
271.2	200	2	660,824.59	3.50%	23,128.86
271.2	201	3	539,238.00	2.50%	13,480.95
271.2	202	2	7,710.09	3.33%	256.75
271.2	202	3	1,084,867.03	3.33%	36,126.07
271.2	202	4	162,771.04	3.33%	5,420.28
271.2	204	2	2,024.11	4.00%	80.96
271.2	203	3	664,428.26	3.33%	22,125.46
271.2	204	3	1,316,760.35	4.00%	52,670.41
271.2	205	3	344,772.16	2.63%	9,067.51
271.2	209	3	2,347,588.20	2.22%	52,118.46
271.2	210	3	303,731.56	3.33%	10,114.26
271.2	210	4	49,768.20	3.33%	1,657.28
271.2	211	3	24,752.80	20.00%	4,950.56
271.2	212	3	11,990.00	2.63%	315.34
271.2	214	2	110,233.23	3.33%	3,670.77
271.2	300	1	2.57	3.30%	0.08
271.2	300	2	1,814.22	3.30%	53.27
WASTEWATER			8,994,278.01		282,877.33

ACCOUNT NUMBER	ACCOUNT SERIAL	CATEGORY	VALUE	RATE	DEPRECIATION EXPENSE	DEPRECIATION BY ACCOUNT	LESS FULLY DEPRECIATED ASSETS DEPREC	NET DEPRECIATION
101 10	304.00	3.00	64,322.88	3.33%	2,141.94			
101 10	304.00	4.00	620.00	4.00%	24.80			
101 10	304.00	3.00	21,612.80	3.03%	654.87			
101 10	304.00	2.00	2,748.36	3.03%	83.31			
101 10	304.00	5.00	810.78	3.57%	28.85			
101 10	304.00	5.00	20,478.87	3.03%	620.54			
101 10	304.00	4.00	127.88	3.54%	4.53			
101 10	304.00	4.00	188.87	3.57%	6.88			
101 10	304.00	4.00	160.00	2.50%	4.00			
101 10	304.00	2.00	80,178.04	3.33%	2,603.86			
101 10	304.00	4.00	88,021.20	3.33%	2,931.11			
101 10	304.00	4.00	26,148.88	3.03%	1,088.01			
101 10	304.00	3.00	188.10	0.25%	0.48			
101 10	304.00	3.00	1,420.86	3.57%	50.72			
101 10	304.00	3.00	4,280.00	5.00%	214.00			
101 10	304.00	3.00	622,188.04	4.00%	20,887.82			
101 10	304.00	3.00	2,361.88	2.50%	59.04			
101 10	304.00	2.50	880.75	3.57%	34.30	30,815.84		30,815.84
101 10	307.00	2.50	884,882.80	3.33%	32,124.28	32,124.28		32,124.28
101 10	308.00	2.50	488,382.85	2.85%	13,848.84	13,848.84		13,848.84
101 10	310.00	ALL	80,788.17	5.00%	4,288.81	4,288.81		4,288.81
101 10	311.00	ALL	782,728.88	5.00%	38,138.48			
101 10	311.00	3.00	910.82	4.54%	23.19	38,188.87		38,188.87
101 10	320.00	3.00	4,885.00	20.00%	838.10			
101 10	320.00	3.00	9,802.25	10.00%	880.23			
101 10	320.00	3.00	2,361,888.88	4.84%	108,788.72			
101 10	320.00	2.00	3,028.88	4.00%	121.04			
101 10	320.00	3.00	819,384.87	4.00%	20,774.30			
101 10	320.00	2.00	201.28	5.00%	10.08	128,881.34		128,881.34
101 10	330.00	4.00	622,880.80	2.00%	15,884.02	15,884.02		15,884.02
101 10	331.00	2.00	4,143.82	5.00%	207.19			
101 10	331.00	3.00	1,838.75	4.54%	74.31			
101 10	331.00	4.00	338,841.48	4.00%	13,883.88			
101 10	331.00	4.00	2,384,818.33	2.22%	62,484.53			
101 10	331.00	4.00	177,876.78	2.85%	5,083.78			
101 10	331.00	4.00	3,231,710.53	2.33%	75,288.88			
101 10	331.00	4.00	19,488.78	5.00%	873.34			
101 10	331.00	4.00	641,388.48	2.85%	18,034.88			
101 10	331.00	3.00	843.14	4.50%	21.73			
101 10	331.00	2.00	3,847.88	4.50%	157.82	183,819.85		183,819.85
101 10	333.00	ALL	834,888.18	2.50%	20,824.88	20,824.88		20,824.88
101 10	334.00		881,388.88	5.00%	28,088.28	28,088.28		28,088.28
101 10	338.00	4.00	428,470.88	2.22%	9,512.08	9,512.08		9,512.08
101 10	338.00	3.00	182,884.34	3.33%	6,078.08			
101 10	338.00	5.00	82.05	4.00%	3.28	8,082.34		8,082.34
WATER COMPOSITE RATE			18,442,385.38		483,888.30	483,888.30	0.00	483,888.30
								3.20%

ACCOUNT NUMBER	ACCOUNT SERIAL	CATEGORY	VALUE	RATE	DEPRECIATION EXPENSE	DEPRECIATION BY ACCOUNT	LESS FULLY DEPRECIATED ASSETS	NET DEPRECIATION
101.20	304.00	4.00	178,013.87	2.85%	5,073.39			
101.20	304.00	3.00	820.00	2.85%	23.37			
101.20	304.00	4.00	18,827.83	4.00%	753.10			
101.20	304.00	4.00	2,011,326.87	3.13%	62,864.80			
101.20	304.00	2.00	8,442.15	2.80%	138.05			
101.20	304.00	2.00	488.80	3.13%	15.54			
101.20	304.00	4.00	7,934.87	3.87%	283.28			
101.20	304.00	4.00	10,185.08	3.03%	308.00			
101.20	304.00	4.00	828.00	2.80%	23.13			
101.20	304.00	4.00	3,017.00	3.33%	100.47	88,870.82		88,870.82
101.20	380.00	2.00	1,883,839.00	4.00%	63,363.88			
101.20	380.00	2.00	24,288.00	3.33%	808.12			
101.20	380.00	2.00	86,000.00	4.00%	2,320.00			
101.20	380.00	2.00	1,881,381.74	3.33%	68,310.02	131,782.70		131,782.70
101.20	381.00	2.00	2,381,888.41	2.22%	53,083.48			
101.20	381.00	2.00	628,833.80	3.33%	20,873.47			
101.20	381.00	2.00	7,046.00	3.33%	234.80			
101.20	381.00	2.00	828.00	4.00%	28.18			
101.20	381.00	2.00	87,721.00	2.22%	1,847.41			
101.20	381.00	2.00	40,808.00	3.33%	1,388.84			
101.20	381.00	2.88	832,388.18	2.80%	12,657.40	80,180.14		80,180.14
101.20	388.00	2.88	388,707.47	2.83%	10,223.01	10,223.01		10,223.01
101.20	304.00 ALL		80,873.37	20.00%	13,114.87	13,114.87	(2,486.17)	10,618.80
101.20	388.00 ALL		48,118.17	2.83%	1,212.83	1,212.83		1,212.83
101.20	371.00	3.00	43,937.00	3.13%	1,375.23			
101.20	371.00	3.88	48,270.14	6.88%	2,878.88			
101.20	371.00	4.88	303,012.46	6.88%	18,888.88			
101.20	371.00	2.88	11,872.87	4.00%	442.80	21,182.81		21,182.81
101.20	380.00	3.88	1,838.84	6.87%	122.84			
101.20	380.00	3.88	5,808.88	6.88%	399.12			
101.20	380.00	4.00	238,842.88	3.13%	7,408.92			
101.20	380.00	4.00	1,883,315.14	6.88%	82,313.88			
101.20	380.00	4.00	5,428.73	10.00%	542.87			
101.20	380.00	3.00	1,867.81	10.00%	186.78			
101.20	380.00	4.00	22,448.38	4.38%	978.80			
101.20	380.00	4.00	8,807.78	6.87%	584.15	102,322.84	(77.88)	102,245.38
101.20	381.00	4.00	878,812.42	2.85%	18,404.85	18,404.85		18,404.85
101.20	382.00	4.00	381,288.82	3.33%	12,887.17	12,887.17		12,887.17
101.20	388.00	4.00	33,371.82	6.88%	1,882.08	1,882.08		1,882.08
WASTEWATER COMPOSITE RATE			13,388,102.82		470,844.17	470,844.17	(2,872.83)	468,071.34
								3.80%

AUDIT EXCEPTION NO. 3

SUBJECT: CHARITABLE CONTRIBUTIONS

STATEMENT OF FACT: According to the NARUC chart of accounts, charitable contributions are to be charged to account 426, a below the line account. The utility has included \$1,910 (1,269.60 water and 640.40 wastewater) of charitable contributions in accounts 675.8 and 775.8, miscellaneous expenses for the period September 1995 to August 1996

OPINION: These expenses should be reclassified to a below the line expense.

AUDIT EXCEPTION NO. 4

SUBJECT: FILING REVISIONS

STATEMENT OF FACT: While reviewing the company filing, several discrepancies were found between the MFR schedules. The company verified the errors listed below. The corrected numbers were used as a basis for all audit work performed.

Schedule	Description	MFR Amount	Correct Amt.
A-2 pg. 1	Utility Plant in Service	14,282,349	14,280,084
A-2 pg. 2	Utility Plant in Service (Adjustment)	11,416,482	12,806,634
	Working Capital Allowance (Adjustment)	247,407	288,739
A-4	1995 Additions (Water)	670,704	670,530
	1996 Projected Additions (Water)	1,270,217	1,432,367
	1996 Projected Retirements (Water)	18,422	180,573
	1996 Projected Additions (Sewer)	1,276,041	1,326,729
	1996 Projected Retirements (Sewer)	24,021	79,790
	12/31/96 Projected (Water)	17,273,875	17,273,700
	12/31/96 Projected (Sewer)	15,066,855	15,061,774
A-11	1996 Projected Additions (Water)	411,695	729,306
	1996 Projected Additions (Sewer)	390,388	745,198
	12/31/96 Projected Balance (Water)	12,220,686	12,470,301
	12/31/96 Projected Balance (Sewer)	9,060,363	9,356,348

AUDIT EXCEPTION NO. 5

SUBJECT: WORKING CAPITAL FORECAST

STATEMENT OF FACT: The company filing did not provide any forecast methodology for their projection of working capital. Tallahassee staff requested this information through an interrogatory. Miami staff requested the calculations supporting the methodology. The company could not provide the information.

Therefore, staff generated the most current working capital available using 8/95 to 8/96 balances to generate a 13-month average. These amounts were compared to the company forecast and the company was requested to provide reasons that the amounts would change from September to December. Their response is attached to this exception.

In addition to the differences between to date projections and the company forecast, the company projection excluded certain accounts that are usually included and included some accounts which are sometimes excluded by the Commission.

The differences follow:

	Company Forecast 96	Staff Average 8/95-8/96
Cash	\$ 332,244	\$268,585.71
Accounts Receivable-Customer	305,246	269,102.71
Accounts Receivable-Other	114	183.34
Materials and Supplies	24,426	35,238.94
Unamortized Debt Discount and Expense	389,922	394,954.19
Unamortized Rate Case Expense	57,561	57,561.00 Note A
Preliminary Survey & Investigation	(9,895)	(12,766.78)
Clearing Accounts	(2,026)	(1,746.72)
Other Deferred Debits	130,975	142,743.57
Prepayments	76,850	21,318.52
Mis. Current Assets	78,031	61,109.68
Accounts Payable Trade	(170,889)	(209,853.09)
Taxes Other Than Income	(329,812)	(591,654.78)
Accrued Interest	(239,296)	(287,918.49)
Other Current Liabilities	(49,740)	(59,027.98)
Net working Capital	\$ 593,611	\$ 87,829.82
Accounts not included by the company:		
Prepaid Income Tax(CIAC tax payable has been included In staff calculation above)		314,362.08
Accrued Expenses		(20,581.53)
Staff working capital if these accounts are included		\$ 381,610.37

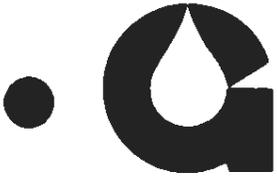
The company included unamortized debt discount of \$389,922 in working capital. The actual balances used by staff are \$394,954.19. The company accounts used to arrive at these numbers are accounts 1811, 1812, and 1813. These accounts were traced to the company's cost of capital schedule. Therefore, they are included in two places in the filing and should be removed. This would reduce the \$381,610.37 to a negative working capital balance of \$13,343.82.

Miscellaneous current assets is actually interest receivable. Interest receivable has been disallowed from working capital in some cases. This would further reduce working capital by \$61,109.68. Interest accrued consists almost entirely of the Industrial Revenue Bonds interest accrued. The company has recalculated their projection of these accounts to be \$269,790 according to the attached letter. This would increase working capital by \$18,128.49 since the staff average is \$287,918.49.

The company's letter attached requests that accounts receivable be increased for growth of 6% and for the University. No dollar projections were provided for the University. If the balances for 8/95 to 11/95 were increased by growth of 6% they would increase by an average of \$14,550.36 each month. Multiplying this number by four months and dividing it by 13 would increase average accounts receivable by \$4,477

They have also provided a revised projection for materials and supplies of \$37,476.50 which is \$2,237.56 higher than the staff average on the previous page.

Note A: Company number used-costs not yet incurred



Gulf Utility Company

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October 31, 1996

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3625 NW 82nd Avenue-Suite 400
Miami, FL 33166-7602

RE: Working Capital for Test Year Ending December 31, 1996

Dear Kathy:

The following are Gulf's responses to be added to the FPSC Audit Report:

Accounts Receivable-Customer: The accounts receivable balance was increased to allow for customer growth and addition of the Florida Gulf Coast University revenues. Gulf is expecting a 6% increase in growth and Florida Gulf Coast University revenues were included for 12 months of 1996 projected revenues. The August 1995-August 1996 revenues do not reflect an entire year's increased customers, the Florida Gulf Coast University for 12 months or additional commercial development to be accepted in the last quarter 1996, represented in the MFRs. Due to drier weather, and returning winter residents, revenues increase during the 4th, 1st and 2nd quarters of the year.

Materials and Supplies: Gulf has added 2 sequestering agents to its water treatment chemicals, pyro-phosphate and zinc. The average balance for zinc will be \$3,000 per month and \$10,140.50 for pyro-phosphate. The tank size for pyro is 500 gallons and Gulf would refill the tank at the 100 gallons level, an average gallonage of 300 gallons. The zinc tank size will be 750 gallons and it would be refilled at 100 gallons also, the average gallonage of 425 gallons would be maintained. 510 Zinc is 14.64#s per gallon, 750 gallons=10,980# per shipment, \$7,495.58 per shipment. 500 Pyro is equivalent to 18.32# per gallon. 500 gallons=9,160# per shipment, \$11,932.35 per shipment.

The Materials and Supplies budget balance would increase to \$37,476.50. This more closely meets Gulf's August 1995-August 1996 Materials and Supplies 13 month average balance.

Kathy Welch
PSC
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Accrued Taxes:

CIAC tax payable was not included in Gulf's MFRs. The CIAC tax payable and all associated accounts such as Income tax estimates paid and CIAC Tax Escrow Accounts were excluded from calculation of working capital in the overearning audit report. The same methodology was used in this schedule.

Accrued Interest: Principal reductions made Oct. 1

1996 Accrued Interest-1988-A:	\$260,000 @ 9.25% x 9 months	= \$ 18,038
	\$180,000 @ 9.25% x 3 months	= \$ 4,163
	\$5,545,000 @ 9.62% x 12 months	= \$533,429
1996 Accrued Interest-1988-B:	\$3,970,000 @ 9.5% x 9 months	= \$282,863
	\$3,945,000 @ 9.5% x 3 months	= \$ 93,694
1996 Accrued Interest RBN	75,360 @ prime + 2.5% 9 mo	= \$ 5,412
	75,360 est. x 3 months	= \$ <u>1,804</u>

Total interest Expense 1996 \$939,403

Divided by 12 months \$ 78,284

13 month averages-see attached worksheets:

1988-A IDRB Accrued Interest	\$160,531
1988-B IDRB Accrued Interest	108,702
RBN Accrued Interest	<u>557</u>

Total 13 month averages \$269,790

I had projected a 13 month average of \$239,296 and Aug 95-Aug 96 average is \$287,918.49 according to your worksheet. The real 13 month average should be approximately \$269,790.

I am enclosing the Request #23 response in this correspondence. The response to #23 was previously sent to you by Federal Express.

Please call should you have any questions. I will fax & mail this today.

Sincerely,

Carolyn B. Andrews
Carolyn B. Andrews
Chief Financial Officer

AUDIT EXCEPTION NO. 6

SUBJECT: DEPRECIATION

STATEMENT OF FACT: In preparing their projections for depreciation expense, the company reduced depreciation expense by retirements. Retirements should only be adjusted to accumulated depreciation. This caused the forecasted depreciation on B-13 and B-14 to be understated. They also used an incorrect rate in their calculation of depreciation for the proforma for the Corkscrew addition.

To determine depreciation expense for future periods, staff used plant at 8/96 and used the company rates. Depreciation on fully depreciated plant was removed and the net was compared to the company forecast. The detail computations can be found on the following pages

The net amount of understatement was determined as follows:

	Water	Wastewater
Depreciation per attached sheets	\$ 551,576.14	\$491,999.17
Projected Depreciation Corkscrew per company	42,390.00	
Non used and useful Corkscrew	(7,511.00)	
Depreciation for a full year on projected additions not yet completed	20,881.05	15,152.57
Total	\$ 607,236.19	\$507,151.74
Adjustment for error in Corkscrew Rate	(1,374.09)	
Net Staff calculation	\$ 605,862.10	
Per company forecast B-13	503,626.00	460,463.00
Difference	\$ 102,236.10	\$ 46,688.74

Accumulated depreciation is also different than the company projection. Staff computed accumulated depreciation as follows:

	Water	Wastewater
13-month average depreciation 9/95-8/96	\$3,582,839.69	\$2,684,649.42
13-month average depreciation Meters	157,035.52	
13-month average depreciation General	258,871.42	133,358.01
TOTAL	\$3,998,746.63	\$2,818,007.43

Depreciation expense per month using above depreciation	45,964.68	40,999.93
At 4 months for September to December increase	183,858.72	163,999.72
Increase 4 months 1995	153,726.51	133,257.78
Net increase over 95	30,132.21	30,741.94
Divided by 13 to get average	\$ 2,317.86	\$ 2,364.76

13-month average plus increase for most recent depreciation	\$ 4,001,064.40	\$2,820,372.10
13-month average per company		
Forecast before Corkscrew Projection	\$ 4,173,672.00	\$2,978,837.00
Difference-co. overstated	\$ 172,607.60	\$ 158,464.90

If additions that were included in the forecast were included in accumulated depreciation at a full year, they would increase accumulated depreciation by \$32,468.38 for water and \$8,838.97 for wastewater and would not make up the difference indicated above

Forecasted Accumulated Depreciation on MFR A-1 p. 1, in addition to the \$4,173,672 shown above contained a \$93,220 for the Corkscrew addition. The above increase in depreciation expense included the used and useful forecasted depreciation expense on the Corkscrew addition in the for month adjustment for September to December. The increase of \$93,220 is offset by a used and useful adjustment of \$50,930. Because the addition will not be in service a full year until 1997, these costs will not be incurred for a full year in the projected test year 1996.

ACCOUNT SERIAL	CATEGORY	VALUE	RATE	DEPRECIATION EXPENSE	DEPRECIATION BY ACCOUNT	FULLY DEPRECIATED ASSETS	LESS FULLY DEPRECIATED ASSETS
302.00	1.00	4,824.74	3.33%	154.00	154.00		154.00
303.00 ALL		200,375.51	LAND RIGHTS	0.00			
304.00	3.00	84,322.88	3.33%	2,141.84			
304.00	4.00	820.00	4.00%	24.80			
304.00	3.00	21,812.80	3.03%	654.87			
304.00	2.00	2,748.35	3.03%	83.31			
304.00	5.00	810.78	3.57%	28.85			
304.00	5.00	20,479.97	3.03%	620.54			
304.00	4.00	127.88	3.54%	4.53			
304.00	4.00	188.87	3.57%	5.88			
304.00	4.00	180.00	2.50%	4.00			
304.00	2.00	80,178.04	3.33%	2,003.88			
304.00	4.00	88,021.20	3.33%	2,831.11			
304.00	4.00	35,148.58	3.03%	1,085.01			
304.00	3.00	188.10	0.25%	0.48			
304.00	3.00	1,420.85	3.57%	50.72			
304.00	3.00	4,280.00	5.00%	214.80			
304.00	3.00	522,188.04	4.00%	20,887.82			
304.00	3.00	2,381.55	2.50%	59.04			
304.00	2.00	880.75	3.57%	34.30	30,815.84		30,815.84
307.00	2.00	884,882.50	3.33%	32,124.28	32,124.28		32,124.28
308.00	2.00	489,382.85	2.85%	13,848.84	13,848.84		13,848.84
310.00 ALL		85,788.17	5.00%	4,289.81	4,289.81		4,289.81
311.00 ALL		782,729.85	5.00%	39,138.48			
311.00	3.00	510.82	4.54%	23.18	38,158.67		38,158.67
320.00	3.00	4,885.80	20.00%	939.10			
320.00	3.00	9,502.25	10.00%	950.23			
320.00	3.00	2,351,888.85	4.54%	108,788.72			
320.00	2.00	3,025.85	4.00%	121.04			
320.00	3.00	519,354.97	4.00%	20,774.20			
320.00	2.00	201.28	5.00%	10.06	129,581.34		129,581.34
320.00	4.00	822,580.80	2.50%	19,564.02	19,564.02		19,564.02
331.00	2.00	4,143.82	5.00%	207.19			
331.00	3.00	1,838.75	4.54%	74.31			
331.00	4.00	338,841.48	4.00%	13,583.88			
331.00	4.00	2,354,518.33	2.22%	52,484.53			
331.00	4.00	177,875.78	2.85%	5,083.78			
331.00	4.00	3,231,710.53	2.33%	75,288.85			
331.00	4.00	19,488.78	5.00%	973.34			
331.00	4.00	841,388.48	2.50%	18,034.88			
331.00	3.00	543.14	4.00%	21.73			
331.00	2.00	3,847.88	4.00%	157.82	183,918.85		183,918.85
333.00 ALL		824,888.18	2.50%	20,824.88	20,824.88		20,824.88
334.00		581,385.88	5.00%	29,088.29	29,088.29		29,088.29
335.00	4.00	428,470.58	2.22%	9,512.05	9,512.05		9,512.05
338.00	3.00	182,554.34	3.33%	6,079.08			
338.00	5.00	82.05	4.00%	3.28	6,082.34		6,082.34
340.00 ALL		2,424.37	8.87%	181.71			
340.00 ALL		38,988.87	18.88%	5,982.38	6,154.08		6,154.08
341.00	5.00	5,542.00	1.88%	82.00	82.00		82.00
342.00	5.00	604.13	5.55%	33.53	33.53		33.53
343.00	5.00	3,812.80	8.25%	225.79	225.79		225.79
344.00 ALL		8,012.82	6.87%	534.48	534.48		534.48
348.00	5.00	285.74	10.00%	29.57			
348.00	2.00	38,170.91	10.00%	3,817.09			
348.00	4.00	20,887.35	10.00%	2,088.74			
348.00	3.00	588.53	18.87%	88.18			
348.00	5.00	177.31	8.87%	11.83	5,823.38		5,823.38
347.00 ALL		10,883.45	8.87%	724.58	724.58		724.58
348.00	5.00	200.00	10.00%	20.00	20.00		20.00
		15,772,513.91		507,431.14	507,431.14	0.00	507,431.14
		15,772,182.00					
		331.91					
per company							
difference immaterial							
ALLOCATE COMMON AT 88%							44,148.45
TOTAL WATER							551,578.59

ACCOUNT SERIAL	CATEGORY	VALUE	RATE	DEPRECIATION EXPENSE	DEPRECIATION BY ACCOUNT	FULLY DEPRECIATED ASSETS DEPREC	LESS FULLY DEPRECIATED ASSETS DEPREC
362.00	1.00	2,260.00	3.33%	74.93	74.93		74.93
363.00 ALL		473,625.77	LAND RIGHTS	0.00	0.00		0.00
364.00	4.00	178,013.57	2.85%	5,073.39			
364.00	3.00	820.00	2.85%	23.37			
364.00	4.00	18,827.83	4.00%	753.10			
364.00	4.00	2,011,325.87	3.13%	62,864.80			
364.00	2.00	5,442.15	2.50%	138.05			
364.00	2.00	488.50	3.13%	15.54			
364.00	4.00	7,834.97	3.57%	283.28			
364.00	4.00	10,165.06	3.03%	308.00			
364.00	4.00	825.00	2.50%	23.13			
364.00	4.00	3,017.00	3.33%	100.47	69,870.82		69,870.82
380.00	2.00	1,583,839.00	4.00%	63,363.56			
380.00	2.00	24,288.00	3.33%	808.12			
380.00	2.00	88,000.00	4.00%	2,320.00			
380.00	2.00	1,981,281.74	3.33%	66,310.02	131,782.70		131,782.70
381.00	2.00	2,381,988.41	2.22%	53,083.48			
381.00	2.00	629,833.90	3.33%	20,873.47			
381.00	2.00	7,045.00	3.33%	234.90			
381.00	2.00	629.00	4.00%	25.18			
381.00	2.00	87,721.00	2.22%	1,947.41			
381.00	2.00	40,800.00	3.33%	1,368.84			
381.00	2.00	502,288.18	2.50%	12,557.40	90,190.18		90,190.18
383.00	2.00	388,707.47	2.83%	10,223.01	10,223.01		10,223.01
384.00 ALL		85,873.37	20.00%	13,114.87	13,114.87	(2,488.17)	10,819.80
385.00 ALL		48,115.17	2.83%	1,212.83	1,212.83		1,212.83
371.00	3.00	43,837.00	3.13%	1,375.23			
371.00	3.00	48,270.18	5.55%	2,878.99			
371.00	4.00	303,012.48	5.80%	18,885.89			
371.00	2.00	11,072.57	4.00%	442.80	21,162.81		21,162.81
380.00	3.00	1,838.84	6.87%	122.84			
380.00	3.00	3,805.89	5.55%	200.12			
380.00	4.00	238,842.89	3.13%	7,408.82			
380.00	4.00	1,883,315.14	5.55%	62,313.88			
380.00	4.00	5,428.73	10.00%	542.87			
380.00	3.00	1,857.81	10.00%	185.78			
380.00	4.00	22,448.28	4.35%	978.80			
380.00	4.00	8,907.76	6.87%	594.15	102,322.84	(77.88)	102,245.28
381.00	4.00	578,812.42	2.85%	16,404.85	16,404.85		16,404.85
382.00	4.00	381,288.52	3.33%	12,887.17	12,887.17		12,887.17
388.00	4.00	33,371.02	5.55%	1,852.08	1,852.08		1,852.08
380.00	5.00	32.84	6.87%	2.18	2.18		2.18
382.00	5.00	488.74	5.55%	27.57	27.57		27.57
383.00 ALL		700.17	6.25%	43.78	43.78		43.78
384.00 ALL		12,079.88	6.87%	805.71	805.71		805.71
388.00	5.00	83.55	6.87%	4.24	4.24		4.24
387.00 ALL		2,858.88	6.57%	177.40	177.40		177.40
388.00 ALL		500.00	10.00%	50.00	90.00		90.00
		13,857,510.83		471,829.85	471,829.85	(2,572.83)	489,287.12
ALLOCATE COMMON AT 34%							22,741.80
TOTAL WASTEWATER							481,988.72

ACCOUNT SERIAL	CATEGORY	VALUE	RATE	DEPRECIATION EXPENSE	DEPRECIATION BY ACCOUNT	FULLY DEPRECIATED ASSETS DEPREC	LESS FULLY DEPRECIATED ASSETS DEPREC
304.00	5.00	10,385.97	3.57%	371.14			
304.00	5.00	5,570.00	2.50%	139.25			
304.00	5.00	189.91	3.13%	5.32			
304.00	5.00	3,005.42	3.03%	91.06			
304.00	5.00	354.28	3.33%	11.80			
304.00	5.00	6,158.23	4.00%	246.33			
304.00	5.00	103,921.28	2.85%	2,981.78			
304.00	5.00	42,290.70	2.00%	845.81			
304.00	5.00	186.83	10.00%	18.68	4,889.13	0.00	4,889.13
340.00	5.00	777.83	2.50%	19.45			
340.00	5.00	1,075.00	1.88%	17.85			
340.00	5.00	104,786.08	6.87%	6,889.23			
340.00	5.00	274,715.10	18.88%	45,787.54			
340.10	5.00	2,318.28	20.00%	463.66	53,257.71	(28,450.07)	28,807.64
341.00	5.00	168,184.83	16.86%	28,016.28	28,016.28	(1,181.88)	28,854.82
342.00	5.00	2,058.83	5.55%	114.14	114.14		114.14
343.00	ALL	38,014.44	6.25%	2,375.90	2,375.90		2,375.90
344.00	5.00	6,842.83	6.87%	443.08	443.08		443.08
345.00	5.00	1,000.00	6.87%	68.70			
345.00	5.00	9,982.53	8.33%	829.58	888.58		888.58
346.00	5.00	27,985.20	10.00%	2,798.52			
346.20	5.00	8,247.00	20.00%	1,649.40	4,447.92	(778.34)	3,871.58
347.00	5.00	14,945.64	6.87%	996.87	996.87		996.87
348.00	5.00	375.00	10.00%	37.50	37.50		37.50
TOTAL COMMON		833,988.91		85,275.12	85,275.12	(28,388.07)	85,667.05
TOTAL ALL		30,483,123.85		1,074,538.21			

IV. AUDIT DISCLOSURES

AUDIT DISCLOSURE NO. 1

SUBJECT: PROPERTY TRANSACTION WITH AFFILIATE

STATEMENT OF FACT: Caloosa Trace is a development which is owned by the same owners as the utility company. When developers connect to the system, their lines and hydrants are contributed by the developers and recorded on the books as a debit to plant and a credit to CIAC. The net rate base effect is zero. On February 20, 1990 Gulf Utility Company recorded water assets of \$59,683.50 and wastewater assets of \$92,815 for the Caloosa Trace Development, Phase I and \$8,429.76 of water assets for Unit 16, Phase 8. Instead of the credit side of the entry being to CIAC, the owners were given stock in the utility in exchange for their assets. This treatment increases rate base and increases the equity portion of the cost of capital equation. Therefore, increasing the cost of capital.

OPINION: Affiliate transactions should be required to be treated the same as non- affiliates.

COMPANY COMMENTS: The shareholders of Gulf and Caloosa Group, Inc. are the same and own the same proportionate share of each company. The transaction was reviewed by Gulf's auditors. It is in compliance with all rules and regulations of the FPSC as well as Generally Accepted Accounting Principles.

The benefit to Gulf of this transaction is increased level of equity, which has historically been below desired levels.

AUDIT DISCLOSURE NO. 2

SUBJECT: DIRECTORS FEES

STATEMENT OF FACT: The utility has charged directors fees to miscellaneous accounts 675.8 and 775.8. During the test year the following fees were paid:

open

	WATER	WASTEWATER	TOTAL
RUSSELL B. NEWTON, JR.	2,992.50	1,507.50	4,500.00
WILLIAM NEWTON	2,992.50	1,507.50	4,500.00
RUSSELL B. NEWTON III	5,985.00	3,015.00	9,000.00
TOTAL	11,970.00	6,030.00	18,000.00

AUDIT DISCLOSURE NO. 3

SUBJECT: AFFILIATED TRANSACTIONS

STATEMENT OF FACT: Caloosa Group is a land development company which is an affiliate of Gulf Utility. Five of Gulf's employees do work for Caloosa and are paid from both companies. According to a memo from the utility, Caloosa is charged \$50 per month for the use of Gulf's computer system to do payroll, a general ledger, and minimal accounts payable. They estimate usage at 2-3 hours a month. They are also charged \$50 for office rent and supplies. Caloosa also purchases their own separate supplies. Backhoe diesel fuel purchased by Gulf is billed to Caloosa at cost. The \$1,200 a year charge is credited \$396 to account 6208, \$396 to account 6758, \$204 to account 7208, and \$204 to account 7758.

The percent of Caloosa payroll to total Caloosa and Gulf payroll during the last audit was 12.67%. The most recent payroll register shows Caloosa payroll at 2.13% of total payroll. To determine the difference, staff reviewed the hours shown on the Caloosa Earnings and Deductions report and the pay shown and arrived at an hourly rate. The hourly rates used for Caloosa and Gulf appear to be very different. The computation of rates, which assume a 40 hour work week, follow:

	Caloosa	Gulf	
President	22.69	56.82	39.93%
Chief Financial Officer	16.74	26.44	63.31%
Assistant to the CFO	9.00	14.47	62.20%
Administrative Manager	9.62	15.94	60.35%
Administrative Assistant	8.00	9.30	86.02%

No expenses have been charged to Caloosa for benefits of the employees, business expenses of James Moore, or car expenses of James Moore. In November of 1995, the company moved into a new office building built by Caloosa.

OPINION: Staff determined expenses considered to be related to employees who perform tasks for both companies for the year September 95-August 1996, allocated these costs at the 2.13% payroll ratio, and compared these costs to the \$1,200 a year currently being charged.

The amounts may be understated because the allocation basis used is payroll for total company and many of the expenses relate to James Moore who is probably allocated higher on an individual basis than on a total company basis. It is also understated because of the difference in rates used. A payroll basis was used because no other allocation method could be determined. This is probably not the best method because Caloosa does not have billing or the high amount of payables as Gulf.

Rent at 2.13% (includes proforma for yearly amount)	1,274.38
2.13% of Health Insurance and IRA distribution	3,468.29
2.13% of office supplies which appear to be common (6208 and 7208)	441.22
2.13% of business expense, conference registration and administrative expense (6758 and 7758)	1,207.91
2.13% estimated car expenses James Moore (6508 and 7508)	466.13
2.13% of computer depreciation (\$174,125.14 at 16.66% dep. rate)	618.27
INTERCOMPANY AMOUNT PER STAFF	6,201.81
AMOUNT CHARGED BY COMPANY	1,200.00
DIFFERENCE	5,001.81
66% WATER	3,301.19
34% WASTEWATER	1,700.62

RECOMMENDATION: The company should charge Caloosa for all costs above

AUDIT DISCLOSURE NO. 4

SUBJECT: NEW OFFICE RENT

STATEMENT OF FACT: Gulf Utility has entered a lease with Caloosa Group to lease new office space. The former office is being converted into offices for operations personnel and storage.

The new costs associated with this new office are estimated as follows:

LEASE AMOUNT 3,931 SQ. FT. AT \$12 A SQ. FT.	47,172.00
SALES TAX ON LEASE	2,830.32
COMMON EXPENSES RELATED TO LEASE	9,827.52
	59,829.84

The lease with Caloosa group is for 33.71% of the building. Traditionally, if no proven outside market exists for affiliate rental property, a cost basis is used to determine the rent. Using this assumption, rent would be:

BUILDING	567,317.00
LAND	126,324.00
TOTAL	693,641.00
RATE OF RETURN ALLOWED	9.25%
RETURN ON INVESTMENT	64,161.79
DEPRECIATION USING 40 YR LIFE (25-30.140)	14,183.00
COSTS OF BUILDING	78,344.79
% UTILITY SPACE	33.71%
RENT USING COST	26,410.03
RENT ABOVE	47,172.00
DIFFERENCE	(20,761.97)
ALLOCATE PORTION OF REDUCTION TO CALOOSA	(442.23)
NET REDUCTION TO ABOVE CALCULATION	(20,319.74)
WATER	(13,411.03)
WASTEWATER	(6,908.71)

Caloosa does now have a lease with an outside party, the Hospital Board of Directors of Lee County. The lease started in May of 1996. The lease is a five year lease for 6,460 square feet at \$12 per square foot. The lessee is required to pay a proportionate share of operating expenses and is given a \$15 per square foot improvement allowance.

The company has also provided a report from a real estate broker which concludes that the appropriate market rental rate for smaller tenants would be \$15 per square gross, inclusive of common area maintenance charges including taxes and insurance. Caloosa is charging \$14.50

However, an analysis performed on various office space shows gross rent after adjustments ranging from \$11.76 to \$15.47 with similar build out offers.

It should also be noted that the maintenance costs paid with the lease are estimated and a portion may be refunded based on actual costs. Expenses for Gulf include \$9,827.52 related to their share of common expenses of Caloosa which include insurance, property taxes, electric, lawn care and garbage. The year to date costs of these services are as follows:

General cost for seven months of 1996	\$5,119.16
Annualized by dividing by 7 and multiplying by 12	\$8,775.70
Real estate tax	9,473.52
Insurance	225.00
Projected expenses for the building	18,474.22
Space occupied	33.71%
Gulf's share of costs	6,227.66
Portion included in expenses	9,827.52
Projected overstatement	3,599.86
Portion water at 66%	2,375.91
Portion wastewater at 34%	1,223.95

OPINION: Expenses should be reduced by \$2,375.91 for water and \$1,223.95 for wastewater.

AUDIT DISCLOSURE NO. 5

SUBJECT: SAN CARLOS WATER LINE PROJECT

STATEMENT OF FACT: As of 12/93, the company had charged \$11,826.87 of invoices mainly from Humphrey & Knott for a San Carlos Waterline Project to a deferred account, 862.13-Engineering for water system development. Recently, the company added \$17,773.59 to this account for invoices from Missimer and Humphrey and Knott. The account is being amortized over 5 years. \$8,183.76 is the projected amortization during the forecasted test year. The company worksheet originally described this project as construction work in process. During the last audit, when asked why this had not been charged to construction in process as part of the water line costs, the company responded that they had not yet received approval from the county for the installation of the line or required mandatory hookups. This project was questioned again in the current audit. The company responded that they have abandoned this project because the County Commission would not require mandatory hookups. The amortization is still being included in the forecast.

AUDIT DISCLOSURE NO. 6

SUBJECT: PROJECTED PLANT

STATEMENT OF FACT: The filings prepared by the company contained forecasted plant additions in both their 1996 plant schedules (A5), and in their water rate base schedule as a proforma that have not yet been completed. The filing includes projections for the following:

Water: (Recorded in A-5)

University	\$544,982(Shown in Jan. 96)
Effluent reuse line	66,667
Relocation of reuse line	63,842
Relocation of water line at Treeline	60,627
Corkscrew pumping upgrade	31,000
	\$767,118
Corkscrew Plant (Proforma)	\$1,794,445
Total	\$2,561,563

Wastewater: (Recorded in A-5)

University	\$639,999(Shown in Jan. 96)
Effluent reuse line	133,333
Relocation forcemain Alico and 41	32,660
Relocation of line at Treeline	58,798
Upgrade to SCWWTP Barrigan and Eastgate	36,500
Upgrade Eastgate recoating	1,600
Total	\$902,890

Staff reviewed estimates for these contracts. The contracts did not break down water and wastewater. Therefore, they were reviewed in total. The estimates are \$189,433 more than what is shown in the exhibits. Miscellaneous plant projections for water, on A-5, however, are overstated as of August, 1996 by \$143,513.14. Wastewater is understated by \$3,959.96. This creates a net understatement of plant in the exhibits of \$49,879.82.

	Estimate	Total Water & Wwater Above	Difference	Already In CWIP
Relocate Forcemain 41 and Alico	40,000	32,660	7,340	22,557
University	1,160,208	1,184,981	(24,773)	331,532
Relocation Treeline (net retire)	136,222	183,267	(47,045)	68,281
Forcemain Reuse Main	489,464	200,000	289,464	
Corkscrew Plant	1,775,199	1,794,445	(19,246)	269,154
RTU Panel	41,379	31,000	10,379	
Upgrade Eastgate recoating	1,600	1,600		
Upgrade SWWTP	9,814	36,500	(26,686)	
	\$3,653,886	\$3,464,453	\$ 189,433	\$ 691,523

Opinion: Net plant forecasts seem to be understated based on current projections. Although the above items are in projected 1996, the university for the entire year, based on construction work in process dollars, it is questionable whether these amounts will be completed in 1996. In addition, the 13 month average effect is incorrect since these additions were not made in the months they were projected.

AUDIT DISCLOSURE NO. 7

SUBJECT: CIAC

STATEMENT OF FACT: As of August 1996, the filing contained \$109,292 less CIAC than what is recorded in the general ledger for water and \$30,640 more CIAC than what is in the ledger for wastewater. These numbers were computed as follows:

	WATER	WASTEWATER
Per MFR A-12 as of August 1996	\$12,306,621	\$9,139,868
Less University not recorded but in MFR in Jan.	146,400	114,950
Net per MFR	\$12,160,221	\$9,024,918
Per 8/96 General Ledger	12,269,513	8,994,270
Difference	\$ (109,292)	\$ 30,640

As done with plant, the CIAC for the University was recorded for a full year by including it in the January forecast.

AUDIT DISCLOSURE NO. 8

SUBJECT: PREPAID CIAC

STATEMENT OF FACT: The company has projected \$171,680 of water CIAC to be transferred from the prepaid account on their filing of projected CIAC on A-12. They have not projected any CIAC for wastewater during this time period.

Excluding the CIAC they have received from the University, the company has a balance of \$550,999.25 in their water prepaid connections account and \$207,304.50 for wastewater

These connections appear to be related to plant already in service. The only adjustment made to used and useful plant was to the proforma plant addition for the Corkscrew water plant. Even though the company is not yet collecting revenue related to these contributions, they are earning a return on the assets to which the contributions relate since the assets were considered 100% used and useful.

OPINION: Prepaid CIAC of \$379,319.25 for water ($\$550,999.25 - \$171,680$ projected) and \$207,304.50 for wastewater should be included in rate base.

AUDIT DISCLOSURE NO. 9

SUBJECT: REVENUE PROJECTIONS

STATEMENT OF FACT: Revenues using a period of September 95 to August 96 were substantially lower than those projected in the company's filing. If the 1995 portion of these revenues are increased by growth of 6 % as estimated by the company, the revenues are still understated.

	WATER	WASTEWATER
Revenues Sept. to December 1995	\$668,381	\$388,274
Growth estimated at 6%	x 1.06	x 1.06
Inflated 1995 revenues	\$708,484	\$411,570
Revenues Jan-Aug 1996	\$1,526,925	\$802,789
Revenue projection 1996 by staff	\$2,235,409	\$1,214,359
Revenue projected in filing before rate adj.	2,295,357	1,304,730
Difference	\$ (59,948)	\$ (90,371)

The difference is probably due to the utility including revenue from the new University for the entire year. Since the University is not yet complete, staff's numbers do not contain any revenue from the University.

AUDIT DISCLOSURE NO. 10

SUBJECT: CUSTOMER SURVEY

STATEMENT OF FACT: The company performed a customer satisfaction survey and included the costs in their forecast. This is the first time they have performed the survey and they intend to perform the survey annually. The costs related to the survey are:

Printing Survey	\$1,601.43
Postage	3,888.10
Print letters	1,055.76
Public Relations	3,198.75
Total	\$9,744.04
Water	6,431.07
Wastewater	3,312.97

AUDIT DISCLOSURE NO. II

SUBJECT: ENGINEERING FOR UNIVERSITY

STATEMENT OF FACT: Two invoices for engineering costs related to the new University were charged to account 631 and 731, Contract Services, Engineering during the September 95 to August 96 period used by staff to determine expenses. They related to the preliminary survey. They were charged as follows:

	WATER	WASTEWATER
John Ruskia	470.74	88.48
John Ruskia	558.62	221.52
Total	1,029.36	310.00

OPINION: The staff engineer needs to review these items to determine if they should be capitalized as part of the new addition related to the University.

AUDIT DISCLOSURE NO. 12

SUBJECT: OVEREARNINGS ACCOUNTING COSTS

STATEMENT OF FACT: In October of 1995, the company paid Keith Cardey \$6,183.50 (\$4,204.78 water and \$1,978.72 wastewater) to review the overearnings case. They charged these costs to accounts 635.8 and 735.8 for water and wastewater respectively. These costs fall into the period used by staff to determine the reasonableness of expenses.

OPINION: These costs should be non-recurring and may more appropriately be added to deferred rate case expenses since it was the overearnings investigation that triggered the rate case.

AUDIT DISCLOSURE NO. 13

SUBJECT: VICE-PRESIDENT'S SALARY

STATEMENT OF FACT: Forecasted expenses included a salary for the Vice-President of the company, Randall Mann of \$49,608. Mr. Mann does not maintain an office at the utility site but has an office in Jacksonville. He was asked to provide a letter which stated how much time he spends on utility business. It states, "The amount of time spent per week on these various duties varies considerably depending on the needs of the company."

A list of the duties he is responsible for is attached to this disclosure.



Gulf Utility Company
P.O. Box 350
Gresham, FL 33024-0350
10517 Barrow Blvd. S.E.
P.L. Myers, FL 33012
813/267-1000

Randall Mann
Vice President
List of Duties

Accounting

- Review and make recommendations to the President regarding the monthly accounting, general ledger, and financial statement preparation.
- Review preparation of PSC annual report.
- Review and make recommendations to the President and Board of Directors regarding the independent audit report. Implement changes in policy or procedures, if any.
- In conjunction with President and Chief Financial Officer, determine accounting procedures and policies.

Financial

- Review and make recommendations to President regarding annual budget and cash flow projections. Prepare long term cash flow projections.
- In conjunction with President, perform long term financial planning.
- In conjunction with Chief Financial Officer and President, set short and long term investment policy.
- In conjunction with Chief Financial Officer, perform investment management activities.
- In conjunction with President, assist in long term debt management.
- Monitor compliance with debt covenants and restrictions.

Randall Mann
Vice President
List of Duties cont.

Tax

- Prepare tax M-1 schedule and other related schedules for preparation of state and federal tax returns.
- Along with President and outside tax advisors, set tax policies and strategies.
- Prepare and file petitions and reports with PSC regarding CIAC and other tax matters.

Other

- Provide back-up management in case of extended absences or other emergency situations.
- Serve on Board of Directors.
- Perform other special projects as directed by the Board of Directors and President.

AUDIT DISCLOSURE NO. 14

SUBJECT: EXPENSE FORECAST

STATEMENT OF FACT: The company prepared their forecast of expenses using a zero based budgeting approach. Filings for projected test year's usually trend a historic period using growth, inflation, and other known changes.

Because of the difficulty in determining if the company forecasted numbers were correct and the availability of actual data through August 1996, staff decided to determine expenses for the period of September 1995 to August 1996 and determine any known changes that should occur from September to December 1996.

There are two major changes that are going to occur. They are the addition of the University and the Corkscrew addition. The utility projected the University in their filing. The utility projected the Corkscrew addition in rate base, but did not include it in their forecast of expenses.

Staff prepared an analysis of the balances from 9/95 to 8/96, added the company proforma adjustments for the University and the Corkscrew addition and then did an analysis of other known changes. These changes are shown under the staff proforma adjustment column and are further described in the attached list of adjustments. The numbers for the University and Corkscrew additions should be reviewed by the staff engineer. The Miami staff was unable to determine the reasonableness of the quantities needed.

The analysis reveals that the expenses in the filing are \$110,380.04 less for water than the prepared analysis. The majority of this is due to the \$118,303.50 of expenses the company expects to incur for the Corkscrew plant addition.

For wastewater, the analysis reveals that the expenses in the filing are \$20,601.93 more than the company projected in their forecast.

OPINION: The attached schedules, pending engineering adjustments, more accurately reflect the expenses of the company than the filing.

ACCOUNT NUMBER	ACCOUNT	TOTAL WITHOUT UNIVERSITY	PROFORMA UNIVERSITY	CORKSCREW ADDITIONS	STAFF PROFORMAS	PROFORMA NUMBER	TOTAL WITH UNIV & CORKSCRW	PER MFR	DIFFERENCE
6018 00	SALARIES & WAGES - ADM & GENERAL	277,732.27			6,700.00	1	284,432.27	286,470.00	(12,037.73)
6038 00	SALARIES OFFICERS - ADM & GENERAL	180,563.09		44,175.04			224,738.13	178,325.00	56,413.13
6048 00	EMPLOYEE PENSIONS & BENEFITS - ADMIN & GEN	108,568.87		8,831.28			117,400.15	113,635.00	3,765.15
6138 00	PURCHASED POWER - ADMIN & GENERAL	140,043.57	3,000.00		(1,749.93)	3	141,293.64	138,543.00	2,750.64
6183 01	FUEL FOR POWER PRODUCTION - WATER TREATMEN	98.88					98.88	250.00	(151.12)
6183 01	CHEMICALS - WATER TREATMENT OPERATIONS	133,167.83	3,150.00	62,880.35			199,198.18	141,138.00	58,060.18
6208 00	MATERIALS & SUPPLIES - ADMIN & GENERAL	89,437.09		2,348.83	(2,548.87)	5	89,236.05	88,782.00	454.05
6318 00	CONTRACTUAL SERVICES	15,088.15			1,838.28	8	16,926.43	21,387.00	(4,460.57)
6328 00	CONTRACTUAL SERVICES	21,369.80			822.34	10	22,192.14	27,618.00	(5,425.86)
6338 00	CONTRACTUAL SERVICES	18,090.45			1,183.57	30	19,274.02	32,323.00	(13,048.98)
6358 00	CONTRACTUAL SERVICES	123,581.25			1,812.88	8,8,8,11,24	125,394.13	104,078.00	21,316.13
6418 00	RENTAL OF BUILDING	31,638.77			7,851.03	13	39,489.80	39,488.00	1.80
6428 00	RENTAL OF EQUIPMENT	3,056.01			(1,100.00)	14	1,956.01	1,400.00	556.01
6508 00	TRANSPORTATION EXPENSE - ADMIN & GENERAL	14,808.34					14,808.34	15,545.00	(736.66)
6588 00	INSURANCE - VEHICLE ADMIN & GENERAL	6,115.62			405.38	15	6,521.00	6,521.00	0.00
6578 00	INSURANCE - GENERAL ADMIN & GENERAL	21,897.85			(852.25)	15,18	21,045.60	23,788.00	(2,742.40)
6588 00	INSURANCE - WORKMAN'S COMP ADMIN & GENERAL	18,118.41			1,271.59	15	19,390.00	18,388.00	1,002.00
6688 00	INSURANCE - OTHER ADMIN & GENERAL	1,868.01			83.99	15	1,952.00	1,844.00	108.00
688 00	REGULATORY COMMISSION EXPENSE				20,209.00	18 00	20,209.00	20,209.00	0.00
6708 00	AUTO WRITE OFF - CLOSED CUSTOMER ACCT	3,028.81					3,028.81	1,800.00	1,228.81
6738 00	MISC. EXPENSE	48,416.58			9,387.01	16,20	57,803.59	54,800.00	3,003.59
		1,247,730.02	6,150.00	118,303.50	45,580.52		1,417,774.04	1,307,384.00	110,390.04

ACCOUNT NUMBER	ACCOUNT	995 TO 898 TOTAL WITHOUT UNIVERSITY	PROFORMA UNIVERSITY	CORKSCREW ADDITIONS	STAFF PROFORMAS	PROFORMA NUMBER	TOTAL WITH UNIV & CKSCRW	PER MFR	DIFFERENCE
701 00	SALARIES & WAGES	208 601 19			(1 703 00) 1		206 898 19	222 361 00	(15 462 81)
703 00	SALARIES & WAGES OFFICERS	107 431 17					107 431 17	91 968 00	15 463 17
704 00	EMPLOYEES PENSIONS & BENEFITS	54 233 55					54 233 55	56 539 00	(4 305 45)
711 00	SLUDGE REMOVAL	41 810 78	4 130 00		35 589 00 3		81 529 78	90 530 00	(9 000 22)
715 00	PURCHASED POWER	92 815 51	5 190 00		5 913 64 3		103 919 15	96 530 00	4 389 15
716 00	FUEL FOR POWER PROD	63 15			93 58 21		176 73	500 00	(323 27)
718 00	CHEMICALS	33 563 95	2 330 00		2 119 52 4		38 003 47	44 195 00	(6 191 53)
720 00	MATERIALS & SUPPLIES	37 734 95			(4 277 57) 5		33 457 38	29 464 00	3 993 38
731 00	CONTRACT SERVICES ENG	6 886 65					6 886 65	8 761 00	(1 874 35)
732 00	CONTRACT SERVICES ACCT	10 588 63					10 588 63	13 856 00	(3 267 37)
733 00	CONTRACT SERVICES LEGAL	7 185 70					7 165 70	13 453 00	(6 287 30)
735 00	CONTRACT SERVICES OTHER	91 709 03			6 235 22 7 8 9 12 22 24		97 944 25	93 319 00	4 625 25
741 00	RENTAL OF BUILDING	16 060 82			4 261 12 13		20 342 04	20 343 00	(0 96)
742 00	RENTAL EQUIPMENT	1 461 22					1 461 22	1 503 00	(41 78)
750 00	TRANSPORTATION EXP	7 208 65			328 89 23		7 538 34	8 008 00	(469 66)
756 00	INSURANCE VEHICLE	4 072 11			317 89 15		4 390 00	4 390 00	(0 00)
757 00	INSURANCE GENL LIAB	13 558 30			(2 712 98) 15 19		10 845 32	12 255 00	(1 409 68)
758 00	INSURANCE WORK COMP	8 981 89			996 11 15		9 988 00	9 988 00	0 00
759 00	INSURANCE OTHER	932 01			68 99 15		1 001 00	1 001 00	0 00
766 00	REGUL COM EXP AMORT OF RATE CASE	(1 160 87)			10 758 87 18		9 598 00	9 598 00	0 00
770 00	BAD DEBT - ADMINISTRATIVE & GENERAL	89 08					89 08	0 00	89 08
775 00	MISC EXPENSES	22 189 45			3 312 97 20		25 502 42	26 010 00	(507 58)
		765 998 02	11 650 00	0 00	81 322 05	0 00	838 970 07	859 572 00	(20 601 93)

**GULF UTILITY
 PROFORMA ADJUSTMENTS TO STAFF'S - 8/96 TEST YEAR
 DECEMBER 31, 1996 TYE**

		DEBITS	CREDITS
	1		
Salaries - Water		\$6,700.00	
Salaries - Wastewater			(\$1,703.00)
 <i>Proforma increase for raise 1/1/96 annualized and new employee changes.</i>			
	2		
NOT USED			
	3		
Sludge hauling		\$35,589.00	
 <i>Increase due to no sludge being hauled in initial phase of plant due to needing to keep solids. Estimate based on projections. Requested verification by staff engineer.</i>			
	3a		
Water - Electric			(\$1,749.93)
Sewer - Electric		\$5,913.64	
 <i>Annualize To WWTP plant costs.</i>			
	4		
Water - Chemicals			
Wastewater - Chemicals		\$2,119.52	
 <i>Increase wastewater due to additional lime associated with sludge hauling. Requested verification by Staff engineer.</i>			
	5		
Water - Material & Supplies			(\$2,549.97)
Wastewater - Material & Supplies			(\$4,277.57)
 <i>Remove non-recurring costs for lightening damage and relocating meter at Mariners Cove per co.</i>			

**GULF UTILITY
 PROFORMA ADJUSTMENTS TO STAFF'S - 8/96 TEST YEAR
 DECEMBER 31, 1996 TYE**

	DEBITS	CREDITS
6		
Contract Services - Water	\$1,836.28	
<i>Record two months amortization of consumptive use permit cost, which were not in period used.</i>		
7		
Water Contract Services - Acct.	\$7,018.91	
Wastewater Contract Services - Acct.	\$3,303.03	
<i>Remove reversing entry made in December 1995 and accrual correction which was out of period.</i>		
8		
Water Acct. - CS	\$1,452.00	
Wastewater Acct. - CS	\$748.00	
<i>To proforma an annual bill not paid in 1995 due to the rate case</i>		
9		
Water Legal - CS	\$3,174.51	
Wastewater Legal - CS	\$1,493.89	
<i>To remove journal entry in December 1995 that was reversed of prior period</i>		
10		
Water Acct.	\$822.34	
Water Legal - CS	\$1,183.37	
<i>To increase for new costs increasing amortization</i>		
11		
Contract Services Other - Water		(\$10,846.53)
<i>Remove non-recurring and out of period item</i>		

**GULF UTILITY
PROFORMA ADJUSTMENTS TO STAFF'S - 8/96 TEST YEAR
DECEMBER 31, 1996 TYE**

	DEBITS	CREDITS
12		
Contract Services Other - Wastewater		(\$1,819.01)
<i>Remove non-recurring insurable lighting damage</i>		
13		
Rent - Water	\$7,851.03	
Rent - Wastewater	\$4,281.12	
<i>Annualize rent costs; Does not reflect staff adj. for non utility</i>		
14		
Water - Rent equipment		(\$1,100.00)
<i>Remove non-recurring costs</i>		
15		
Insurance Vehicle - Water	\$405.38	
Insurance General - Water	\$1,890.07	
Insurance W/C - Water	\$1,271.59	
Insurance Other - Water	\$83.99	
Insurance Vehicle - Wastewater	\$317.89	
Insurance General - Wastewater		(\$1,303.30)
Insurance W/C - Wastewater	\$996.11	
Insurance Other - Wastewater	\$68.99	
<i>Change insurable to current invoice</i>		
16		
Misc Water	\$2,935.94	
<i>Annualize amortize of CRSW and CKDC corkscrew disposal permit</i>		
17		
NOT USED		

**GULF UTILITY
 PROFORMA ADJUSTMENTS TO STAFF'S - 8/96 TEST YEAR
 DECEMBER 31, 1996 TYE**

	DEBITS	CREDITS
18		
Rate Case Exp. - Water	\$20,209 00	
Rate Case Exp. - Wastewater	\$10,758 87	
<i>Proforma for rate case expense at company estimate</i>		
19		
Water - Insurance general		(\$2,542.32)
Wastewater - Insurance general		(\$1,409.68)
<i>Reduce insurance for actual audit billing period paid in 1996.</i>		
20		
Water - Misc.	\$6,431 07	
Wastewater - Misc.	\$3,312 97	
<i>To record annual customer survey costs incurred for first time in September 1996.</i>		
21		
Fuel for power production	\$93.58	
<i>Increase for fill up paid outside of test year.</i>		
22		
Contract Services - Wastewater	\$1,935 54	
<i>Increase contract services for costs that will make 1996 higher than staff's test year selected .</i>		
23		
Transportation Exp. - Wastewater	\$328 69	
<i>Increase over staff selected test year.</i>		

AUDIT DISCLOSURE NO. 15

SUBJECT: JAMES MOORE'S EXPENSES

STATEMENT OF FACT: The expenses used in disclosure 14, include \$1,867.93 of local business meals and \$120.38 of entertainment for James Moore. Descriptions on business meals include discussing health insurance plans, trusts and investments, engineering services, waterline projects, etc. The entertainment was for drinks for a San Carlos Water Line Project and a golf outing to discuss keeping insurance costs down.

AUDIT DISCLOSURE NO. 16

STATEMENT OF FACT: TAXES OTHER THAN INCOME

SUBJECT: Revenues projected in the filing times the 4.5% regulatory assessment fee does not total the regulatory assessment fee projected in the filing.

	Water	Wastewater
Revenues projected	\$2,139,422	\$1,671,070
Regulatory Assessment Fee Rate	4.5%	4.5%
Regulatory Assessment Fee	\$ 96,274	\$ 75,198
Per Forecast on B-15	\$ 96,989	\$ 76,249
Difference	\$ (715)	\$ (1,051)

Payroll taxes were allocated using a 66/34% customer ratio or \$43,806 for water and \$22,567 for wastewater. If the taxes were allocated based on the payroll accounts, (see attachment to disclosure 14) they would be allocated at 62.29/37.17%. This would reduce payroll taxes for water by \$2,462.26 and increase taxes for wastewater by \$2,462.26.

Based on the 1996 projected tax bills, 1996 projected property tax was underestimated. Staff computed the difference as follows:

	Water	Wastewater
Plant	\$15,531,190	\$11,982,980
1996 Projected Tax Bills allocated based on plant	77,124	59,506
Tax on Forecasted plant based on % of tax to plant	8,145	4,514
Total staff projection	\$ 85,269	\$ 64,020
Forecast per company B-15	\$ 77,765	\$ 49,200
Understatement	\$ 7,504	\$ 14,819

V. COMPANY PREPARED SCHEDULES

Schedule of Water Rate Base

Florida Public Service Commission

Company: Gulf Utility Company
 Docket No. 960329-WS
 Test Year Ended: December 31, 1996

Schedule A-1
 Page 1 of 3
 Preparer: Andrews

Historic or Projected
 13 Months Average or Year End

Explanation: Provide the calculation of rate base for the test year, showing all adjustments. All non-used and useful times should be reported as Plant Held For Future Use.

Line No	(1) Description	(2) AVERAGE 13 MONTH BALANCE	(3) Utility Adjustments (a)	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	\$16,700,337	\$1,794,445	\$18,494,782	A-5
2	Utility Land & Land Rights	200,372		200,372	A-5
3	Less: Non-Used & Useful Plant (Net)	193,954	881,535	1,075,489	A-5 & A-9
4	Less: Accumulated Depreciation	4,173,672	93,220	4,266,892	A-9
5	Less: CIAC	12,220,685		12,220,685	A-12
6	Accumulated Amortization CIAC	2,942,325		2,942,325	A-14
7	Less: Advances for Construction	4,885		4,885	A-16
8	Working Capital Allowance	358,144		358,144	A-17
9	Total Water Rate Base	\$3,607,982	\$819,690	\$4,427,672	

(a) Source: Schedule A-1 Page 3, Col 4, line 16, Col 3 line 18 and Col 5, line 33

Schedule of Sewer Rate Base

Florida Public Service Commission

Company: Gulf Utility Company
 Docket No. 960329-WB
 Schedule Year Ended: December 31, 1996

Schedule A-2
 Page 2 of 2
 Preparer: Andrews

Historic or Projected
 12 Months Average or Year End

Explanation: Provide the calculation of rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use.

(1)	(2)	(3)	(4)	(5)
Line Description No.	Balance Per Books	Utility Adjustments	Adjusted Utility Balance	Supporting Schedule(s)
1 Utility Plant in Service	11,416,482		11,416,482	A-6
2 Utility Land & Land Rights	476,498		476,498	A-6
3 Less: Non-Used & Useful Plant				A-6
4 Less: Accumulated Depreciation	2,627,894		2,627,894	A-10
5 Less: CIAC	8,327,962		8,327,962	A-12
6 Accumulated Amortisation CIAC	1,706,634		1,706,634	A-14
7 Less: Advances for Construction				A-16
8 Working Capital Allowance	247,407		247,407	
9 Total Sewer Rate Base	\$2,991,164		\$2,991,164	

Schedule of Requested Cost of Capital
13-Month Average Balance

Florida Public Service Commission

Schedule D-1
Page 1 of 2
Preparer: CNJ&W

Company: Gulf Utility Company
Docket No.: 960329-WS
Test Year Ended: December 31, 1996
Schedule Year Ended: December 31, 1996
Historic [] or Projected [x]

Subsidiary [] or Consolidated [x]

Explanation: Provide a schedule which calculates the requested Cost of Capital on a 13-month average basis. If a year-end basis is used submit an additional schedule reflecting year-end calculations.

Line No	Class of Capital	(1) Reconciled To Requested Rate Base	(2) Ratio	(3) Cost Rate	(4) Weighted Cost
1	Long-Term Debt	\$ 6,995,354	74.77%	10.63%	7.95%
2	Short-Term Debt	60,391	0.65%	11.01%	0.07%
3	Preferred Stock				
4	Customer Deposits	205,735	2.20%	6.00%	0.13%
5	Common Equity	869,272	9.29%	11.88%	1.10%
6	Tax Credits - Zero Cost				
7	Tax Credits - Wtd. Cost				
8	Accum. Deferred Income Taxes	1,225,216	13.10%		
9	Other (Explain)				
10	Total	\$ 9,355,968	100.00%		9.25%

Supporting Schedules: D-2
Recap Schedules: A-1, A-2

Schedule of Water Net Operating Income

Florida Public Service Commission

Company GULF UTILITY COMPANY
 Schedule Year Ended: 12/31/98
 Interim [] Final [X]
 Historic [] or Projected [X]

Schedule: B-1
 Page 1 of 2
 Docket No: 980329-WS
 Preparer: Rivers

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Test Year Balance	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	\$ 2,295,357	\$ 0	\$ 2,295,357	\$ (155,935)	\$ 2,139,422	B-4
2	Operation & Maintenance	1,307,395	0	1,307,395		1,307,395	B-5
3	Depreciation, net of CIAC Amort.	165,417		165,417		165,417	B-13
4	Amortization	6,977		6,977		6,977	B-16
5	Taxes Other Than Income	227,872	0	227,872	(7,017)	220,855	B-16
6	Provision for Income Taxes		85,449	85,449	(56,066) (1)	29,383	C-1
7	OPERATING EXPENSES	1,707,481	85,449	1,792,910	(63,063)	1,729,827	
8	NET OPERATING INCOME	\$ 587,896	\$ (85,449)	\$ 502,447	\$ (92,852)	\$ 409,595	
9	RATE BASE	\$ 4,427,672		\$ 4,427,672		\$ 4,427,672	A-1
10	RATE OF RETURN	13.28%		11.35%		9.25%	

Note (1) Average rate base	\$ 4,427,672
Weighted cost of equity	1.10%
Net income after tax	48,704
Pre-tax expansion factor	1.6033%
Pre-tax income	78,087
Net income per above	48,704
Income tax provision	29,383
Adjusted test year (expense) benefit	(65,449)
Adjustment required	\$ 56,066

Schedule of Sewer Net Operating Income

Florida Public Service Commission

Company: GULF UTILITY COMPANY
 Schedule Year Ended: 12/31/86
 Interim Final
 Historic or Projected

Schedule B-2
 Page 1 of 2
 Docket No. 880329-WS
 Preparer: Rivers

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No	(1) Description	(2) Test Year Balance	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenue	(7) Supporting Schedule(s)
1	OPERATING REVENUES	\$ 1,304,730	\$ 0	\$ 1,304,730	\$ 366,340	\$ 1,671,070	B-4
2	Operation & Maintenance	859,570	0	859,570		859,570	B-6
3	Depreciation, net of CIAC Amort.	170,257	0	170,257		170,257	B-14
4	Amortization	3,594		3,594		3,594	B-16
5	Taxes Other Than Income	132,810	0	132,810	16,485	149,095	B-15
6	Provision for Income Tax (benefit)			0	32,708 (1)	32,708	C-1
7	OPERATING EXPENSES	1,166,031	0	1,166,031	49,191	1,215,222	
8	NET OPERATING INCOME	\$ 138,699	\$ 0	\$ 138,699	\$ 317,149	\$ 455,848	
9	RATE BASE	\$ 4,928,296		\$ 4,928,296		\$ 4,928,296	
10	RATE OF RETURN	2.81%		2.81%		9.25%	

Note (1)

Average rate base	\$ 4,928,296
Weighted cost of equity	11.0%
Net income after tax	54,211
Pre-tax expansion factor	1.6033%
Pre-tax income	88,017
Net income per above	(54,211)
Income tax provision	\$ 32,708

State of Florida

Commissioners:
SUSAN F. CLARK, CHAIRMAN
J. TERRY DEASON
JULIA L. JOHNSON
DIANE K. KIESLING
JOE GARCIA



DIVISION OF RECORDS &
REPORTING
BLANCA S BAYO
DIRECTOR
(904) 413-6770

Public Service Commission

November 25, 1996

Ms. Carolyn B. Andrews
Gulf Utility Company
Post Office Box 350
Estero, Florida 33928-0350

RE: Docket No. 960329-WS -- Gulf Utility Company
Rate Case Audit Report - Projected Test Year Ending December 31, 1996
Audit Control # 96-233-4-1

Dear Ms. Andrews:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above date will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

Blanca S. Bayo
Blanca S. Bayo

BSB/cls
Enclosure
cc: Public Counsel
Gatlin Law Firm