STATE OF FLORIDA

OFFICE OF THE PUBLIC COUNSEL

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JACK SHREVE
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ORIGINAL
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December 20, 1996

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

Re: Case No. 960329-WS

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket are the original and 15 copies of the Direct Testimony and accompanying Exhibits of Kimberly H. Dismukes on Behalf of the Citizens of the State of Florida.

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

Sincerely,

Stephen C. Reilly
Associate Public Counsel

SCR:bsr

Enclosures

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for Increase in rates and service availability charges in Lee County by Gulf Utility Company.	)))))	Docket No. 960329-WS Filed December 20, 1996

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TESTIMONY OF

KIMBERLY H. DISMUKES

Respectfully submitted,
Jack Shreve
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Attorney for the Citizens
Of the State of Florida

TESTIMONY
OF
KIMBERLY H. DISMUKES

On Behalf of the
Florida Office of the Public Counsel

Before the
FLORIDA PUBLIC SERVICE COMMISSION

Docket No 960329-WS

Q. What is your name and address?

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

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

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

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

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

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

A. Yes. Exhibit__(KHD-1) contains 18 schedules that support my testimony

Q. What is the purpose of your testimony?

A The purpose of my testimony is to respond to Gulf Utility Company's request to decrease water rates by $155,935 and to increase wastewater rates by $366,340 My testimony is organized into five sections. In the first section of my testimony, I summarize my recommendations. In the second section, I address adjustments to the Company's proposed cost of capital. In the third section of my testimony, I address adjustments to test year revenue. In the fourth section of my testimony, I discuss certain expense adjustments. In the fifth section, I address adjustments to the Company's proposed rate base.

I. Summary of Recommendations

Q. Would you please summarize your recommendations?

A. Yes. Schedule 1 summarizes the adjustments that I propose and shows the revenue requirement impact of each adjustment. Instead of a net rate increase, my recommendations produce a rate reduction of $898,018. My recommendations show that the Company's water customers should receive a rate decrease of $425,172 and its wastewater customers should receive a rate decrease of $472,846. This schedule does not incorporate the used and useful recommendations of Mr. Biddy. If his recommendations were incorporated, it would produce a further decrease in the Company's revenue requirement.

II. Cost of Capital

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

A. I recommend one adjustment to the Company's capital structure. As shown on page 2 of Schedule 2, I have removed $160,929 from the equity component of the

Company's capital structure. In February 1990, Gulf recorded $68,114 of water assets and $92,815 of wastewater assets on its books associated with assets constructed by a related party — Caloosa Group, Inc In exchange for the assets, Gulf issued common stock to the shareholders of Caloosa Group, Inc. (Caloosa). The shareholders of Gulf and Caloosa are the same and they own the same proportionate share of each company. Typically when a developer constructs lines and hydrants and connects to the utility's system, the assets are contributed to the Company. The assets are recorded on the books of the Company and an equal amount of CIAC is also recorded on the books. The net result is no impact on rate base. This is the Company's policy with all developers, except its affiliate Caloosa Group, Inc In response to OPC's Interrogatory 36, Gulf explained that the transaction with its affiliate "was a routine business transaction in February 1990 where common stock was issued for $160,928 of assets. It was straightforward. It violated no law or rule." The Company continued in its response "The Company's accounting of this transaction should be approved. The current stockholders have shown their commitment to provide the quality of service to the area, and the larger equity base from the Company's accounting of this transaction will benefit the consumer over the long pull."

Lacking in the Company's response is an explanation of why the Company did not require its affiliate-developer to contribute the property as it requires other developers. The Company has not provided a satisfactory explanation cf why the Commission should permit the Company to treat its affiliate-developer more favorably than unaffiliated developers. The effect of the Company's transaction is to increase rate base and the overall cost of capital — both of which increase rates to customers The Commission should reject the Company's accounting treatment of this transaction. Accordingly, I recommend that the Commission reduce the equity component of the capital structure by $160,928. In addition, as described below, the Commission should increase CIAC included in rate base by the same amount As shown on Schedule 2, after making the adjustment that I propose, the cost of capital that I recommend is 9.22% This compares to the Company's requested cost of capital of 9.25%.

III. Revenue Adjustments

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

A. I am proposing one adjustment to test year revenue As shown on Schedule 3, I recommend that the Commission increase test year revenue by $139,599 The Company disposes of its wastewater effluent by providing reclaimed water to golf courses (San Carlos Golf Course, Vines County Club, and Villages of County Creek) Rather than selling reclaimed water to these customers, Gulf provides this service free of charge. In response to Staff Interrogatory 30, Gulf explained

> Gulf has always disposed of effluent by golf course irrigation because it was and is the least cost method

> available. If charges are imposed effluent become less attractive to developers and the Company could be forced to use much more expensive disposal methods such as deep well injection or evaporation/percolation ponds.

While I do not dispute that effluent disposal by way of spray irrigation is beneficial to the Company and its customers, it is also beneficial to the golf courses The environment under which the Company initially entered into its reuse agreements no longer exists. Water has become more scarce and Floridians are recognizing that water should be conserved. Reuse provides a valuable means of conserving potable water resources.

The Company also operates in a water caution area Consequently, the South Florida Water Management District will closely monitor the need for consumptive use permits and the associated withdrawals. Thus, while the golf courses to which Gulf provides reclaimed water have consumptive use permits, it remains questionable whether or not they could be renewed. The South Florida Water Management District's consumptive use permit rules require an applicant for a new permit, permit renewal, or permit modification to show that the applicant "makes use of a reclaimed water source unless the applicant, in any geographic location demonstrates that its use is either not economically, environmentally or technically feasible, or in areas not designated as

Critical Water Supply Areas pursuant to Chapter 40E-23, F.A.C., the applicant demonstrates reclaimed water is not readily available." In its Basis for Review of Water Use Permit Applications, the South Florida Water Management District describes the review process in areas of special water concern: "allocation of water shall be restricted or denied for irrigation purposes when reclaimed water is available and is economically, technically and environmentally feasible." The South Florida Water Management District is making it more difficult for consumptive use permits to be issued for irrigation purposes.

Since Gulf Utility currently provides reclaimed water to three golf courses and has a contract for a fourth, it is unlikely that any of these golf courses could prove that the provision of reclaimed water is not technically or environmentally feasible. The test of whether the golf courses could show that using reclaimed water is not economically feasible is less clear, unless the Company continues to provide this service free of charge. To the extent that the South Florida Water Management District uses an objective measure of "economically feasible" and also considers the scarce nature of the resources being withdrawn, it should find that at a reasonable rate, reclaimed water is economically feasible. Accordingly, I recommend that the Commission establish a reuse rate in this proceeding of $.25 per 1,000 gallons. This is substantially below the Company's potable water rate of $2.16 per 1,000 gallons, and it is comparable to the $.21 per 1,000 gallons charged by Florida Cities Water

Company in Lee County. Consistent with my recommendation that the Commission establish a reuse rate in this proceeding, I have increased test year revenue by $139,599, as shown on Schedule 3. This revenue was based upon the Company's estimate of reclaimed water that it would provide to its existing golf courses in 1996 and the minimum amount contracted for with River Ridge.

IV. Expense Adjustments

Q. What adjustments to the Company's expenses are you proposing?

A. The adjustments that I recommend are presented on Schedules 4 through 10. The first set of adjustments that I recommend relate to transactions with the Company's affiliate — Caloosa. Schedule 4 increases CIAC related to assets purchased by the Company from Caloosa. As shown, I recommend that CIAC be increased by $68,144 for the water operations and $92,815 for the wastewater operations As I previously discussed, the Company has not provided a satisfactory reason why its developer-affiliate should be treated any differently than a nonaffiliated developer

The second adjustment relates to expenses incurred on behalf of both Caloosa and the Company, only some of which are charged to Caloosa As explained earlier, Caloosa Group, Inc. is a land development company and is an affiliate of Gulf Utility Five of Gulf Utility's employees, the President, the Chief Financial Office, the Assistant to the CFO, the Administrative Manager, and the Administrative Assistant, provide services to both companies. These employees' salaries are paid separately for the work that they do at each company. In addition, Gulf Utility charges Caloosa $50 per month for use of Gulf Utility's computer system and $50 a month for supplies and office rent. Although Caloosa pays for the time Gulf's employees work for Caloosa, none of the benefits paid by Gulf are allocated or charged to Caloosa. In addition, there are two other expense categories where none of the costs have been charged or allocated to Caloosa. These include car expenses of Mr. Moore (President) and business and conference expenses of Mr. Moore as well as other general and administrative expenses. In my opinion, it is not fair to charge all of these expenses to the regulated utility operations of Gulf Utility. Clearly, some of these expenses should be allocated to Caloosa as the employees of Gulf Utility provide services to both. By charging only the regulated utility operations for these expenses, the nonregulated operations receive a windfall. Certainly, if Caloosa were a stand alone entity it would incur benefit expenses on behalf of its employees as well as other administrative and general expenses.

Q. Did you develop a method to allocate these expenses?

A. Yes. My recommendations are depicted on Schedule 4. I developed three allocation factors to assign costs between Caloosa and Gulf Utility. First, I allocated health insurance costs and IRA benefits for the five employees that work for both companies based upon their Caloosa salary relative to their total Caloosa and Gulf Utility salary. Second, I allocated office supplies, rent expense, computer depreciation, and other business expenses and administrative expenses based upon Caloosa's total payroll to the total payroll of Caloosa and Gulf Utility Third, I allocated Mr. Moore's car expenses based upon his Caloosa salary to his total Caloosa and Gulf Utility salary As shown on Schedule 4, this produced an allocation of expenses to Caloosa of $8,645. From this amount I subtracted the $1,200 charged to Caloosa for use of the computer and office supplies The difference, or $7,445, should be removed from the Company's test year expenses.

Q. Have you made any other adjustments for the Company's transactions with its affiliate?

A. Yes. Schedule 5 reflects an adjustment for the difference between the lease expense charged to the Company by Caloosa and the present value of a levelized lease payment based upon a 40-year life and a discount rate of 9.22% In 1996, Gulf Utility entered into a lease agreement with its affiliate Caloosa Group, Inc. to lease 3,931 square feet of office space. Since this is an arrangement between affiliates and is not an arm's-length transaction, I tested the reasonableness of the lease payment by comparing it to what the lease payment would be over the life of the building using a cost of capital of 9.22%. As shown on page 2 of Schedule 5, the levelized lease payment over the life of the building would be $64,826 Since Gulf Utility occupies 33.71% of the building, I multiplied $64,826 times 33.71% to arrive at the levelized lease payment that would apply to the Company As shown on page 1 of this schedule, this amounted to $21,853. This compares to the amount being charged the Company of $47,152. After accounting for the allocation of rental expense to

Caloosa, my calculations show that Gulf Utility is being charged an excessive amount Accordingly, I recommend that test year expenses be reduced by $26,182 To ensure that ratepayers are not harmed by the affiliate relationship between Caloosa and Gulf Utility, I recommend that the Commission assess the reasonableness of the lease expense charged to Gulf Utility by comparing it to what the lease expense would be over the life of the building assuming Caloosa earned a normal return on its investment, and the return of its investment is earned over a 40-year period This comparison clearly shows that Gulf Utility is being charged an excessive amount

Q. What is the next adjustment that you propose?

A. I am also recommending an adjustment to the salaries of Gulf Utility's employees that provide services to both the Company and Caloosa. As shown on Schedule 6, the hourly rate charged for services performed on behalf of Gulf Utility is considerably higher than the hourly rate charged for services performed on behalf of Caloosa For example, the equivalent hourly rate of Mr. Moore[1] when he performs services for the Company is $49.04, whereas the hourly rate charged to Caloosa is $22.69 Similarly, Ms. Andrews's hourly rate for work performed at Gulf Utility is $25.66, however, for Caloosa the hourly rate is only $16.70. As shown on Schedule 6, the hourly rates charged to the Company are much higher than the hourly rates charged to Caloosa I see no reason why the hourly rates charged should be different It would appear that Caloosa is receiving a windfall at the expense of ratepayers In other words, the

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[1] The hourly rates of Gulf's employees are after adjustment for pay increases which is addressed next in my testimony

regulated utility operations are absorbing a disproportionate share of the total payroll costs of Caloosa and Gulf Utility

Q. Did you make an adjustment for the problem that you have identified?

A. Yes. My adjustment is shown on Schedule 6. I reallocated the salary charged to Caloosa based upon the combined hourly rate of Caloosa and Gulf Utility. This ensures that both companies are paying the same amount per hour for the use of Gulf Utility's employees. For example, the combined hourly rate for Mr. Moore is $46 11 Using Mr. Moore's estimate that he spends five hours per week working for Caloosa, I reallocated the salary charged to Caloosa using an hourly rate of $46 11 as opposed to the $22.69 per hour actually charged or paid

As shown, this reallocation produces a reduction to the utility salary paid to Mr Moore of $6,088. In other words, this amount should be charged to Caloosa's operations, not the regulated utility operations. I performed a similar calculation for each of the employees of Caloosa based upon the hours that they devote to the utility operations versus Caloosa's operations. As shown, in total, I recommend that $8,947 be removed from the Company's test year payroll expense to properly account for the salary expense charged to Caloosa. In addition, I have used these revised salary allocations to develop the percentage of Caloosa payroll to total Caloosa and Gulf Utility payroll used on Schedule 4 to allocate other expenses to Caloosa As shown, the percentage of Caloosa payroll to total Caloosa and Gulf Utility payroll is 2 62%

Q. Do you recommend any other adjustments to the Company's payroll expense?

A. Yes. I also recommend that the Commission reduce the pay increase built into the 1996 salaries for the Company's management employees. As shown on Schedule 7, the Company is projecting pay increases ranging from a high of 9 6% to a low of 6.5% for is officers and managers. According to the Company's response to OPC's Interrogatory 11, salary increases in the past were 5% in 1992, 4% in 1993, 5% in 1994, and 4% in 1996. The Company budgeted a 6 5% overall increase in 1996, but increases can vary per employee. In my opinion, the Company has not demonstrated that a 6.5% increase in employee salaries is reasonable. In many instances the salary increases for the officers and managers of the Company exceed the 6 5% overall increase budgeted for the test year. In the past, the percentage increases have been between 4% and 5%. I have used the higher 5% increase to adjust the salaries of the Company's officers and management employees. As shown on Schedule 7, adjusting 1995 salaries for a 5% increase in 1996, reduces test year expenses by $7,416

In addition to this adjustment I also recommend that the Commission reduce the salary of Mr. Mann. Mr. Mann is the Vice President of the Company and receives a salary of $49,608 Mr Mann does not maintain an office at the utility site, but apparently has an office in Jacksonville. On two separate occasions, the Company was requested to provide an estimate of the hours Mr Mann devoted to the Company In response, the Company stated that: "Mr Mann does not submit time records and is paid on a salary basis. The amount of time he spends each week on his various duties varies considerably depending on the needs of the Company " [Response to OPC Interrogatory 41.] A similar response was given to the Staff auditors when they conducted their audit of the Company books. A list of duties of Mr Mann indicates that his role is one of reviewing certain accounting matters like preparation of PSC annual reports, financial statements, budgets, and cash flow statements In addition, in conjunction with the president, Mr Mann performs such functions as long-term financial planning, long-term debt management, and setting tax policies In addition to these types of duties, Mr. Mann also prepares the tax M-1 schedule and other related schedules for state and federal tax returns and other special projects as directed by the Board of Directors.

In my opinion, the Company has not proven the reasonableness of the salary paid to Mr. Mann. Although other employees of Gulf Utility maintain time records, there is no such requirement for Mr. Mann, despite the apparent variable nature of the work he performs. Based upon a review of the duties Mr Mann performs, I estimate that he should, on average, spend 10 hours per week on utility business, or 520 hours per year At an hourly rate of $35.00 per hour, which is roughly the mid point between the hourly rates paid to the president and the Chief Financial Officer, I recommend that the Commission allow a salary for Mr Mann of $18,200 Accordingly, as shown on Schedule 7, I have reduced test year expenses by $30,234

Q. What is the next adjustment that you recommend?

A. The next adjustment is shown on Schedule 8. The Company pays dues and conference registration fees to the National Association of Water Companies For the projected test year the Company has included $3,299 for these expenses I am recommending that the Commission disallow 24% of these expenses because they are related to lobbying. In response to OPC's Interrogatory 24, the Company indicated that in 1996, NAWC estimated that 24% of their dues were for lobbying The Commission has historically not permitted the recovery of lobbying and public relations activities from ratepayers. Such efforts are for the benefit of stockholders, not ratepayers Accordingly, since 24% of the dues and presumably conference fees are related to lobbying, I have removed $792 from test year expenses.

Q. Would you please explain the nonrecurring expense adjustments shown on Schedule 9?

A. Yes. Schedule 9 shows adjustments that I recommend concerning nonrecurring expenses which the Company has included in the projected test year The Company's MFRs show that the Company budgeted $16,000 for pond cleaning in 1996 and $21,000 for lift station coating and repairs in 1996 In Interrogatory 28, OPC requested that the Company provide the amount it incurred for these efforts in 1993, 1994, and 1995. In response, the Company indicated that in 1994 it expended $17,500 for pond cleaning but did not incur any expenses for pond cleaning in 1993 or 1995. Based upon this response, it appears that the Company incurs expenses to clean its ponds every two years Accordingly, I recommend that the Commission amortize the cost included in the test year of $16,000 over two years As shown on Schedule 9, I have reduced test year expenses by $8,000

Similarly, the Company indicated in this response that it did not incur any cost to coat liftstations in 1993, 1994, or 1995, but that it did incur liftstation repair costs of $11,919 in 1994 and $6,980 in 1995 It did not, however, incur these costs in 1993 Since the amount included in the test year is nonrecurring in nature, I recommend that the Commission amortize the total over five years and then allow annual repair costs of $6,300 ($11,919 + $6,890 divided by 3 years.) As depicted on Schedule 9, my recommendations reduce test year expenses by $10,500

Q. Would you please describe the miscellaneous adjustments shown on Schedule 10?

A. Yes. Schedule 10 contains five adjustments The first adjustment removes from the projected test year, expenses which the Company characterized as "unanticipated expenses." In my opinion, it would not be good policy for the Commission to allow such nondescript expenses to be included in a projected test year. The Company has the burden of proving the reasonableness of its projected expenses, including all expenses that it anticipates. Unanticipated expenses appear to be nothing more than an additive above and beyond reasonably expected expenses Accordingly, I recommend that the Commission exclude unanticipated expenses of $4,895

The next adjustment removes from test year expenses $235 related to rotary club dues. In past proceedings the Commission has disallowed dues similar to rotary dues For example, in Docket No 810002-EU, the Commission stated as follows concerning chamber of commerce dues

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

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

The third adjustment removes from test year expenses golf outings and gift basket expenses of Mr. Moore. In my opinion, such expenses are not appropriate to recover from ratepayers. The Company's stockholders should absorb these-types of frivolous expenses. According, I have reduced test year expenses by $780

The fourth adjustment recognizes interest income which the Company has booked below the line, but which is related to cash included in working capital. In response to OPC's Interrogatory 37, the Company indicted that its operating account was included in working capital and that this account earns interest. Since the cash is included in working capital, it is only reasonable to include the interest income above the line for rate making purposes. Accordingly, I have increased the Company's test year income by $4,000 for the projected interest the Company expects to receive on this account.

The fifth adjustment removes some of the Board of Directors fees included in the test year. Test year expenses include directors' fees of $18,000 $4,500 to be paid to Russell Newton, Jr., $4,500 to be paid to William Newton, and $9,000 to be paid to Russell Newton, III. A review of the Board of Director's Meeting Minutes indicates that not all of the directors attend the board meeting. In particular, during 1996, only Russell Newton, Jr. attended all three meetings. William Newton attended only one of the three meetings, and Russell Newton, III attended two of the three meetings. A similar pattern is shown for 1995. In 1995, Russell Newton, Jr was the only director to attend all three meetings. William Newton and Russell Newton, III attended only one of the three meetings. Under the circumstances, I do not believe that it would be prudent to include in test year expenses the entire amount of director's fees since two of the board members show a pattern of not attending the meetings. I have removed from test year expenses two-thirds of the fees for William Newton, since he has only attended one of three meetings. I have also removed one-half of the directors fee paid to Russell Newton, III since it is not evident that he should be paid twice as much as the other directors. In addition, from this amount I have removed one-third of the fees, since he attended only two of the three meetings. As shown on Schedule 9, the adjustments that I recommend reduce test year expenses by $9,000 The adjustments which I recommend are conservative. A review of the meeting minutes indicate that little is discussed and there is not significant input made by the board members Accordingly, in the absence of further support for these fees, the Commission would be justified in removing all of these fees from test year expenses

V. Rate Base-Related Adjustments

Q. What rate base adjustments do you recommend?

A. I am recommending several adjustments to rate base These adjustments are shown on Schedules 11-17. In many instances these adjustments affect expense accounts as well. I have labeled them rate base-related adjustments for organizational purposes only. The first adjustment, shown on Schedule 11, removes from the test year all costs related to service to Florida Gulf Coast University. According to the testimony of Mr Biddy, the facilities required to serve this customer will not be in place at the end of the test year. In addition, the lines being constructed to serve the university are not 100% used and useful, according to Mr. Biddy Since it is not possible to determine how much of the line is used and useful, I recommend that all expenses, revenue, and investment (including CIAC) be removed from the test year. By removing these costs and revenue from the test year the Commission will ensure that current customers are not burdened with paying for the non-used and useful transmission lines and collection lines installed to serve the university and other customers in the future By excluding these costs and revenue from the test year, the Company will, in effect, be permitted to earn a return on the used and useful portion of these facilities

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

A. I recommend that the Commission include, as an offset to rate base, funding which the Company will receive from the South Florida Water Management District According to the Company's response to Staff's Interrogatory 37, Gulf Utility requested funding under the South Florida Water Management District's Alternative Water Supply Grants Program in the amount of $375,000 for the preservation of potable water through the development of alternative sources of irrigation water On November 14, 1996, the Governing Board of the District approved a grant of $300,000. Since the Company will receive these funds, they should be included as an offset to rate base, as CIAC, if the corresponding investment is included in rate base If it is determined that the related investment is not included in rate base, I will modify my testimony accordingly. The adjustment to include $300,000 of CIAC in rate base is depicted on Schedule 12.

Q. What is the next group of rate base adjustments that you recommend?

A The next group of adjustments are shown on Schedules 13 through 16 These adjustments are based upon the Staff's audit of the Company The first adjustment depicted on Schedule 13 increases CIAC included in rate base by $379,319 for the water operations and $207,304 for the wastewater operations. According to the Staff's Audit Disclosure No 8, prepaid CIAC included on the Company's books appears to be related to plant already in service. To the extent the related assets are included in rate base, the associated prepaid CIAC should likewise be included in rate base. Accordingly, I recommend that the Commission include the prepaid CIAC in rate base.

The second adjustment is also based upon the Staff's audit According to Audit Exception No. 2, the Company overstated the amount of accumulated amortization of CIAC and it overstated the amortization of CIAC included in test year expenses. Schedule 14 depicts the adjustments that should be made to correct for these overstatements. As shown, water rate base should be reduced by $115,371 and wastewater rate base should be reduced by $98,456. Similarly, test year amortization expense should be reduced by $12,967 for the water operations and by $7,329 for the wastewater operations.

The third adjustment is based upon the Staff's Audit Exception No 6 According to this exception, the Company understated accumulated depreciation and overstated depreciation expense. The adjustments proposed in the Staff's audit are depicted on Schedule 15. As shown, water and wastewater depreciation expense should be reduced by $102,236 and $46,689 respectively. Accumulated depreciation should be increased by $172,608 for the water operation and by $158,465 for the wastewater operations

The fourth adjustment is shown on Schedule 16. According to the Staff's Audit Exception No. 4, when the Staff reviewed the Company's filing, several discrepancies were found. According to the audit, the Company verified these discrepancies. The only discrepancy which would affect the test year rate base is the overstatement of wastewater plant in service. Accordingly, I reduced test year plant in service by $2,265.

Q. Did you make any adjustments to the Company's requested working capital?

A. Yes. I started with the working capital calculation contained in the Staff's audit, under Audit Exception No. 5 and made adjustments thereto. According to the Staff's audit, it generated a 13-month average working capital calculation using the period August 1995 through August 1996. It also requested that the Company provide reasons why the amounts would change from September through December. As shown on Schedule 17, I started with the working capital balance of $381,610 shown in the Staff's audit. The first adjustment that I recommend removes from the working capital calculation the unamortized rate case expense. I have removed this amount to provide the Company with an incentive to minimize rate case expense. The second adjustment removes $394,954 for unamortized debt discount and expense. This cost is reflected in the Company's cost of debt. Accordingly, it should not be included in working capital. The third adjustment increases working capital for the accrued interest on Industrial Revenue Bonds According to the Company, its projected 13-month average accrued interest is $269,790, or $18,128 less than the Staff's calculation. I have used the estimate provided by the Company and increased working capital accordingly. The fourth and fifth adjustments are similar in that they increase working capital for accounts receivable and materials and supplies, as projected by the Company. As shown on Schedule 17, the working capital amount that I recommend is negative $46,062. This compares to the Company's request of $593,611

Q. Why do you recommend including negative working capital in rate base when the Commission has typically used a zero allowance when the calculation produces a negative working capital?

A A negative working capital allowance simply means that the Company has other sources of noninvestor supplied capital that are used to support the operations of the Company. It does not mean that the Company does not have a working capital requirement. This requirement, however, is being met by other sources of cost-free capital and these sources are in excess of the Company's working capital needs If a negative working capital is not included in rate base, the Company will be permitted to earn a return on cost-free sources of capital If the Commission does not include a negative working capital in rate base, it will effectively provide the Company with an opportunity to overearn The appropriateness of including a negative working capital in rate base was expressed by Commissioner Deason at the Agenda Conference concerning Palm Coast Utility, Docket No 951056-WS Commissioner Deason explained

> I need to state for the record that I think that if there is a determination of a negative working capital allowance that is the appropriate allowance And just for analogy purposes, I've tried to think of a good analogy and that is it's kind of like looking at a thermometer on the centigrade scale and you're saying, 'Well, once it gets to zero and it's freezing, it doesn't get any colder' It does And a negative working capital allowance, all it means is that there are other sources of capital other than things supplied by the investor that are being used to support the operations of this company And that it is important to recognize that like we do other sources of capital
>
> So, I would not support staff's recommendation at a zero allowance It would be my position that the calculated negative amount is appropriate And it's not saying that the company doesn't have any working

> capital requirement; it's just that those working capital requirements are being met by sources -- cost-free sources of capital other than investor sources of capital, and that's why the calculation comes up negative

Q Do the Commission's rules require that a zero working capital allowance be used if the working capital calculations produce a negative working capital?

A. No. The Commission's rules have no such requirement The Commission's rules require that the balance sheet approach to working capital be used for Class A and B water and wastewater utilities.

Q. Can you demonstrate how the Company would overearn if the Commission does not include a negative working capital in rate base?

A. Yes. I prepared Schedule 18 to demonstrate how this happens This is a hypothetical example, showing the balance sheet, rate base, capital structure, and working capital of a utility. For simplicity purposes, the plant in service is considered to be 100% used and useful, so there is no need to reconcile the capital structure to the rate base As shown on this schedule, the balance sheet approach to working capital, produces a gross working capital requirement of $7,500 The cost-free sources of funds used to support the gross working capital requirement is $10,500, producing a net negative working capital requirement of $3,000 (This is shown under the third box on

Schedule 18) The total capital (investor supplied sources of capital and customer deposits) of the company is $87,000 (This is shown under the second box on Schedule 18.) The rate base of the utility, without working capital, is $90,000 Inclusion of the negative working capital amount yields a total rate base of $87,000, or precisely the amount of investor-supplied capital. In this example, the allowed return on rate base is 10%, or $8,700 The return earned by investors is likewise $8,700 or 10% ($8,700 divided by $87,000 in capital). However, if the commission does not include the negative working capital in rate base, but substitutes zero, the utility will be allowed to earn 10% on a $90,000 rate base, or $9,000 The return earned by investors is 10.34% ($9,000 divided by $87,000 in capital), or 34% in excess of what the commission allowed Thus, if the Commission does not include negative working capital in rate base it will provide the Company with an opportunity to earn in excess of its allowed rate of return

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

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

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

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

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

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

A. Yes. If margin reserve is included in the used and useful calculations, then, to achieve a proper matching, an amount of CIAC equivalent to the number of equivalent residential connections (ERCs) represented by the margin reserve should be reflected in rate base. In calculating the imputation of CIAC, the Commission should use the proposed, interim, or final new capacity charges. The CIAC that will be collected from these future customers would at least serve to mitigate the impact on the existing customers resulting from requiring them to pay for plant that will be utilized to serve future customers. Imputation of CIAC on margin reserve has been a longstanding policy of this Commission. The Commission's practice of imputing CIAC on margin reserve is well documented in Order No 20434 and Order No. PSC-93-0301-FOF-WS. If the Commission does not continue to impute CIAC associated with margin reserve, it will place the risk of future customer connections on the backs of current ratepayers. The risk that future customers connect to a utility's system, as projected by the utility in its margin reserve calculations, is a risk that should be borne by stockholders, not customers. This is a risk that the utility is compensated for in its allowed return on equity. If the Commission were to change its policy and not impute CIAC on margin reserve, then it would need to adjust its leverage graph formula to account for the lower risk of the utility inherent in requiring current customers to bear the risk that future customers will not connect to the system.

Furthermore, if the Commission does not impute CIAC on margin reserve it will provide the utility with an opportunity to overearn. This occurs because the utility will collect this CIAC (assuming its projections are correct), yet the associated CIAC will not be included as an offset to the rate base Mc⁻ᵓover, failure to impute CIAC on margin reserve would create a significant incentive for the utility to over project customer growth for margin reserve purposes Imputation of CIAC on margin reserve provides the utility with an incentive to properly project future connections and it matches plant in service with CIAC

Q. Does this complete your direct testimony, prefiled on December 20, 1996?

A Yes, it does

APPENDIX

OF

KIMBERLY H. DISMUKES

APPENDIX I

QUALIFICATIONS

Q. What is your educational background?

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

Q. Would you please describe your employment history in the field of public utility regulation?

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

Q. Would you please describe the types of work that you have performed in the field of public utility regulation?

A. Yes. My duties have ranged from analyzing specific issues in a rate proceeding to managing the work effort of a large staff in rate proceedings I have prepared testimony, interrogatories and production of documents, assisted with the preparation of cross-examination, and assisted counsel with the preparation of briefs. Since 1979, I have been actively involved in more than 170 regulatory proceedings throughout the United States.

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

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

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

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

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

Companies that I have analyzed include Alascom, Inc (Alaska), Arizona Public Service Company, Arvig Telephone Company, AT&T Communications of the

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

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

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

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

Q. Have you testified before regulatory agencies?

A. Yes. I have testified before the Arizona Corporation Commission, the Connecticut

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

I have also testified before the Public Utility Regulation Board of El Paso, concerning the development of class cost-of-service studies and the recovery and allocation of the corporate overhead costs of Southern Union Gas Company and before the National

Association of Securities Dealers concerning the market value of utility bonds purchased in the wholesale market

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

A. Yes.

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

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

Q. Do you belong to any professional organizations?

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

EXHIBIT

OF

KIMBERLY H. DISMUKES

Table of Contents

Gulf Utility Company
Summary of Adjustments

Description	Adjustment	Net Operating Income	Total Revenue Requirement	Water Revenue equirement	Wastewater Revenue Requirement
Change in Cost of Capital					
Water			($2,231)	($2,231)	
Wastewater			($2,483)		($2,483)
Rate Base Adjustments					
SFWMD Funding Increase CIAC - Wastewater	($300,000)	$27,660	($46,645)		($46,645)
Reduce UPIS Errors in MFRs - Wastewater	($2,265)	$209	($352)		($352)
Understatement of Accumulated Depreciation					
Water	($172,608)	$15,914	($26,838)	($26,838)	
Wastewater	($158,465)	$14,610	($24,639)		($24,639)
Prepaid CIAC					
Water	($379,319)	$34,973	($58,978)	($58,978)	
Wastewater	($207,304)	$19,113	($32,232)		($32,232)
Reduce Working Capital					
Water	($422,184)	$38,925	($65,643)	($65,643)	
Wastewater	($217,489)	$20,052	($33,816)		($33,816)
Amortization of CIAC					
Water	($115,371)	$10,637	($17,938)	($17,938)	
Wastewater	($98,456)	$9,078	($15,308)		($15,308)
Remove University Costs					
Revenue					
Water	($37,623)	($22,310)	$37,623	$37,623	
Wastewater	($47,956)	($28,437)	$47,956		$47,956
Expenses					
Water	($19,323)	$12,052	($20,324)	($20,324)	
Wastewater	($28,885)	$18,016	($30,381)		($30,381)
Rate Base					
Water	($367,363)	$33,871	($57,119)	($57,119)	
Wastewater	($483,516)	$44,580	($75,179)		($75,179)
Revenue Adjustments					
Reuse Revenue	$139,599	$82,781	($139,599)		($139,599)
Building Adjustments					
Lease					
Water	($17,280)	$10,778	($18,175)	($18,175)	
Wastewater	($8,902)	$5,552	($9,363)		($9,363)
Expenses					
Water	($2,376)	$1,482	($2,499)	($2,499)	
Wastewater	($1,224)	$763	($1,287)		($1,287)
Salary Adjustments					
Gulf Utility					
Water	($24,849)	$15,498	($26,136)	($26,136)	
Wastewater	($12,801)	$7,984	($13,464)		($13,464)
Caloosa					
Water	($5,905)	$3,683	($6,211)	($6,211)	
Wastewater	($3,042)	$1,897	($3,199)		($3,199)

Gulf Utility Company
Summary of Adjustments

Description	Adjustment	Net Operating Income	Total Revenue Requirement	Water Revenue equirement	Wastewater Revenue Requirement
Affiliate Transactions					
Increase CIAC					
Water	($68,114)	$6,280	($10,591)	($10,591)	
Wastewater	($92,815)	$8,558	($14,431)		($14,431)
Expense Allocations					
Water	($4,914)	$3,065	($5,168)	($5,168)	
Wastewater	($2,531)	$1,579	($2,662)		($2,662)
Amortize Nonrecurring Expenses					
Water	($8,000)	$4,990	($8,414)	($8,414)	
Wastewater	($10,500)	$6,549	($11,044)		($11,044)
Lobbying Expense					
Removed NAWC Lobbying Related Dues	($792)	$494	($833)	($550)	($283)
Overstatement of CIAC Amortization					
Water	($12,967)	$8,088	($13,639)	($13,639)	
Wastewater	($7,329)	$4,571	($7,709)		($7,709)
Overstatement of Depreciation Expense					
Water	($102,236)	$63,765	($107,531)	($107,531)	
Wastewater	($46,689)	$29,120	($49,107)		($49,107)
Miscellaneous Adjustments					
Unanticipated Expenses					
Water	($3,231)	$2,015	($3,398)	($3,398)	
Wastewater	($1,664)	$1,038	($1,751)		($1,751)
Rotary Dues					
Water	($155)	$97	($163)	($163)	
Wastewater	($80)	$50	($84)		($84)
Golf Outings					
Water	($523)	$326	($550)	($550)	
Wastewater	($257)	$161	($271)		($271)
Interest on Operating Account					
Water	$2,640	$2,640	($4,452)	($4,452)	
Wastewater	$1,360	$1,360	($2,293)		($2,293)
Board of Directors Fees					
Water	($5,940)	$3,705	($6,248)	($6,248)	
Wastewater	($3,060)	$1,909	($3,218)		($3,218)
Mr. Biddy's Recommendations					
Water					
Wastewater					
Recommended Revenue Increase (Decrease)			($898,018)	($425,172)	($472,846)
Gulf Requested Revenue Increase (Decrease)			$210,405	($155,935)	$366,340

Docket No 960329-WS
Kimberly H Dismukes
Exhibit No ___(KHD-1)
Schedule 2
Page 1 of 2

Gulf Utility Company
Cost of Capital

line no.	Class of Capital	Reconciled to Requested Rate Base	Ratio	Cost Rate	Weighted Cost
1	Long-Term Debt	$7,096,006	75.84%	10.63%	8.06%
2	Short-Term Debt	61,307	0.66%	11.01%	0.07%
3	Preferred Stock				
4	Customer Deposits	205,735	2.20%	6.00%	0.13%
5	Common Equity	750,319	8.02%	11.88%	0.95%
6	Tax Credits — Zero Cost				
7	Tax Credits — Weighted Cost				
8	Accumulated Deferred Income Taxes	1,242,602	13.28%		
9	Other				
10	Total	$9,355,968	100.00%		9.22%

Gulf Utility Company
Reconciliation of Capital Structure to Requested Rate Base

line no.	Class of Capital	Test Year	Reconciliation Adjustments: Adjustments	Reconciliation Adjustments: Adjusted Test Year	Reconciliation Adjustments: Prorata	Reconciled to Requested Rate Base
1	Long-Term Debt	$8,668,424		$8,668,424	77 55%	$7,096,006
2	Short-Term Debt	75,360		75,360	0 67%	61,307
3	Preferred Stock					
4	Customer Deposits	205,735		205,735		205,735
5	Common Equity	1,077,293	(160,928)	916,365	8 20%	750,319
6	Tax Credits — Zero Cost					
7	Tax Credits — Weighted Cost					
8	Accumulated Deferred Income Taxes	1,517,923		1,517,923	13 58%	1,242,602
9	Other					
10	Total	$11,544,735	($160,928)	$11,383,807	100 00%	$9,355,968

Gulf Utility Company
Reuse Revenue

Spray Sites	Annual Flow
San Carlos Golf Course	73,118,000
Vines Country Club	110,887,000
Villages of County Creek	82,392,000
River Ridge	292,000,000
Total Reclaimed Water	558,397,000
Reuse Rate/ Per 1000 Gallons	$ 0 25
Reuse Revenue	$ 139,599

Source Response to Staff Interrogatories 21 and 24, River Ridge Reuse Agreement

Docket No 960329-WS
Kimberly H Dismukes
Exhibit No ___(KHD-1)
Schedule 4

Gulf Utility Company
Adjustments for Affiliate Transaction

	Water	Wastewater
CIAC		
Increase CIAC to Offset Assets from Affiliate	$ (59,684)	$ (92,815)
Increase CIAC to Offset Assets from Affiliate	$ (8,430)	
Total	$ (68,114)	$ (92,815)

Caloosa Expense Allocations	Total	Allocation Factor	Allocation to Caloosa
IRA (Caloosa and Gulf Employees Only)	$ 21,775	8.85%	$ 1,926
Rent	59,830	2.62%	1,568
Health Insurance (Caloosa and Gulf Employees)	20,995	8.85%	1,857
Office Supplies	20,715	2.62%	543
Business Expenses, Conferences, Administrative	56,709	2.62%	1,486
Car Expenses	21,884	11.11%	2,431
Computer Depreciation	29,027	2.62%	761
Total	$ 209,160		$ 8,645
Amount to Charge Caloosa	$ 8,645		
Amount Charged by Company	$ 1,200		
Adjustment to Expenses	$ (7,445)		
Amount Allocation to Water @ 66%	$ (4,914)		
Amount Allocation to Wastewater @34%	$ (2,531)		

Gulf Utility Company
Building Adjustments

Lease Payment	**Amount**
Present Value Levelized Payment	$64,826
Utility Percent Occupancy	33 71%
Utility PV Levelized Payment	$ 21,853
Lease Charge (1)	$ 47,172
Caloosa Payment @ .0262	1,568
Lease Adjustment	$(26,887)
Allocation to Caloosa	$ (704)
Allocation to Water @ 66%	$(17,280)
Allocation to Wastewater @ 34%	$ (8,902)
Overstatement of Expenses	$ (3,600)
Allocation to Water @ 66%	$ (2,376)
Allocation to Wastewater @ 34%	$ (1,224)

(1) Excludes sales tax and operating expenses

Source Staff Audit Disclosure 4

Gulf Utility Company

Building Lease Adjustment

ear	Building	Depreciation	Accumulated Depreciation	Net Building Investment	Average Net Building Investment	Land	Total Average Investment	Return Plus Taxes 9.22%	Return Taxes Depreciation	Present Value 9.22%	Levelized Payment	Proof
1	$ 567,317	$ 14,183	$ 14,183	$ 553,134	$ 553,134	$ 126,324	$ 679,458	$ 62,646	$ 76,829	$70,343	$64,826	$59,353
2	$ 567,317	$ 14,183	$ 28,366	$ 538,951	$ 546,043	$ 126,324	$ 672,367	$ 61,992	$ 76,175	$63,857	$64,826	$54,343
3	$ 567,317	$ 14,183	$ 42,549	$ 524,768	$ 531,860	$ 126,324	$ 658,184	$ 60,685	$ 74,867	$57,463	$64,826	$49,756
4	$ 567,317	$ 14,183	$ 56,732	$ 510,585	$ 517,677	$ 126,324	$ 644,001	$ 59,377	$ 73,560	$51,693	$64,826	$45,555
5	$ 567,317	$ 14,183	$ 70,915	$ 496,402	$ 503,494	$ 126,324	$ 629,818	$ 58,069	$ 72,252	$46,488	$64,826	$41,710
6	$ 567,317	$ 14,183	$ 85,098	$ 482,219	$ 489,311	$ 126,324	$ 615,635	$ 56,762	$ 70,944	$41,793	$64,826	$38,189
7	$ 567,317	$ 14,183	$ 99,280	$ 468,037	$ 475,128	$ 126,324	$ 601,452	$ 55,454	$ 69,637	$37,560	$64,826	$34,965
8	$ 567,317	$ 14,183	$ 113,463	$ 453,854	$ 460,945	$ 126,324	$ 587,269	$ 54,146	$ 68,329	$33,743	$64,826	$32,013
9	$ 567,317	$ 14,183	$ 127,646	$ 439,671	$ 446,762	$ 126,324	$ 573,086	$ 52,839	$ 67,021	$30,304	$64,826	$29,311
10	$ 567,317	$ 14,183	$ 141,829	$ 425,488	$ 432,579	$ 126,324	$ 558,903	$ 51,531	$ 65,714	$27,204	$64,826	$26,837
11	$ 567,317	$ 14,183	$ 156,012	$ 411,305	$ 418,396	$ 126,324	$ 544,720	$ 50,223	$ 64,406	$24,412	$64,826	$24,571
12	$ 567,317	$ 14,183	$ 170,195	$ 397,122	$ 404,213	$ 126,324	$ 530,537	$ 48,916	$ 63,098	$21,897	$64,826	$22,497
13	$ 567,317	$ 14,183	$ 184,378	$ 382,939	$ 390,030	$ 126,324	$ 516,354	$ 47,608	$ 61,791	$19,633	$64,826	$20,598
14	$ 567,317	$ 14,183	$ 198,561	$ 368,756	$ 375,848	$ 126,324	$ 502,172	$ 46,300	$ 60,483	$17,596	$64,826	$18,859
15	$ 567,317	$ 14,183	$ 212,744	$ 354,573	$ 361,665	$ 126,324	$ 487,989	$ 44,993	$ 59,175	$15,762	$64,826	$17,267
16	$ 567,317	$ 14,183	$ 226,927	$ 340,390	$ 347,482	$ 126,324	$ 473,806	$ 43,685	$ 57,868	$14,112	$64,826	$15,809
17	$ 567,317	$ 14,183	$ 241,110	$ 326,207	$ 333,299	$ 126,324	$ 459,623	$ 42,377	$ 56,560	$12,629	$64,826	$14,475
18	$ 567,317	$ 14,183	$ 255,293	$ 312,024	$ 319,116	$ 126,324	$ 445,440	$ 41,070	$ 55,252	$11,296	$64,826	$13,253
19	$ 567,317	$ 14,183	$ 269,476	$ 297,841	$ 304,933	$ 126,324	$ 431,257	$ 39,762	$ 53,945	$10,097	$64,826	$12,134
20	$ 567,317	$ 14,183	$ 283,659	$ 283,659	$ 290,750	$ 126,324	$ 417,074	$ 38,454	$ 52,637	$9,021	$64,826	$11,110
21	$ 567,317	$ 14,183	$ 297,841	$ 269,476	$ 276,567	$ 126,324	$ 402,891	$ 37,147	$ 51,329	$8,054	$64,826	$10,172
22	$ 567,317	$ 14,183	$ 312,024	$ 255,293	$ 262,384	$ 126,324	$ 388,708	$ 35,839	$ 50,022	$7,186	$64,826	$9,313
23	$ 567,317	$ 14,183	$ 326,207	$ 241,110	$ 248,201	$ 126,324	$ 374,525	$ 34,531	$ 48,714	$6,408	$64,826	$8,527
24	$ 567,317	$ 14,183	$ 340,390	$ 226,927	$ 234,018	$ 126,324	$ 360,342	$ 33,224	$ 47,406	$5,709	$64,826	$7,807
25	$ 567,317	$ 14,183	$ 354,573	$ 212,744	$ 219,835	$ 126,324	$ 346,159	$ 31,916	$ 46,099	$5,083	$64,826	$7,148
26	$ 567,317	$ 14,183	$ 368,756	$ 198,561	$ 205,652	$ 126,324	$ 331,976	$ 30,608	$ 44,791	$4,522	$64,826	$6,545
27	$ 567,317	$ 14,183	$ 382,939	$ 184,378	$ 191,469	$ 126,124	$ 317,793	$ 29,301	$ 43,483	$4,019	$64,826	$5,992
28	$ 567,317	$ 14,183	$ 397,122	$ 170,195	$ 177,287	$ 126,324	$ 303,611	$ 27,993	$ 42,176	$3,569	$64,826	$5,486
29	$ 567,317	$ 14,183	$ 411,305	$ 156,012	$ 163,104	$ 126,324	$ 289,428	$ 26,685	$ 40,868	$3,167	$64,826	$5,023
30	$ 567,317	$ 14,183	$ 425,488	$ 141,829	$ 148,921	$ 126,324	$ 275,245	$ 25,378	$ 39,560	$2,807	$64,826	$4,599
31	$ 567,317	$ 14,183	$ 439,671	$ 127,646	$ 134,738	$ 126,324	$ 261,062	$ 24,070	$ 38,253	$2,485	$64,826	$4,211
32	$ 567,317	$ 14,183	$ 453,854	$ 113,463	$ 120,555	$ 126,324	$ 246,879	$ 22,762	$ 36,945	$2,197	$64,826	$3,855
33	$ 567,317	$ 14,183	$ 468,037	$ 99,280	$ 106,372	$ 126,324	$ 232,696	$ 21,455	$ 35,637	$1,941	$64,826	$3,530
34	$ 567,317	$ 14,183	$ 482,219	$ 85,098	$ 92,189	$ 126,324	$ 218,513	$ 20,147	$ 34,330	$1,712	$64,826	$3,232
35	$ 567,317	$ 14,183	$ 496,402	$ 70,915	$ 78,006	$ 126,324	$ 204,330	$ 18,839	$ 33,022	$1,507	$64,826	$2,959
36	$ 567,317	$ 14,183	$ 510,585	$ 56,732	$ 63,823	$ 126,324	$ 190,147	$ 17,532	$ 31,714	$1,325	$64,826	$2,709
37	$ 567,317	$ 14,183	$ 524,768	$ 42,549	$ 49,640	$ 126,324	$ 175,964	$ 16,224	$ 30,407	$1,164	$64,826	$2,481
38	$ 567,317	$ 14,183	$ 538,951	$ 28,366	$ 35,457	$ 126,324	$ 161,781	$ 14,916	$ 29,099	$1,020	$64,826	$2,271
39	$ 567,317	$ 14,183	$ 553,134	$ 14,183	$ 21,274	$ 126,324	$ 147,598	$ 13,609	$ 27,791	$892	$64,826	$2,080
40	$ 567,317	$ 14,183	$ 567,317	$ 0	$ 7,091	$ 126,324	$ 133,415	$ 12,301	$ 26,484	$778	$64,826	$1,904
										$682,449		$682,449

Docket No 960329-WS
Kimberly H. Dismukes
Exhibit No ___(KHD-1)
Schedule 6

Gulf Utility Company
Caloosa Salary Adjustment

Employee	Recommended (1) Gulf	Caloosa	Total	Gulf Hourly Rate	Caloosa Hourly Rate	Total	Allocation To Caloosa	Adjustment
Moore	$ 101,995	$ 5,900	$ 107,895	$ 49.04	$ 22 69	$ 46.11	$ 11,988	$ (6,088)
Andrews	$ 48,038	$ 3,474	$ 51,512	$ 25.66	$ 16 70	$ 24 77	$ 5,151	$ (1,677)
Babcock	$ 30,190	$ 936	$ 31,126	$ 15.28	$ 9.00	$ 14 96	$ 1,556	$ (620)
Rivers	$ 27,475	$ 1,000	$ 28,476	$ 13.90	$ 9.62	$ 13.69	$ 1,424	$ (423)
Gravel	$ 18,564	$ 832	$ 19,396	$ 9.39	$ 8.00	$ 9.33	$ 970	$ (138)
Total	$ 226,261	$ 12,142	$ 238,404				$ 21,089	$ (8,947)

Gulf Payroll	$ 784,327
Caloosa Revised Payroll	$ 21,089
Total Gulf and Caloosa Payroll	$ 805,416
Caloosa as a % of Total	2.62%

(1) Removes excessive pay increase included in 1996 budget.

Docket No 960329-WS
Kimberly H Dismukes
Exhibit No __(KHD-1)
Schedule 7

Gulf Utility Company
Salary Adjustments

	1996 Salary	1995 Salary	% Increase	Adjustment	Revised Salary	
Newton						Director of Gulf and Caloosa - Not Active in Day to Day Operations
Moore	$103,418	$ 97,138	6 5%	$ (1,423)	$ 101,995	Keeps Time Records-40 hours to Gulf
Mann	$ 49,608	$ 46,128	7 5%	$ (1,174)	$ 48,434	Does Not Keep Time Records-Time Varies
Andrews	$ 49,500	$ 45,750	8 2%	$ (1,463)	$ 48,038	
Messner	$ 45,115	$ 42,349	6 5%	$ (649)	$ 44,466	
Babcock	$ 31,500	$ 28,752	9 6%	$ (1,310)	$ 30,190	
Rivers	$ 28,600	$ 26,167	9 3%	$ (1,125)	$ 27,475	
Gravel	$ 18,837	$ 17,680	6 5%	$ (273)	$ 18,564	
Subtotal				$ (7,416)		
Adjustment for Mr. Mann				$ (30,234)		
Total				$ (37,650)		

Gulf Utility Company
Adjustment for Lobbing Related Dues

		Amount
NAWC Dues	$	2,889
NAWC Conference		405
NAWC Conference		5
Total	$	3,299
Allocation for Lobbying		24%
Removing Lobby-Related Dues	$	(792)

Source Response to OPC Interrogatories 3 and 24

Docket No 960329-WS
Kimberly H Dismukes
Exhibit No ___(KHD-1)
Schedule 9

Gulf Utility Company
Adjustment to Amortize Nonrecurring Expenses

	Water		Wastewater	
Pond Cleaning	$	16,000		
Amortization Period		2		
Adjustment	$	(8,000)		
Lift Station Coating and Repairs			$	21,000
Amortization Period				5
Adjustment			$	(16,800)
Add Normal Repair Amount				6,300
Net Adjustment			$	(10,500)

Source Response to OPC Interrogatory 28

Docket No 960329-WS
Kimberly H Dismukes
Exhibit No ___(KHD-1)
Schedule 10

Gulf Utility Company
Miscellaneous Adjustments

	Water		Wastewater		Total	
Unanticipated Expenses						
Miscellaneous Expenses (1)	$	(2,571)	$	(1,324)	$	(3,895)
Source of Supply		(660)		(340)	$	(1,000)
Total	$	(3,231)	$	(1,664)	$	(4,895)
Rotary Dues	$	(155)	$	(80)	$	(235)
Golf Outings/Gift Baskets (1)	$	(523)	$	(257)	$	(780)
Interest on Operating Account	$	2,640	$	1,360	$	4,000
Board of Directors Fees						
Russell Newton, Jr.					$	-
William Newton					$	(3,000)
Russell Newton, III					$	(6,000)
Total	$	(5,940)	$	(3,060)	$	(9,000)

(1) Net of allocations to Caloosa

Source Response to OPC Interrogatory 37 and Document Request 10

Docket No 960329-WS
Kimberly H Dismukes
Exhibit No ___(KHD-1)
Schedule 11

Gulf Utility Company
Remove University Related Costs and Revenue

	Water		Wastewater	
Revenue	$	(37,623)	$	(47,956)
Expenses				
Power	$	(3,000)	$	(5,190)
Chemicals		(3,150)		(2,330)
Sludge Removal				(4,130)
Depreciation Expense		(13,173)		(17,235)
Total	$	(19,323)	$	(28,885)
Plant In Service	$	(526,936)	$	(615,701)
Accumulated Depreciation		13,173		17,235
CIAC		146,400		114,950
Total Rate Base	$	(367,363)	$	(483,516)

Source Response to OPC Interrogatory 26

Docket No 960329-WS
Kimberly H Dismukes
Exhibit No ___(KHD-1)
Schedule 12

Gulf Utility Company
SFWMD Funding

	Wastewater
Increase CIAC	$ (300,000)

Source Response to Staff Interrogatory 37

Gulf Utility Company
Prepaid CIAC Adjustment

	Water	Wastewater
Increase CIAC	$ (379,319)	$ (207,304)

Source Staff Audit Disclosure 2

Docket No 960329-WS
Kimberly H Dismukes
Exhibit No _ (KHD-1)
Schedule 14

Gulf Utility Company
CIAC Amortization Adjustments

	Water	Wastewater
Reduce Rate Base	$ (115,371)	$ (98,456)
Reduce Expenses	$ (12,967)	$ (7,329)

Source Staff Audit Exception 2

Docket No 960329-WS
Kimberly H Dismukes
Exhibit No ___(KHD-1)
Schedule 15

Gulf Utility Company
Depreciation-Related Adjustments

	Water	Wastewater
Understatement of Accumulated Depreciation	$ (172,608)	$ (158,465)
Reduce Depreciation Expense	$ (102,236)	$ (46,689)

Source Staff Audit Exception 6

Docket No. 960329-WS
Kimberly H. Dismukes
Exhibit No. ___(KHD-1)
Schedule 16

Gulf Utility Company
Adjustment for Error in MFRs

	MFR Amount	Corrected Amount	Wastewater Adjustment
Utility Plant In Service	$ 14,282,349	$ 14,280,084	$ (2,265)

Source Audit Exception 4

Gulf Utility Company
Working Capital

Staff Working Capital Per Audit	$ 381,610
Adjustments	
Remove Unamortized Rate Case Expense	(57,561)
Unamortized Debt Discount and Expense	(394,954)
Accrued Interest on IRB	18,128
Accounts Receivable Adjustment	4,477
Materials and Supplies Adjustment	2,238
Recommended Working Capital	$ (46,062)
Company Requested Working Capital	$ 593,611
Adjustment to Company Working Capital	$ (639,673)
Allocation to Water	$ (422,184)
Allocation to Wastewater	$ (217,489)

Hypothetical Working Capital and Source of Funds

Balance Sheet		
Assets		
Net Plant in Service	$	100,000
Current Assets		
Cash		3,000
Accounts Receivable		2,000
Materials and Supplies		500
Miscellaneous Current Assets		1,000
Deferred Debits		
Miscellaneous Deferred Debits		1,000
Accumulated Deferred Income Taxes		3,000
Total Assets	$	110,500
Equity & Liabilities		
Common Stock	$	500
Paid In Capital		10,000
Retained Earnings		5,000
Long-Term Debt		60,000
Current Liabilities		
Accounts Payable		5,000
Customer Deposits		4,000
Accrued Taxes		500
Miscellaneous Current Liabilities		5,000
CIAC Net		10,000
Accumulated Deferred Taxes		10,500
Total Equity Capital & Liabilities	$	110,500

Rate Base		
Rate Base		
Net Plant In Service	$	100,000
CIAC		(10,000)
Working Capital		(3,000)
Total	$	87,000
Sources of Capital		
Capital Structure		
Common Equity	$	15,500
Debt		60,000
Cust. Deposits		4,000
Deferred Taxes		7,500
Total Capital	$	87,000
Allowed Return : 10%		

Working Capital		
Current Assets		
Cash	$	3,000
Acts Receivable		2,000
Materials & Supplies		500
Misc. Current Assets		1,000
Misc. Deferred Debts		1,000
Gross WC Requirement	$	7,500
Cost -Free Capital		
Accounts Payable	$	5,000
Accrued Taxes		500
Misc. Accrued Liab.		5,000
Total	$	10,500
Net Working Capital	$	(3,000)

CERTIFICATE OF SERVICE
DOCKET NO 960329-WS

I HEREBY CERTIFY that a correct copy of the foregoing has been furnished by U.S. Mail or *hand-delivery to the following parties on this 20th day of December, 1996.

Stephen C. Reilly

B. Kenneth Gatlin, Esquire
Gatlin, Woods & Carlson
The Mahan Station
1709-D Mahan Drive
Tallahassee, FL 32308

*Maggi O'Sullivan, Esquire
Division of Legal Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

CERTIFICATE OF SERVICE
DOCKET NO. 960329-WS

Dismukes

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12/20/96