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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
2 **GULF UTILITY COMPANY**
3 **APPLICATION FOR CHANGE IN WATER AND WASTEWATER RATES**
4 **DOCKET NO. 900329-WS**

5 **REBUTTAL TESTIMONY OF ROBERT C. NIXON, C.P.A.**

6 **Q. Please state your name and professional address.**

7 **A. Robert C. Nixon, C.P.A., a partner in the accounting firm**
8 **of Cronin, Jackson, Nixon & Wilson, P.A., 2560 Gulf-To-Bay**
9 **Boulevard, Suite 200, Clearwater, Florida 34625.**

10 **Q. Have you previously provided testimony in this Docket?**

11 **A. Yes.**

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

13 **A. The purpose of my rebuttal testimony is to respond to the**
14 **direct testimony of Ms. Kimberly H. Dismukes, witness for**
15 **the Office of Public Counsel, on the issue of the**
16 **allowance for working capital.**

17 **Q. First, let's begin by understanding what working capital**
18 **is. Would you please define working capital from both a**
19 **financial standpoint and the rate making perspective?**

20 **A. From a financial standpoint, working capital is a measure**
21 **of financial liquidity of a business enterprise. The**
22 **measurement is based on the availability of cash and other**
23 **current assets that are readily convertible to cash that**
24 **may be used to meet liabilities that must be paid in the**
25 **current business cycle. This financial liquidity measure**

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1 is based on a comparison of current assets to current
2 liabilities at a point in time. Measurement is expressed
3 as the ratio of current assets to current liabilities and
4 is commonly referred to as the current ratio. In my
5 experience, most banks and other financial institutions
6 look for a minimum current ratio of 2 times. According to
7 Gulf's audited financial statements at December 31, 1995,
8 the Company had current assets of \$4.8 million and current
9 liabilities of approximately \$1.4 million. This results
10 in a current ratio of approximately 3.4 times.

11 The rate making perspective of working capital is
12 quite different. The following definitions are taken from
13 the text "*Accounting for Public Utilities*," by Robert L.
14 Mahne and Gregory E. Aliff, published by Matthew-Bender:

15 "For rate making purposes, working
16 capital is a measure of investor funding
17 of daily operating expenditures and a
18 variety of non-plant investments that
19 are necessary to sustain ongoing
20 operations of the utility. The rate
21 making measure of working capital is
22 designed to identify these ongoing
23 funding requirements on average over a
24 test year." Emphasis supplied.

25 "The average amount of capital provided

1 by investors, over and above the
2 investment in plant and other
3 specifically measured rate base items,
4 to bridge the gap between the time
5 expenditures are required to provide
6 services and the time collections are
7 received for such services." Emphasis
8 supplied.

9 These definitions of working capital have been
10 accepted and used by the Commission since it began
11 regulating water and wastewater companies under its
12 jurisdiction.

13 Q. Does Ms. Dismukes' testimony on working capital conform
14 with the generally accepted definitions you have just
15 given?

16 A. No. Ms. Dismukes fails to understand that the allowance
17 for working capital is just that -- an allowance over and
18 above the capital investment in plant and other
19 specifically measured rate base items. Under
20 Ms. Dismukes' definition, current assets and current
21 liabilities are a source of capital for rate base plant
22 investment. Long lived plant assets simply are not funded
23 by working capital. Rather, working capital is a
24 measurement of cash required to fund day-to-day
25 operations.

- 1 Q. What sources of capital has the Commission looked to in
2 support of rate base plant investment?
- 3 A. The Florida Commission, and all other jurisdictions of
4 which I am aware, utilize the capital structure plus
5 accumulated deferred income taxes and tax credits.
- 6 Q. Please define the term capital structure as you have just
7 used it.
- 8 A. The capital structure of a utility consists of those long-
9 term sources of funds used for plant investment and
10 include common equity, long- and short-term debt, deferred
11 tax credits, and customer deposits. These are the
12 elements of capital structure which the Commission has
13 used for as long as I can remember and are set forth on
14 Schedule D-1 of the Commission's uniform MFR's and adopted
15 by reference in Rule 25-30.437.
- 16 Q. Does that schedule of capital structure contain any
17 current asset or current liability accounts?
- 18 A. No, except for customer deposits, which is viewed as a
19 type of short-term debt.
- 20 Q. Why is an understanding of the definition of working
21 capital and the components of the capital structure
22 important?
- 23 A. Understanding these definitions is important because
24 Ms. Dismukes has recommended that negative working capital
25 should be used to reduce the Company's net rate base

1 investment which, as I just explained, is supported by a
2 Company's capital structure, and not its working capital
3 accounts. Traditionally, the Commission and its Staff
4 have well understood these definitions and, as a result,
5 have not reduced rate base investment by a negative
6 working capital allowance.

7 Q. On page 22, lines 19-21, Ms. Dismukes states that if the
8 Commission does not include a negative working capital
9 allowance in rate base, it will provide the Company with
10 an opportunity to overearn. Is she correct?

11 A. Absolutely not. For this to be true, the Commission would
12 need to abandon its traditional rate making practice,
13 based on the capital structure and the cost thereof, and
14 adopt a new capital structure which includes current
15 assets and current liabilities. Additionally, the
16 Commission would need to abandon its traditional
17 definition of working capital and determine that current
18 assets and current liabilities do not fund day-to-day
19 operations; but instead, are a source of funding for
20 capital utility plant investments.

21 Q. Is there such a thing as negative working capital?

22 A. Yes, for a financially distressed utility. Under
23 Ms. Dismukes' proposal, the worse off a utility is
24 financially, not only is there no need for an allowance
25 for working capital, but a utility should be penalized by

1 reducing its investment which is supported by the capital
2 structure.

3 Negative working capital may exist prior to rate
4 relief, particularly if rates have been grossly
5 insufficient. However, if proper adjustments are made to
6 reflect the impact of the sought after rate increase,
7 balance sheet working capital is seldom negative.

8 More often, computation of a negative working capital
9 allowance simply means that the computation is flawed.
10 Either the adjustments just mentioned have not been
11 considered or the calculation contains current assets or
12 liabilities which should have been eliminated.
13 Conversely, certain components may have been eliminated
14 which should have remained in the computation.

15 Q. Has the Commission adopted any rules or published any
16 guidelines on how balance sheet working capital is to be
17 calculated?

18 A. None of which I am aware. Although rule making would
19 certainly be appropriate under Section 120.54 F.S., and
20 may be required, no rule as defined in Section 120.52 (15)
21 has been adopted by the Commission on balance sheet
22 working capital.

23 Q. On page 23, lines 11-15, Ms. Dismukes quotes the remarks
24 of Commissioner Deason in part: "and a negative working
25 capital allowance, all it means is that there are other

1 sources of capital other than things supplied by the
2 investor that are being used to support the operations of
3 this company. And it is important to recognize that like
4 we do other sources of capital." Would you please
5 comment?

6 A. I respectfully disagree with Commissioner Deason that a
7 negative working capital means there are "other sources of
8 capital." Assuming the computation was correctly made
9 which resulted in a negative allowance, this would simply
10 mean that there are other sources of cash working capital
11 to support day-to-day operations. A negative working
12 capital computation would not demonstrate a source of
13 capital used to support rate base under the definitions
14 and long-standing Commission policy I have discussed
15 above. In my opinion, a negative working capital, validly
16 computed, simply means that a company has no need for an
17 allowance which earns a rate of return. It does not mean
18 that working capital deserves capital structure
19 recognition.

20 Q. On page 24, lines 9-11, Ms. Dismukes states that the
21 Commission's rules have no requirement for a zero working
22 capital allowance and notes that the Commission's rules
23 require that the balance sheet approach to working capital
24 be used for Class "A" and "B" water and wastewater
25 utilities. Is she correct?

1 A. She is correct that no rule exists regarding zero working
2 capital; however, long-standing Commission policy, as
3 reflected in numerous rate orders, indicates that zero
4 working capital is appropriate for those companies with a
5 validly computed negative working capital allowance. She
6 is incorrect with regard to which utilities are required
7 to use the balance sheet method. Under Rule 25-30.433
8 (2), the balance sheet approach for calculating working
9 capital is required only for Class "A" utilities. Working
10 capital for Class "B" and "C" utilities is based on the
11 formula method.

12 Q. On page 24, beginning at line 14 and continuing through
13 page 25, line 13, Ms. Dismukes discusses her hypothetical
14 example, attached to her testimony as Schedule 18, to
15 demonstrate how the Company would overearn if a negative
16 working capital allowance is not included in rate base.
17 Does the hypothetical example on Schedule 18 support her
18 assertion?

19 A. No. The numbers in the hypothetical example are self-
20 serving and have been crafted to demonstrate Ms. Dismukes'
21 argument for recognition of negative working capital. The
22 flaw in the example, as crafted, is Ms. Dismukes' belief
23 that the Commission somehow regulates total assets and
24 liabilities. It does not. Historically, the Commission
25 has considered only defined elements of rate base and

1 capital structure, not total assets and liabilities. As
2 I mentioned previously, the Commission would need to
3 change its basic approach to rate making in order for
4 Ms. Dismukes' example to have any validity.

5 More specifically, items such as accounts payable,
6 accrued taxes, and miscellaneous accrued liabilities are
7 not sources of cost-free capital. They may be a source of
8 cash flow and cash working capital required to pay for
9 day-to-day operating expenses, but they are not a capital
10 source of funds supporting rate base plant investment.

11 Q. Would you please comment more specifically on the numbers
12 in the hypothetical example?

13 A. As I previously stated, the numbers in the hypothetical
14 example are self-serving and have been crafted to support
15 a specific conclusion. In addition, the numbers do not
16 appear to be realistic. We are not given enough
17 information to fully understand the financial position and
18 working capital needs of the utility in the hypothetical
19 example. I note the following:

20 1. The realism of the numbers in the capital
21 structure is questionable. Presumably, the original plant
22 investment was in excess of \$100,000, since net plant is
23 shown. Yet, common equity and long-term debt total only
24 \$75,500. Thus, it is likely this utility has been losing
25 a lot of money. The example does not fit the typical

1 utility capital structure, where total capital exceeds the
2 rate base and must be reconciled downward on a prorata
3 basis.

4 2. Miscellaneous current liabilities appear to be
5 conveniently high. What are they? Do they relate to
6 operations and properly belong in the computation of
7 working capital? Not enough information is available to
8 answer these questions.

9 3. The existence of \$3,000 of accumulated deferred
10 income tax debits is suspect. They would arise only from
11 book/tax timing differences where income is recorded for
12 tax purposes, but not book purposes. Further, they would
13 only be booked if it was more likely than not that the
14 company would have future taxable income which would allow
15 realization. As I mentioned, the numbers in the capital
16 structure suggest the company has been losing money and
17 probably operates at a loss for both book and tax
18 purposes.

19 Without this deferred tax asset, the capital structure
20 would correctly total \$90,000 and be equal to the net rate
21 base investment before consideration of any allowance for
22 working capital.

23 4. Net CIAC is unrealistically low. Under Commission
24 Rule 25-30.580, governing service availability charges and
25 CIAC levels (75 percent/25 percent rule), one would expect

1 net CIAC to be much higher than the \$10,000 shown in the
2 hypothetical example.

3 Resolution of the questions raised above or simply use
4 of a more realistic number for net CIAC would change the
5 results stated by Ms. Dismukes and support the traditional
6 methods of rate making previously discussed.

7 Q. You have defined working capital and distinguished between
8 working capital and the capital structure of a utility.
9 Also, you have discussed and explained the Commission's
10 traditional rate making practices related to these items.
11 From a practical standpoint, what is allowance for working
12 capital trying to approximate?

13 A. The concept of working capital is a cash concept.
14 Regulators attempt to determine the amount of investor-
15 supplied cash which is necessary to fund day-to-day
16 operations between the time expenses are incurred and cash
17 is collected to pay for such expenses. Generally, the
18 methods used to estimate this cash requirement are
19 lead/lag studies, the formula method, and balance sheet
20 method.

21 Q. Earlier, you mentioned that the Commission had no rules,
22 written procedures, or other guidance to actually make the
23 balance sheet working capital computation. Is that
24 correct?

25 A. Yes.

1 Q. Generally, how is working capital, using the balance sheet
2 method, computed?

3 A. The simple answer is that cost-free current assets are
4 subtracted from cost-free current liabilities. In
5 reality, the computation is much more complex and
6 subjective. For instance, those elements of current
7 assets and liabilities which are considered elsewhere in
8 the rate making process are eliminated and certain known
9 and measurable items are added. It is these types of
10 additions, subtractions, and adjustments to the current
11 asset and liability accounts which make the computation
12 subjective and for which no Commission guidance exists.

13 Q. Let's discuss some of these issues generally and as they
14 apply to Gulf Utility Company. First, what problems are
15 involved with determining cost-free current assets and
16 current liabilities?

17 A. Cash is certainly a problem. In a well managed utility,
18 there is no such thing as cash which is not in an interest
19 bearing account of some kind. Since the Commission first
20 started using the balance sheet method in the late 1970's,
21 in a telephone case, the banking industry has offered a
22 variety of cash management tools which now allow even
23 operating accounts to earn interest. Such innovations as
24 overnight "sweep" accounts and various types of temporary
25 investment accounts are available to the utility manager.

1 As it applies to Gulf, its operating cash account is
2 a "sweep" account which earns a modest amount of interest.
3 Although the operating account earns interest, it should
4 not be eliminated from the working capital computation,
5 since the account is required to fund day-to-day
6 operations. Rather, the Commission should recognize
7 today's banking and operating environment by allowing such
8 cash in the computation, and reducing such cash by the
9 interest earnings.

10 Q. What difficulties are associated with the elimination of
11 working capital accounts which are provided for elsewhere
12 in the rate making process?

13 A. A good example of this type of adjustment is customer
14 deposits. Since they are recognized in the capital
15 structure, they are eliminated from the working capital
16 computation. While customer deposits treatment is
17 straightforward, other less apparent items lead to
18 controversy for which there is no firm guidance. For
19 example, most utility companies include plant construction
20 payables in accounts payable. Because the plant assets
21 related to the payables are included in rate base and earn
22 a rate of return, such payables should be eliminated from
23 the computation. The source of funding for construction
24 payables is generally long-term debt recognized in the
25 capital structure. Also, such payables do not relate to

1 funding of the day-to-day operations and the working
2 capital needed to fund such operations.

3 Another controversial item in this area relates to
4 accrued interest payable. Although interest payable has
5 been recognized in cost of capital applied to rate base,
6 it is generally included to offset cash carried in the
7 operating account to actually make the payment. However,
8 circumstances differ from company to company and interest
9 payments may not be made from the operating cash account.
10 In the case of Gulf, the Company's primary financing
11 vehicle is Industrial Development Revenue Bonds. The
12 Company has special cash deposits from which principal and
13 interest payments are made. As a result, it is not
14 appropriate to include interest payable in the working
15 capital computation, since payments are not made from the
16 operating account and the account which actually funds
17 interest payments has been eliminated.

18 It is very important in analyzing current assets and
19 liabilities to utilize the matching concept.

20 Q. How about the additions or adjustments to working capital
21 accounts you mentioned?

22 A. These adjustments generally attempt to account for the
23 impact of rate increases on working capital. These
24 adjustments are important because a company's historic
25 test year balance sheet working capital is understated,

1 since its rates have not been sufficient to cover
2 operating expenses and/or generate a fair rate of return.
3 These types of adjustments include the impact of higher
4 rates on cash and customer accounts receivable.

5 Another adjustment of this type recognizes deferred
6 rate case expense or deferred maintenance costs which are
7 approved in the course of a rate proceeding and not
8 reflected in test year working capital.

9 Gulf has made several adjustments along these lines
10 which should be considered and approved by the Commission.

11 Q. Do used and useful adjustments impact the balance sheet
12 working capital computation?

13 A. Yes. Interest payable should be adjusted for used and
14 useful interest. That is, the interest expense which is
15 associated with the capital structure as reconciled to
16 rate base. This would not apply to Gulf, since interest
17 payable is not funded by the operating cash account.
18 Instead, there is a matching debt service cash account
19 which has been established to service debt.

20 Q. Have you reviewed the Staff Audit Report dated
21 November 12, 1996, and Gulf's response dated
22 December 6, 1996, as related to working capital in Audit
23 Exception No. 5?

24 A. Yes. I also reviewed Gulf's response to Audit Exception
25 No. 5 included in the Audit Report as pages 14 and 15.

1 Q. What period did the audit use for computing the working
2 capital allowance?

3 A. The 13 months ended August 30, 1996. As stated in the
4 report, this was the latest period for which actual data
5 was available.

6 Q. What test period did the Company use?

7 A. The projected test year ended December 31, 1996.

8 Q. What period should be used and why?

9 A. The projected test year ended December 31, 1996. Failure
10 to use the projected period ignores the impact of known
11 changes, primarily related to annualized 1996 growth, the
12 revenue associated with Florida Gulf Coast University
13 (FGCU), and impact of the proposed rates requested in this
14 proceeding.

15 Q. What working capital accounts were impacted by this
16 failure and do the projected test year balances appear
17 reasonable?

18 A. Cash and customer accounts receivable. Based on a
19 comparison of projected test year balances with historic
20 test year balances (year ended December 3, 1995), and
21 projected revenue on Schedule E-13, pages 152 and 154
22 (NFR's), the projections for these accounts appear
23 reasonable.

24 Average cash and customer receivable balances for the
25 historic test year amounted to \$1,120,472 and \$260,014,

1 respectively. These same average account balances for the
 2 projected test year amount to \$1,143,929 and \$305,246,
 3 respectively. Thus, average projected cash increased by
 4 \$23,457 (2.09%) while projected customer receivables
 5 increased by \$45,232 (17.39%).

6 As mentioned above, projections for these accounts
 7 included the impact of customer growth and a full year's
 8 revenue using proposed rates. A summary of projected
 9 revenue increases is as follows:

	<u>1995</u>	<u>1996</u>	<u>MFR Reference</u>
11 Water	\$2,124,579	\$2,140,299	E-2, pg. 133; E-13, pg. 152
13 Sewer	<u>1,117,570</u>	<u>1,670,870</u>	E-2 pg. 135; E-13, pg. 154
15 Total	<u>\$3,242,149</u>	<u>\$3,811,169</u>	
16 Total increase		<u>\$569,020</u>	
17 Average monthly increase		<u>\$ 47,418</u>	

18 Based on the above, Gulf's projections for cash and
 19 customer receivables appear reasonable.

20 Q. I understand how receivables could be expected to increase
 21 by the average monthly increases in revenue. How about
 22 cash?

23 A. The cash average assumes that over the projected period,
 24 approximately 50 percent of the increase in receivables
 25 would be converted to cash, net of increased O&M expense
 26 and taxes other than income.

27 Q. Please discuss the reasonableness of the other projected

1 working capital accounts.

2 A. I would like to divide these accounts into two categories:
3 Those that do not effect the allowance for working capital
4 computation and those that do have an impact.

5 Those that do not have an effect because they are
6 eliminated are as follows: Special deposits, notes
7 receivable and payable to associated companies,
8 miscellaneous current and accrued assets (interest),
9 accounts payable - construction, customer deposits,
10 unamortized debt discount, preliminary survey and
11 investigation charges, clearing accounts, and accumulated
12 deferred income taxes.

13 Thus, from a working capital standpoint, the accuracy
14 of the projections for eliminated accounts is irrelevant.
15 However, I would point out that with the exception of
16 accumulated deferred income taxes, all of the average
17 projected balances for these accounts are lower than the
18 average historic balances for 1995.

19 Q. What are the remaining accounts which do have an impact
20 and are the projected average balances reasonable?

21 A. The remaining accounts are as follows: Prepayments,
22 materials and supplies, accounts payable/trade, accrued
23 taxes, accrued interest, miscellaneous current
24 liabilities, deferred rate case expense, and miscellaneous
25 deferred debits.

1 Prepayments consist primarily of prepaid insurance and
2 office equipment maintenance contracts. Projected
3 insurance costs are depicted on MFR Schedules B-3 (pages
4 71 and 72). The policies were expected to be renewed in
5 January and February, 1996, and expensed over a 24-month
6 policy period. As a result, the projected monthly amounts
7 and resulting average balance appears reasonable.

8 Materials and supplies were projected to total
9 \$24,326. This compares to the historic 1995 average
10 balance of \$26,078. Thus, the projection is reasonable.
11 During the course of this proceeding, Gulf increased the
12 average to \$37,476 for inventory of a water treatment
13 chemical to improve water quality. This balance has been
14 accepted by OPC witness Dismukes.

15 Accounts payable/trade averaged \$180,640 in the 1995
16 historic test year as compared to \$170,889 for projected
17 1996, a difference of just 5.7 percent. The difference
18 appears due to the fact that construction payables are
19 included throughout the historic test year, while they are
20 excluded for the months of April through December on the
21 projected balance sheet. In any event, the difference
22 between 1995 and 1996 is immaterial and the projected
23 balance appears reasonable.

24 Accrued taxes were projected to average \$329,812 as
25 compared to the historic average of \$209,052. The

1 projection included increases in payroll taxes, property
2 taxes, and Regulatory Assessment Fees. Projected
3 increases per Schedules B-15, pages 93 and 94 total
4 \$40,546. Thus, the 1996 projection appears overstated and
5 should be accepted.

6 Q. Speaking of accrued taxes, did the Company's projection
7 include an account "CIAC Tax Payable," totalling \$314,632?

8 A. No. The title of this account is misleading. Actually,
9 this account represents the liability for "Contributed
10 Taxes" -- gross-up collections. The account is carried as
11 a liability until the Commission determines how much
12 should be refunded to the contributor of gross-up. The
13 opposite side of this entry is cash deposited in an
14 interest bearing escrow account, pursuant to the Company's
15 gross-up tariffs. Such cash has been excluded from the
16 working capital computation.

17 Q. Please continue with your comments on working capital
18 accounts.

19 A. The next one is accrued interest. Since I have eliminated
20 this account from the working capital computation, as
21 discussed in further detail below, an accurate projection
22 was not essential. However, Gulf has provided Staff with
23 a detailed computation of 1996 accrued interest, totalling
24 \$269,790, (page 15 of Audit Report) which has been
25 accepted by OPC witness Kim Dismukes.

1 Miscellaneous current and accrued liabilities include
2 salaries and employee benefits payable. The projected
3 1996 average balance is slightly less than the 1995
4 balance (\$49,740 vs. \$50,088). Thus, the projected amount
5 appears to be reasonable.

6 Deferred rate case expense was projected to average
7 \$57,561. This number was used by the auditors. In
8 keeping with Commission policy, the average actual expense
9 approved in this proceeding should be substituted for the
10 projected 1996 average balance.

11 Finally, miscellaneous deferred debits were projected
12 to be \$335,205 for 1996, as compared to an average 1995
13 balance of \$465,660. This account contains amounts due
14 under developer refundable advance agreements (\$204,231,
15 which did not change) and various deferred charges. These
16 items include the cost of operating permits and regulatory
17 costs primarily related to gross-up proceedings. The only
18 projected changes to the account balance related to
19 amortization of the various deferred charges mentioned
20 above. Therefore, the projected balance is reasonable.

21 Q. What is your conclusion regarding the projected working
22 capital account balances which have an impact on the
23 computation of the allowance?

24 A. Based on my comments above, the projected working capital
25 accounts for the 1996 test year are reasonable and provide

1 an acceptable basis for determining an allowance for
2 working capital.

3 Q. Have you computed an allowance for working capital using
4 the NFR account and balances we just discussed?

5 A. Yes. Attached to my testimony is Exhibit _____ (RCN-1),
6 which calculates a working capital allowance of \$476,996,
7 before adjustment for final deferred rate case expense.

8 Q. Let's briefly discuss each of these adjustments. What is
9 the adjustment to cash?

10 A. This adjustment removes interest bearing money market
11 accounts and a small amount of interest earned on the
12 operating account during the first quarter of 1996.

13 Q. How about special deposits?

14 A. These are the trust and special deposit accounts set up
15 pursuant to Gulf's IDR's and from which principal and
16 accrued interest are paid. This is the matching asset for
17 accrued interest.

18 Q. What adjustments were made to notes and accounts
19 receivable and payable?

20 A. Both projected test year balances for these accounts were
21 eliminated, as they are related party transactions.
22 Additionally, the note payable is accounted for elsewhere
23 in the rate making process (capital structure).

24 Q. Explain the adjustment to materials and supplies.

25 A. This account was adjusted for additional water chemicals

1 discussed above, and agrees with the recommended balance
2 of OPC witness Dismukes.

3 Q. What about miscellaneous current and accrued assets?

4 A. The projected balance was eliminated since it represents
5 interest receivable on the IDRb special deposits mentioned
6 above.

7 Q. If the Commission does not follow the matching concept and
8 does not eliminate accrued interest on the IDRbS, should
9 interest receivable then be eliminated?

10 A. No. Interest receivable on the IDRbS is a source of
11 working capital to fund accrued interest and would not be
12 eliminated. The interest receivable is simply the other
13 side of accrued interest payable.

14 Q. How about accounts payable/trade?

15 A. The Company used actual balances through March, 1996.
16 Such balances included construction payables primarily
17 related to the Three Oaks wastewater treatment plant and
18 Corkscrew Road water main and water treatment plant. I
19 have eliminated the average balance of these construction
20 payables as calculated on Exhibit _____ (RCN-2).

21 Q. And you also eliminated accounts payable - construction
22 related to FGCU?

23 A. Yes.

24 Q. Do you have any support for the elimination of
25 construction payables?

- 1 A. Yes. Again the matching concept is applied. The source
2 of payment for construction is long-term debt, which is
3 accounted for elsewhere in the rate setting process and
4 the special deposits eliminated above.
- 5 Further, the Commission has previously issued rate
6 orders recognizing that elimination of construction
7 payables is appropriate (St. Johns Service Company, Order
8 No. 18551; Hydratech Utilities, Inc., Order No. 22226).
- 9 Q. Customer deposits do not require comment. Please explain
10 the adjustment to accrued interest.
- 11 A. As noted elsewhere, the matching concept requires that
12 accrued interest be eliminated. Interest is simply not
13 paid out of the operating cash account. A portion of cash
14 receipts is deposited into a special deposit account to
15 pay interest. As noted above, the cash used to pay
16 interest has been eliminated. Failure to eliminate
17 accrued interest, artificially and unfairly reduces the
18 Company's working capital requirements.
- 19 Q. If interest were paid from the operating account, would
20 accrued interest be eliminated?
- 21 A. No. The matching concept would require that accrued
22 interest remain in the computation.
- 23 Q. Unamortized debt discount/expense and accumulated deferred
24 income taxes are considered elsewhere in the rate setting
25 process and eliminated, correct?

- 1 A. Yes.
- 2 Q. How about preliminary survey and investigation charges and
3 the clearing account?
- 4 A. Because they do not relate to day-to-day operations, they
5 were eliminated.
- 6 Q. Explain the adjustment to miscellaneous deferred debits.
- 7 A. The components of this account were discussed above. The
8 receivable related to developer refundable advance
9 agreements was eliminated since it does not related to
10 utility operations.
- 11 Q. Do you have anything further to add?
- 12 A. Not at this time.

Gulf Utility Company
Docket No. 980329-WS
Average Adjusted Balance Sheet Working Capital Allowance
December 31, 1996
Exhibit _____ (RCN-1)

Line No.		Average Balance per MFR's	Adjustments	Adjusted Balance
1	Current Assets			
2	Cash	\$ 1,143,929	\$ (811,728) (A)	\$ 332,201
3	Special Deposits	3,562,425	(3,562,425) (B)	
4	Accounts Receivable - Customer	305,246		305,246
5	Notes & Accounts Receivable - Associated Company	114	(114) (C)	
6	Prepayments	76,850		76,850
7	Materials & Supplies	24,326	13,150 (D)	37,476
8	Miscellaneous Current & Accrued Assets	78,031	(78,031) (E)	
9	Total Current Assets	5,180,921	(4,439,148)	751,773
10	Current Liabilities			
11	Accounts Payable/Trade	(170,889)	87,886 (F)	(83,203)
12	Accounts Payable - Construction - FGCU Utility Lines	(684,021)	684,021 (G)	
13	Notes & Accounts Payable - Associated Company	(75,360)	75,360 (H)	
14	Customer Deposits	(205,735)	205,735 (I)	
15	Accrued Taxes	(329,812)		(329,812)
16	Accrued Interest	(239,298)	238,739 (J)	(557)
17	Miscellaneous Current Liabilities	(49,740)		(49,740)
18	Total Current Liabilities	(1,754,853)	1,291,541	(463,312)
19	Deferred Debts			
20	Unamortized Debt Discount/Expense	389,922	(389,922) (K)	
21	Preliminary Survey & Investigation Charges	(9,895)	9,895 (L)	
22	Clearing Accounts	(2,026)	2,026 (M)	
23	Deferred Rate Case Expense (Note 1)	57,561		57,561
24	Miscellaneous Deferred Debts	335,205	(204,231) (N)	130,974
25	Accumulated Deferred Income Taxes	5,790,506	(5,790,506) (O)	
26	Total Deferred Debts	6,561,273	(6,372,738)	188,535
27	Net Working Capital Allowance	\$ 9,997,341	\$ (9,520,345)	\$ 476,996
28	Note (1): In keeping with past Commission practice, the average amount of rate case expense ultimately approved in			
29	this proceeding should be substituted for the projected test year balance.			

Gulf Utility Company
Docket No. 960329-WS
Average Adjusted Balance Sheet Working Capital Allowance
December 31, 1996
Exhibit _____ (RCN-1)

<u>Line No.</u>		
1	Adjustments (Average)	
2	(A) Cash	
3	Remove interest bearing money market accounts	\$ (811,685)
4	Remove interest earnings included in operating account	<u>(43)</u>
5		<u>\$ (811,728)</u>
6	(B) Special Deposits	
7	Remove interest bearing deposits established to service	
8	Industrial Development Revenue Bonds (IDRB) and related	
9	debt reserves and renewal and replacement fund	<u>\$ (3,562,425)</u>
10	(C) Notes & Accounts Receivable - Associated Company	
11	Remove receivable from related party	<u>\$ (114)</u>
12	(D) Materials & Supplies	
13	Add additional allowance for water chemicals associated with	
14	additional treatment agent required to improve water quality	<u>\$ 13,150</u>
15	(E) Miscellaneous Current & Accrued Assets	
16	Eliminate interest receivable associated with IDRB related	
17	special deposits	<u>\$ (78,031)</u>
18	(F) Accounts Payable/Trade	
19	Remove construction payables included in regular accounts	
20	payable/trade during the months December, 1995 through	
21	March, 1996	<u>\$ 87,886</u>
22	(G) Accounts Payable - Construction - FGCU Lines	
23	Remove construction payables	<u>\$ 684,021</u>
24	(H) Notes & Accounts Payable - Associated Company	
25	Remove note payable - interest bearing and included in	
26	capital structure	<u>\$ 75,380</u>
27	(I) Customer Deposits	
28	Remove customer deposits - interest bearing and included	
29	in capital structure	<u>\$ 205,735</u>

Gulf Utility Company
Docket No. 980329-WS
Average Adjusted Balance Sheet Working Capital Allowance
December 31, 1998
Exhibit _____ (RCN-1)

<u>Line No.</u>		
1	(J) Accrued Interest	
2	Increase projected amount per company revised estimate to \$269,790	\$ (30,494)
3	Remove ints. est payable on IDRB's which are funded by special	
4	deposits removed in Adjustment "B" above	<u>269,233</u>
5		<u>\$ 238,739</u>
6	(K) Unamortized Debt Discount/Expense	
7	Remove unamortized debt expense - included in cost of capital	<u>\$ (389,922)</u>
8	(L) Preliminary Survey & Investigation Charges	
9	Eliminate these charges as they relate to developer agreements	
10	and capital projects unrelated to day-to-day operations	<u>\$ 9,895</u>
11	(M) Clearing Accounts	
12	Eliminate clearing account balance - related to capital projects,	
13	unrelated to normal day-to-day operations	<u>\$ 2,026</u>
14	(N) Miscellaneous Deferred Debits	
15	Eliminate developer receivables related to refundable advance	
16	agreements	<u>\$ (204,231)</u>
17	(O) Accumulated Deferred Income Taxes	
18	Remove net deferred tax asset - debits relate to CIAC and gross-up;	
19	credits embedded in net balance accounted for in capital structure	<u>\$ (5,790,506)</u>

GULF UTILITY COMPANY
 CAPITAL PROJECTS INCLUDED IN ACCOUNTS PAYABLE
 REVISED FEBRUARY 7, 1987
 SECOND REVISION 11:05 AM

	DEC 1986	JAN 1986	FEB 1986	MAR 1986
FGCU	\$3,579		\$4,374	\$1,080
THREE OAKS WWTP PH 3	340,055	338,795	189,707	189,707
41 FORCE MAIN				
CORKSCREW ROAD WATERMAIN	57,083	33,819	1,900	885
CORKSCREW WTP PH 3			13,059	4,143
RELOCATION OF FORCEMAIN /ALICO-HWY 41				3,747

TOTAL BY MONTH

\$400,687 \$370,614 \$189,040 \$179,572

Total $\frac{\$1,139,913}{13} = \underline{\underline{\$87,686}}$

DATE: 2/7		Page: 1
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Co.:	Co.:	
Phone #:	Phone #:	
Fax #:	Fax #:	