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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application of GULF UTILITY)
COMPANY for an increase in Waste-)
water Rates, approval of a decrease)
in Water Rates and approval of)
Service Availability Charges in Lee)
County, Florida)

Docket No. 960329-WS

Filed: April 3, 1997

**POST-HEARING STATEMENT
OF ISSUES AND POSITIONS**

AND

BRIEF

OF

GULF UTILITY COMPANY

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DOCUMENT NUMBER-DATE

03444 APR-97

FPSC-RECORDS/REPORTING

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ISSUE 1: IS THE QUALITY OF SERVICE PROVIDED BY GULF UTILITY COMPANY SATISFACTORY?

GULF: *The quality of service provided by Gulf Utility Company is satisfactory.*****

Gulf is in compliance with FDEP and EPA requirements, as set forth in the testimony of Mr. Steve Messner, Operations Manager of Gulf (Exhibit 8, T. 141-142), Mr. Andrew Barienbrock, FDEP Environmental Manager for the Domestic Wastewater Compliance and Enforcement Section (T. 371-373), and Mr. William Allen, P.E., Director of Environmental Engineering, Dept. of Health and Rehabilitative Services (T. 367-369).

ISSUE 2: DOES THE UTILITY PROVIDE ADEQUATE FIRE FLOW TO ITS ENTIRE CERTIFICATED AREA?

GULF: *Gulf provides adequate fire flow to its certificated area.*****

Gulf provides fire service through 562 hydrants located throughout the system plus 22 private fire lines. Gulf contracts with the two fire districts within its area to maintain the hydrants and, in consideration thereof, there is no charge for the fire hydrant service. T. 822-823, Exhibit 23.

Mr. Beard, Fire Inspector for the San Carlos Park Fire Protection District, verified Mr. Messner's testimony that the Lee County Code Section 10-384C provides that it is the developer's responsibility to meet fire flow requirements as a prerequisite to obtaining and holding a development order. Exhibit 36 (JPE-6) T. 393, 411, 811. Mr. Beard testified that in cases where buildings have not been built to code, those buildings had to be modified

through construction or installation of fire sprinklers, and there is no requirement to retrofit water lines. T. 411-412, 415. None of the evidence shows any requirement for Gulf itself to institute any construction projects to increase pressure or flow for fire protection purposes. This testimony is consistent with Mr. Elliot's and Mr. Messner's testimony. T. 710, 713, 750, 756, 758-759, 811.

Mr. Kleinschmidt, Deputy Chief for the Estero Fire District, initially testified that Gulf did not meet its fire flow requirements in its service area, on the basis of a January 19, 1995 and a December 18, 1995 fire test. However, on cross examination he admitted that a February 28, 1997 test of the same hydrant tested on December 18, 1995 found a pressure increase from 1,154 gal/min to 2,446 gal/min. T. 430. Mr. Messner testified as to water system improvements which have improved Gulf's capabilities of supplying water and pressure since 1995. T. 811-812, 795-796. Mr. Kleinschmidt testified that he only brought to the Commission's attention any fire flows that did not meet 1,500 GPM at 20 psi. T. 431-432. Furthermore, Mr. Kleinschmidt had not seen the 1992 fire hydrant maintenance agreement between the fire district and Gulf. T. 432-434. Mr. Kleinschmidt did not testify as to his understanding of the interpretation of Lee County Development Code Sec. 10-384(c), addressed by Mr. Beard.

Notwithstanding this fact, the evidence shows that fire flows are generally in excess of code requirements. T. 714, 735-736, 756-757, Exhibit 36 (JPE 2 and JPE-7), T. 811-812.

Mr. Beard testified the fire flow at Florida Gulf Coast University (FGCU) was 1,348 gallons per minute. However, Mr. Messner testified that Mr. Beard had no actual fire flow test data on which to base his testimony. On January 14, 1997, Gulf conducted an independent fire flow test at this site, showing 1561 gpm at 20 psi. T. 797-798, Exhibit 36 (JPE-7).

Mr. Moore testified that the State Fire Marshal's office was satisfied that fire protection at FGCU was adequate based on the design that it approved for construction of FGCU. Gulf has received no complaints from FGCU regarding fire flows since FGCU began receiving service in December 1996. T. 569-570.

Mr. Messner testified that its water plants both produce in excess of 1,500 gpm through its high service pumping. Any decrease in pressure would occur in the lines (T. 835), some of which were installed more than 20 years ago. T. 412.

The competent substantial evidence is that Gulf does provide adequate fire flow to its certificated area.

RATE BASE

ISSUE 3: SHOULD THE ONE MILLION GALLON REJECT HOLDING TANK FOR THE CORKSCREW WATER TREATMENT PLANT BE INCLUDED IN RATE BASE?

GULF: *The reject holding tank should be included in rate base because 1) it is required by Gulf's DEP permit, 2) the plant was constructed within 24 months from the historical test year. (Sec. 367.081(2), and 3) it is a prudent cost of providing service during the period when the rates will be effective (Sec. 367.081(3)).*****

The one million gallon reject (concentrate) holding tank to be constructed at the Corkscrew Water Treatment plant site represents part of the cost-effective facilities being developed to provide

sufficient blending of concentrate effluent with wastewater effluent for disposal as an irrigation source at the Villages of Country Creek and the Vines golf course. The tank is being constructed as a necessary result of the construction in 1996 of the Corkscrew WTP, as a component part of membrane treatment skid #3 at the Corkscrew WTP. T. 703, 806-807. The reject holding tank is required in order to meet Department of Environmental Protection (DEP) requirements regarding the effluent mix between the two water treatment plants. Exhibit 41, T. 805-809.

The cost of the reject holding tank project is:

Holding Tank	\$445,455
Transfer & Pumping	\$101,818
Metering & Controls	<u>\$152,727</u>
	\$700,000

Ex. 8 (MFR's, Sch. A-1 p. 3) T. 140. The utility has provided the information required by Fla. Admin. Code R. 25-30.4415. The reject holding tank should be included in the cost of service.

The holding tank was determined to be the most cost effective of three satisfactory alternatives presented to FDEP. T. 807-809.

Forty-three percent of the holding tank and 100% of the pumps, controls, etc., are used and useful. Exhibit 8, page 9. The meter controls, and pumping facilities (\$254,545) are needed, irrespective of the size of the tank, to meet FDEP requirements, and are, therefore 100% used and useful in the public service. T. 139-140.

OPC recommends eliminating the entire cost of this project (and certain other improvements) from rate base for the sole reason

that the "facility has not been constructed." T. 247. This is an invalid reason for disallowing this project and is contrary to §367.081(2)(a), §367.081(3), and Fla. Admin. Code R. 25.30.4415.

The one million gallon reject holding tank will be constructed in the public interest, within 24 months from the end of the historical test ended December 31, 1996 and must be considered by the Commission in setting rates, pursuant to §367.081(2)(a), Fla. Stat. Mr. Moore testified that construction on this tank is scheduled to start in April 1997. The undisputed testimony is that the expected date of completion is projected for four months later. T. 129, 631.

"To ignore this fact in determining rate base would be error; refusal to recognize" the cost of this construction "would present a false picture of the utility's future earnings and rate of return." Gulf Power Company v. Bevis, 289 So 2d 401, 405 (Fla. 1974), relying on McCardle v. Indianapolis Water Co., 272 U.S. 400 (1926). The Supreme Court in Gulf Power Company emphasized that test year data must be adjusted for known changes which will occur within a reasonable time after the end of said period so as to fairly represent the future period for which the rates are being fixed. The Florida Supreme Court has held it is appropriate for the Public Service Commission to recognize factors which affect future utility rates and to grant prospective increases based on these factors. Floridians United v. Public Service Commission, 475 So. 2d 241, 242 (1985).

The construction cost of this tank is a prudent cost of providing service during the period of time the rates will be in effect following the entry of the final order herein, and should be allowed in rate base as plant in service pursuant to §367.081(3), Fla. Stat.

ISSUE 4: SHOULD ANY ADJUSTMENTS BE MADE TO THE CHLORINE CONTACT CHAMBERS AT THE NEW THREE OAKS WASTEWATER TREATMENT PLANT?

GULF: *No adjustments should be made to the chlorine contact chambers because these units are necessary in order to maintain the necessary assurance of compliance with Fla. Admin. Code R. 62-610, that requires Class I reliability.*****

Mr. Bidy alleges that the cost of the second of the two chlorine contact chambers be transferred to plant held for future use. This would be an incorrect treatment because the second chlorine contact chamber is a necessary element in the Three Oaks WWTP to provide required redundancy to the on-line chamber, as testified by Mr. Elliott. This second chlorine contact chamber is 100% used and useful because it is necessary to assure compliance with DEP Rule 62-610 that requires Class I reliability. T. 704, 729, 733-734.

OPC's Class I Reliability Allowance Calculation, Exhibit 18 (TLB-3.4), applies to both issues 4 and 5 herein and is flawed as follows:

1. OPC indicated parts of the treatment plant had been removed, (T. 728, lines 21-24) when, in fact, the treatment plants have been and are fully operational. Nothing has been removed from

the treatment plants. T. 729, lines 18-25.

2. The flows on line 1 (TLB-3.4) are understated, from understating growth in 1996 and not including FGCU and margin reserve (See Issues 6 and 7 herein), producing errors throughout the exhibit.

3. The Class I reliability requirement is related to the plant capacity (Exhibit 18, TLB-3.4, line 2), not the flows (line 1) as used by OPC. Therefore, lines 4 and 5 are understated. T. 734, lines 21-25.

4. OPC did not include the cost of all facilities in their study, plus made an error in attempting to average the cost of tanks and filter with the chlorine contact tanks.

5. The amount shown by OPC has the investment in Phases 1 and 2 in the "Budgeted Amounts," does not include investments in filters or disinfectant contact basins. Therefore, the amounts shown are in error.

6. The big investment is in tanks and filters, not the disinfectant contact basin. By giving equal weight to the contact basin, the overall percentage is understated. Lines 7-9.

Exhibit 18 (TLB 3.4) is not factual, is replete with errors, does not allocate any investment in chlorine contact tanks since none of their investment is included in the amounts shown on lines 12 and 13, and the OPC engineer was mistaken on the condition of the plants during his inspection. The results of OPC's study should be rejected.

The chlorine contact chambers were constructed in the public interest and must be considered by the Commission in setting rates pursuant to §367.081(2)(a), Fla. Stat. The cost of the chlorine contact chambers is a prudent cost of providing service during the period of time the rates will be in effect following the ending of the final order and should be allowed in rate base as plant in service pursuant to §367.081(3), Fla. Stat.

ISSUE 5: SHOULD ANY ADJUSTMENTS BE MADE TO THE OLD THREE OAKS WASTEWATER TREATMENT PLANT?

GULF: *No adjustments should be made to the old Three Oaks Wastewater Treatment Plant. This plant is required by DEP's Class I reliability and redundancy rules.*****

Mr. James P. Elliott is Engineer of Record for the Three Oaks WWTP. T. 700. He testified that the old treatment tanks are a necessary element in the Three Oaks WWTP process to provide DEP required Class I reliability in compliance with DEP Rule 62-610, as redundancy for on-line aeration and clarifier units. T. 704, 728, 731. When the Three Oaks Phase IV expansion is completed in December, 1997, as a part of the original planning of these treatment facilities, one of the old treatment tanks will be modified and converted for use as a flow equalization basin and the second tank used for effluent storage. T. 704.

Mr. Elliott testified that OPC was in error in testifying that the old Three Oaks plant is off-line with "the aerators pulled out." T. 728-730. Mr. Elliott testified that a month before the March 5 hearing the aerators were in place. T. 730.

The old Three Oaks WWTP is required by DEP Rule 62-610, and the cost of investment should therefore be included as plant in service in rate base pursuant to §367.081(2)(a), §367.081(3), and Fla. Admin. Code R. 25-30.4415.

ISSUE 6: SHOULD THE COSTS ASSOCIATED WITH THE FLORIDA GULF COAST UNIVERSITY (FGCU) BE INCLUDED IN THIS RATE PROCEEDING, AND WHAT, IF ANY, ADJUSTMENTS ARE NECESSARY?

GULF: *The costs associated with FGCU should be included in this rate proceeding. The facilities were constructed and were providing service in 1996.*****

In 1996 \$1,142,637 of facilities were constructed to supply both water and wastewater service to Florida Gulf Coast University. T. 84. FGCU has been a customer of Gulf since it began receiving service in December, 1996. T. 122-123, 612. Mr. Moore testified that FGCU will be Gulf's largest single source of revenue in its first year of operation. The facilities designed by FGCU's engineers and approved by Gulf only considered current campus requirements T. 565.

Competent substantial evidence shows that the FGCU facilities were constructed in the public interest within 24 months from the end of the historical test year ended December 31, 1995 and must be considered by the Commission in setting rates pursuant to §367.081(2)(a). Ms. Welch testified that the Commission has the option to include such construction costs in rate base if constructed within 24 months after the test year. T. 478.

OPC recommends deleting the investment for water and wastewater lines to serve FGCU solely on the basis that FGCU "will

not be in service until the summer of 1997. Since it is outside the test year 1996" no costs of the project should be included in rate base. T. 248-249.

First, OPC is factually incorrect. FGCU began receiving service in 1996.

Second, and more important, OPC's position runs afoul of statutory and caselaw which requires that the Commission recognize factors which affect future utility rates, and that test year data must be adjusted for known changes. Floridians United v. Public Service Commission, 475 So.2d 241 (Fla. 1985), Gulf Power Company v. Bevis, 289 So. 2d 401 (1974).

These construction costs are a prudent cost of providing service during the test year 1996 and during the time the rates will be in effect and should be used to determine the revenue requirements that will allow the utility to earn a fair rate of return on its rate base. §367.081(3), Fla. Stat. (1995).

USED AND USEFUL

ISSUE 7: SHOULD A MARGIN RESERVE BE ALLOWED FOR THE WATER AND WASTEWATER SYSTEM, AND IF SO, WHAT AMOUNT?

GULF: *The appropriate margin reserve periods are one and one half years in the water operations and three years in the wastewater operations.*****

Mr. Cardey and Mr. Elliott, P.E., testified that including a margin reserve recognizes Gulf's obligation to meet the demands of potential customers plus changing demands of existing customers. The recognition of this service obligation is consistent with Gulf's prior rate cases and is consistent with the policy of the

Commission. T. 144-145, 701-703.

Mr. Elliot testified that a margin reserve is an economic benefit for utilities, customers, and for public health, safety and environmental protection considerations. If no margin reserve is allowed, then the utility is forced to operate very close to the capacity limits at each facility, which can present significant health and environmental concerns. Lack of margin reserve could result in a utility's inability to meet fire demand, low water pressure, insufficient chlorine contact time, insufficient treatment of water and/or wastewater, insufficient effluent storage or disposal capacity, that can result in a connection moratorium. Without applying a margin reserve, the utility is forced into a continual design, permitting and construction sequence that involves almost continuous work and review by engineers, regulatory personnel, inspectors and others. This continual effort would certainly increase costs to the utility and its customers. T. 701.

In Mr. Elliott's opinion, DEP rule 62-600.405 titled "Planning for Wastewater Facilities Expansion," in concept, requires that utilities provide margin reserve. T. 701, 717-721.

It is OPC's position that a utility does not need a margin reserve. This position is wrong. Mr. Cardey testified that as a public utility, Gulf has an obligation to meet the service requirements in its certificated area, including both present and potential customers. A system that is 100% at capacity could not meet that obligation. On this matter, the Commission has stated:

Section 367.111(1) Florida Statutes, provides that "[e]ach utility shall provide service to the area described in its certificate of authorization within a reasonable time." In order for a utility to meet its statutory responsibilities, it must have sufficient capacity and investment to meet the existing and changing demands of present and potential customers. Therefore, we have consistently recognized margin reserve as an element in used and useful calculations. Accordingly, we find that a margin reserve must be included in the calculations for used and useful plant for PCUC.

In re: Application for rate increase in Flagler County by Palm Coast Utility Corporation, 96 F.P.S.C. 11:27, 39, T. 642-643.

OPC contended that margin reserve serves only customer growth. Mr. Cardey testified that in fact, it serves both existing and new customers. Businesses expand and need additional service, homes are remodeled and new dishwasher or garbage disposal units may be installed, public schools enlarge, families grow requiring more utility service and, as systems get older, losses and infiltration increase. A margin reserve is needed to meet these changing needs of existing customers. T. 643-644.

In a growth company such as Gulf, there is an ongoing investment in margin reserve. As one group of customers take service, a margin reserve must be provided for another group. The Company has a permanent investment in margin reserve. T. 644.

For electric utilities, the margin reserve is included in the rate base and a return on and the return of the investment in the margin reserve is included in consumer rates. The doctrine that a utility company is entitled to a fair return on property devoted to public service is fundamental to rate regulation and should apply to both electric and water companies. The electric companies

receive a fair return through rates charged the general body of customers, while with Gulf Utility Company the stockholder absorbs most of the costs.

In the final analysis, for Gulf to provide safe and adequate service, it must have a margin reserve. T. 644.

Mr. Elliott testified in support of Gulf's request for a 1.5 year and 3.0 year wastewater margin reserve period, based on the time it takes a utility to plan, design, and construct facilities. T. 725-728.

ISSUE 8: SHOULD FIRE FLOW BE INCLUDED IN THE USED AND USEFUL CALCULATIONS FOR THE WATER SYSTEM, AND IF SO, WHAT IS THE APPROPRIATE ALLOWANCE?

GULF: *Fire Flow of 0.360 mgd should be included in the used and useful calculations for the Water System.*****

Fire flow is provided by Gulf Utility Company facilities throughout the water transmission and distribution systems to meet instantaneous demands including peak flows and fire flows. T. 705.

The fire flow of 0.360 mgd should be used in the calculation of used and useful is set forth in the MFRs (Exhibit 8, Sch. F3, p. 157 and Sch. F5, p. 159). This determination is made as required by the MFR form, is consistent with Gulf's previous rate case in other cases Mr. Cardey has been in since the early 1970's. T. 655. On cross examination OPC witness Bidy conceded that the 0.360 mgd was the correct fire flow when both residential and commercial fire flows are recognized. T. 270-272.

ISSUE 9: SHOULD ECONOMY OF SCALE BE CONSIDERED BY THE COMMISSION IN DETERMINING WHETHER FACILITIES ARE USED AND USEFUL IN THE PUBLIC INTEREST?

GULE: *****The Commission policy is to consider economy of scale in determining whether facilities are used and useful in the public service.*****

As a matter of policy, the Commission has considered economy of scale in determining whether facilities are used and useful in the public service. The Commission policy is to consider DEP requirements and other engineering factors when making a used and useful determination. Used and useful is defined in the Commission's Digest of Commission Regulatory Philosophies as Expressed in Ratemaking Proceedings and Current Decisions, Division of Water and Wastewater, Rev. 11/96, p. III - 6-7, citing Deltona Util, Docket No. R-750626-WS, Order No. 7684 (3/77):

The concept of "used and useful in the public service", basically an engineering concept, is one of the most valuable tools in utility regulation and rate-making. It is basically a measuring rod or test used to determine the portion or amount of the utility's assets which are to be included in its rate base and upon which the utility has an opportunity to earn a return.

Generally, any asset which is required to perform a function which is a necessary step in furnishing the service to the public is considered used and useful.

In addition, good engineering design will give a growing utility a sufficient capacity over and above actual demand to act as a cushion for maximum daily flow requirements and normal growth over a reasonable period of time.

The Commission policy, in determining used and useful, as set forth in Deltona and other Commission orders, and its published digest of

regulatory philosophy, is to consider DEP and EPA requirements and "economies of scale," in addition to its mathematical formula.

ISSUE 10: SHOULD THE COMMISSION RECOGNIZE ECONOMY OF SCALE IN DETERMINING USED AND USEFUL FOR THE CORKSCREW WELL FIELD, CORKSCREW WATER TREATMENT PLANT, SKID #3, AND CORKSCREW REJECT WATER FACILITIES.

GULF: *The Commission should recognize the economy of scale in determining used and useful for these facilities.*****

The Company MFR's are consistent with the Commission's finding in the prior rate order 24735. In that order, the Commission recognized the economy of scale in the construction of the Corkscrew well field and water treatment facilities, and under this theory any excess capacity is related to the last increment of capacity. T. 656-657, 181-184. The economics of scale in the Corkscrew well field is set forth in Appendix A of the MFR's. Exhibit 8, pp. 166-168. In this case, the used and usefulness of the water treatment plants is as follows.

	<u>Capacity</u>	<u>Flows</u>	<u>% Used & Useful</u>
San Carlos WTP	2.415 mg	2.415 mg	100%
Corkscrew WTP			
Skid 1	0.500	0.500	100%
Skid 2	0.500	0.500	100%
Skid 3	<u>0.800</u>	<u>0.301</u>	<u>38%</u>
	4.215 mg	3.716 mg	88%

Under the principle set forth by the Commission in the prior case, the excess capacity is related to Skid 3 which went into service in December 1996. What this does is encourage utilities to build

economies and efficiencies into the system. T. 656-657. Therefore, 38% of Skid 3 was allocated to used and useful. Exhibit 8 (Sch. A-1, p. 9, line 3).

As previously discussed in Issue 3, 43% of the holding tank and 100% of the water, controls and pumping equipment is used and useful. Exhibit 8, col. 2, lines 6-15.

Mr. Biddy on Exhibit 18 (TLB-2), page 1, failed to reflect the flow responsibility of the Company and failed to recognize economy of scale in the used and useful computation. OPC failed to find an investment in nonused and useful plant. OPC's adjustments on water treatment plant should be rejected.

ISSUE 11: SHOULD ALL FACILITY LANDS BE CONSIDERED 100% USED AND USEFUL, AND IF NOT, WHAT ARE THE APPROPRIATE USED AND USEFUL PERCENTAGES?

GULF: *All facility lands should be considered 100% used and useful.*****

Land - Corkscrew WTP

In the 1991 case (Order No. 24735), the Commission found this land to be 100% used and useful. Since that time there has been no change except it is used more extensively in the day-to-day operations. T. 658, 803. After describing the above ground facilities, the underground piping that links the various operations, a buffer zone, retention pond, plus roadways, Mr. Messner testified that the plant is 100% used and useful. T. 805.

There are no other plans for construction on the site except possibly a 2 million gallon storage tank in the future. T. 821.

Land - Three Oaks WWTP

In the 1988 rate case (Order No. 20272), when only Phase I was in service, the Commission found 50% of the land to be used and useful. In 1991, Phase 2 was constructed, and in 1995 Phase 3 was constructed. In addition, a second force main now delivers wastewater to site. T. 801.

The Three Oaks facility site encompasses 17 structures above ground. These structures are linked through a network of piping and conduit below ground that traverses the entire site, providing the essential link to the various components of the treatment facilities. When the required buffer zones, drainage/retention area, and road and access areas are factored in, the land is fully utilized and is 100% used and useful in the operations. T. 801-803.

ISSUE 12: WHAT IS THE APPROPRIATE METHOD AND RESULTING USED AND USEFUL PERCENTAGES FOR THE WATER SYSTEM COMPONENTS?

GULF: *** The supply and treatment plant is 88.2% used and useful, and is based upon Gulf's obligation to provide service to existing and potential customers in its certificated area: the sum of the average of five consecutive days maximum flows, a margin reserve, and fire service, divided by capacity. Storage and the distribution supplies is 100% used and useful.***

The Company has two water plants, the San Carlos plant with a capacity of 2.415 mgd, and the Corkscrew plant with a capacity of 1.800 mgd. Future expansion will be at the Corkscrew plant. The water system is fully interconnected. T. 81.

The Company made used and useful studies on water supply and treatment and found them to be 88.2% used and useful. Exhibit R,

p. 159. Storage and the distribution system are 100% used and useful. T. 143.

Staff did not present a used and useful study. OPC made studies on the percentage used and useful, but never presented testimony or expert opinion on the dollars invested in non-used and useful property.

A comparison of Gulf's and OPC's findings on used and useful is set forth in the table in Appendix A. With reference to column 2 on Appendix A, the Company made a detailed review of the operations in 1996, followed the procedures outlined for meeting the MFR, and was consistent with the findings in the last rate case in Order No. 24735. T. 138.

In making its studies, OPC determined used and useful for each well field separately and each treatment plant separately, then abandoned that process and failed to follow the initial procedure through to its final conclusion. OPC's determination of used and useful mixed peak daily flows, 5-day average flows in the peak month, and annual average flows, then eliminated service to FGCU (line 3), fire flow requirements (line 6 except for storage), and margin reserve (line 7). Some 92% of the differences between Gulf and OPC are these three items with the balance estimating customer growth in 1996 (line 4, cols. 2 and 8).

Referring to Appendix A, additional comments on these differences are:

1. Florida Gulf Coast University (FGCU) (line 3). Gulf annualized a full year's revenue and expenses, T. 144, and no

party questioned these estimates. In developing the test year, Gulf estimated the level of operations in the coming year and reflected those factors that reflect normal operations when the rates go into effect, which would include the university. T. 171. FGCU should be included in the test year.

2. Fire Service (Line 6). OPC excluded fire flows from supply and treatment facilities because they are not considered in the design of supply or treatment facilities. Exhibit 18, TLB 1, p. 3. All parties agree that peak day flows are used in the design of wells and treatment facilities. However, determining used and useful is not a design problem, but is a reasonable procedure in determining the investment in the supply and treatment facilities utilized in meeting the service obligations of the Company. T. 654, lines 8-11. A comparison of peak and 5-day average flows is as follows, T. 656, lines 5-7:

Peak Flow	3.312 mgd
5-Day Average	<u>2.756 mgd</u>
Difference	0.566 mgd

There is a 31% difference, and the difference is greater than fire flows of 0.360 mgd shown on line 6, col. 2, of Appendix A. Using peak day flows would increase the percentage of used and useful facilities.

Wells and treatment facilities are used in providing fire service, first in initially filling storage tanks, then, when there is a fire, all facilities, including wells and treatment, are in full operation to supply water to the system. Fire flows is a

component in finding used and useful. T. 667, lines 7-13.

3. Margin Reserve (line 7) See Issue 6 herein.
4. Well Fields (col. 2, and cols. 3-5) See Issue 13 herein.
5. Treatment Plants (col. 2 and cols. 6-8)

The table compares the used and useful of the two treatment plants:

	<u>San Carlos</u>	<u>Corkscrew</u>
Gulf	100%	38.00% (Skid 3)
OPC	100%	28.26% (total plant)

Both Gulf and OPC found the San Carlos WTP to be 100% used and useful. As to the Corkscrew WTP, in 1990, the initial skid had a capacity of 0.500 mgd, with the addition of Skid 2 of 0.500 mgd in 1994, and Skid 3 of 0.800 mgd in 1996. OPC's computation of $1.800 \text{ mgd} \times .2826 = 0.509 \text{ mgd}$ is roughly the equivalent of only Skid 1.

The Commission said this in Order No. 24/35, page 9:

We calculated the used and useful percentages for the water systems by adding the average of five maximum consumption days as peak flow, the required fire flow, and margin reserve, less any excessive unaccounted for water, and then dividing by the combined capacity of the two water plants. By this approach, the water plant is 100 percent used and useful. Thus, all the accounts associated with the San Carlos water plant are considered 100 percent used and useful. By the same approach and based on the current capacity of 0.5 MGD, the Corkscrew membrane softening plant is also 100 percent used and useful.

In that Order, the Commission said, "We believe that it is appropriate to consider economies of scale and make an adjustment to the treatment facilities." Considering this principle, it then

made an adjustment of \$2,405 for oversize piping and \$79,919 for the building (p. 10 of Order).

On these two items, the Company followed the principle of Order 24735. Exhibit 8, page 167. With the addition of Skids 2 and 3, the allocation reflects economy of scale under the principle set forth in Order No. 24735, namely, the excess capacity is related to the last increment of capacity added to the system. T. 656-657, lines 24-6. The table shows the method of allocation:

	<u>Capacity</u>	<u>Flows</u>	<u>% Used & Useful</u>
San Carlos	2.415 mg	2.415 mg	100%
Corkscrew:			
Skid 1	0.500	0.500	100
Skid 2	0.500	0.500	100
Skid 3	<u>0.800</u>	<u>0.301</u>	<u>38</u>
	4.215	3.716	88%

Therefore, 38% of Skid 3 was allocated to used and useful, as shown on Schedule A-1, page 9, line 3 of Exhibit 8.

$$0.38 \times \$1,094,445 = \$415,890$$

Again, OPC did not find an investment in non-used and useful plant, and there is no evidence in the record on the investment separately in either the Corkscrew WTP or the San Carlos WTP.

The second problem is OPC allocating the 1995 5-day maximum flows of 2.746 mgd and the load growth of 0.178 mgd to the two plants. The flows in the two plants during the 5-day maximum period were:

San Carlos	2.160 mgd
Corkscrew	<u>0.586</u>
	2.746

Somehow OPC allocated the 2.924 mgd (line 5, col 8) so San Carlos flows of 2.415 mgd equal the capacity of 2.415 mgd, with the balance allocated to Corkscrew. The numbers just do not add up.

This inability to determine flows for each plant plus the fact that the investment in each plant separately is not in the record destroys the reliability of OPC's Exhibit 18.

6. Storage: See Issue 14 herein.

7. Components of Flows

As shown on Appendix A, Gulf and OPC used the same plant capacity (line 1 and cols. 2 & 8) and same 5-day average flows in 1995 (line 2 and cols. 2 & 8). The difference in 1996 load growth is:

Gulf: 607 ERC x 396 gals/ERC = 0.240 mgd

OPC: 864 ERC x 206 gals/ERC = 0.178 mgd

The 607 ERC growth was determined by meter size by classes of service. T. 156. The growth in Gulf's service area has been 5-6-7% per year, and it expects that level of growth in the near future. T. 77-78.

The 396 gals/ERC is in Gulf's tariffs, and Mr. Cardey testified that for the 5-year period of 1991-1995, the average for the 5-day maximum in the peak month was 392 gals/ERC. It was his opinion the 396 gals/ERC was still appropriate for the 1996 test year. T. 188, lines 9-13.

OPC increased the growth in 1996 and reduced the gals/ERC to a 5-year annual average. Exh. 18, TLB 2.1. The use of annual average flows is inconsistent with flows in the peak month. Gulf's estimate of 0.240 mgd for customer growth should be used.

8. Land: See Issue 11 herein.

ISSUE 13: WHAT IS THE APPROPRIATE METHOD AND RESULTING USED AND USEFUL PERCENTAGES FOR WATER SUPPLY WELLS?

GULF: *The water supply wells are 88% used and useful.*****

The design and sizing of the wells are matched to the capacity of the treatment plant. They are therefore treated as one unit in the determination of used and useful. The principle of economy of scale was used in the determination of the used and useful of both wells and treatment facilities. The well field in total is 88.0% used and useful. The San Carlos well field matches the capacity of the treatment plant which the Commission found to be 100% used and useful in the 1991 rate case, Docket 900118-WU, Order No. 24735. Nothing has changed since that time. T. 653. The Corkscrew well and treatment plant was found to be used and useful based upon the economy of scale principle. This is consistent with the prior rate case. T.656-657.

The following table compares the used and usefulness of the two well fields:

	<u>San Carlos</u>	<u>Corkscrew</u>
Gulf	100.00%	80.30% (a)
OPC	86.00	16.25

(a) Exhibit 8 pp. 165-168).

Mr. Elliott testified that OPC did not give consideration for additional wells to back up the wells in service, and said:

According to "Recommended Standards for Water Works," Section 3.2.1.2, "A minimum of two (2) sources of groundwater shall be provided." Paragraph 62-555.315 of [sic] Chapter 62-555.315, paragraph (1)...reinforces the two (2) source recommendation and makes it a requirement for permitting by DEP. Furthermore, Chapter 62-555 FAC requires that the utility utilize prudent planning in the basis of design for the water supply and treatment facilities for providing adequate service for the duration of the Permit issued which local regulatory agencies interpret as being five (5) years. The used and useful requirement must be in concert with accepted design practices and regulatory requirements. T. 705-706, Exhibit 36 (JPE-3).

The Corkscrew well field was developed in 1990 as a source of water for the Corkscrew membrane softening plant. The well field is in an environmentally protected area, and because of both economy and environmental protection, the Company installed 11 wells and ran a raw water line. In Order No. 24735, page 10, the cost of legal, engineering, hydrology, environmental, and restoration of the well site was considered 100% used and useful, survey cost 90% used and useful, and 4 of the 11 wells used and useful. A summary of cost as it relates to these facilities is shown in Exhibit 8, p. 167, columns 2 and 3. " " Order

reflects what is known as economy of scale. Since Order No. 24735, two additional wells were activated and two skids added to the Corkscrew treatment plant. T. 182, 653.

Consistent with Order No. 24735, Gulf allocated 2/7 of the investment in non-used and useful set forth in this Order to used and useful as shown in Exhibit 8, page 167, and as set forth in Cardey's direct testimony. T. 142.

OPC failed to consider the actual facts. OPC considered less than one well at Corkscrew in its used and useful calculation, as shown on Exhibit 18, (TLB-2, line 14):

$$3,600,000 \text{ gpd} \times .1625 = 585,000 \text{ gpd}$$

The capacity of one well is as follows:

$$1 \text{ well @ } 500 \text{ gpm} \times 60 \text{ min.} \times 24 \text{ hrs/day} = 720,000 \text{ gpd}$$

The Commission had this to say in Order No. 24735, page 10:

Presently, two wells are equipped with well pumps. One well is enough to meet the current production capacity of the Corkscrew water plant and the other is used as standby. DER requires two wells for a utility of this size. The other nine wells are reserved for future development. Upon consideration, we will allow four wells in order for the utility to meet the one-foot drawdown requirement of the South Florida Water management District.

Therefore, we find it appropriate to consider these four wells to be 100 percent used and useful and the other seven wells to be non-used and useful.

OPC's treatment of each well field separately results in its inability to determine investment in non-used and useful plant. There is no evidence in the record on the investment in the San Carlos or Corkscrew well field separately. While Exhibit 18 (TLB-2) shows a combined percentage for the two wells (line 14), the

weighting of capacity and flows is not the same as the dollars weighting. The 1980 dollars in San Carlos is not the same as 1990 dollars in an environmentally protected area at the Corkscrew well field.

ISSUE 14: WHAT IS THE APPROPRIATE METHOD AND RESULTING USED AND USEFUL PERCENTAGES FOR WATER STORAGE?

GULF: *****The Company has 2.6 million gallons of ground storage, less than 18 hours of the peak demand. The amount of adequate storage, including emergency storage is based upon an assessment of risk and degree of system reliability. The water storage facilities are 100% used and useful.*****

Gulf has 2,600,000 gallons of storage, about 18 hours of peak usage flows. Neighboring utilities such as Cape Coral have 5 days and Sanibel has 10 days of storage. Mr. Elliott, who designed the present storage facilities, testified that at least 24 hour's flow was a reasonable amount and that the present storage of 2,600,000 gallons was "adequate, but no more than that." P. 744. OPC's used and useful is 11 hours of peak usage flows excluding fire flows. (See Appendix A attached hereto, Column 9). If emergency storage allowances are arbitrarily discounted or reduced as Mr. Bidy suggests, the health, safety and welfare of customers is being jeopardized. T. 706.

Gulf has the same storage capacity it had in 1991 when the Commission found the facilities 100% used and useful. With 5 years growth, the used and useful cannot be less in 1996 than in 1991.

ISSUE 15: WHAT IS THE APPROPRIATE METHOD AND RESULTING USED AND USEFUL PERCENTAGES FOR THE WASTEWATER TREATMENT PLANT?

GULF: *The wastewater treatment plant is 100% used and useful, (average daily flow in max month divided by plant capacity).*****

The appropriate used and useful methodology is shown in the evidence. Exhibit 8 page 160, T. 142-143. WWTP land is 100% used and useful (Issue 11 herein). The chlorine contact chamber (Issue 4 herein) and both wastewater treatment plants are 100% used and useful (Issue 5 herein).

Gulf has two wastewater plants: the San Carlos plant, constructed in 1980, with a capacity of 0.218 mgd, and the Three Oaks plant, constructed in 1989, with an initial capacity of 0.250 mgd, then a 0.250 expansion in 1991 and another 0.250 mgd in 1995. Future expansion will be at the Three Oaks plant with plans to interconnect the two in 1997. T. 81 and 82. The fact that Gulf has obtained permits, taken bids, and intends to expand the Three Oaks treatment plant in 1997 is further evidence that the existing plants are 100% used and useful. T. 661.

Exhibit 35 (KRC-9) is a comparison of OPC's Exhibit 18 (TLB-3) and Gulf's determination of percentage used and useful. T. 658-662. It should be noted that if OPC had included the flows from FGCU (.052 mgd) and a margin reserve (.300 mgd), OPC's flows would be in excess of capacity, or in excess of 100% used and useful. Gulf and OPC agree that total capacity is .0968 mgd.

Exhibit 35 (KRC-9) shows different flows in 1995. OPC used the annual average flows, on the San Carlos plant, while Gulf used the peak month flows in August 1995. Both studies used peak month flows at Three Oaks. Gulf followed the same procedure as set forth

in the prior rate order (Order 20272, dated 11/7/88). Mr. Bidy used annual average daily flows at San Carlos based upon the DEP permitted capacity terminology, but gave no reasons why use of this figure would be appropriate or why the Commission should deviate from its established policy of using the 5 day average/maximum month flows. T. 277.

Gulf's growth numbers are supported by competent substantial evidence. The 507 ERC growth is detailed by customer classes (T. 151), and the 250 gals/ERC is set forth in Gulf's tariffs and was used in the previous rate order. Mr. Cardey testified that flows during the three peak months of April, May, and June average 251 gallons/customer, verifying the amount used in the tariffs. T. 188. As further evidence of the accuracy of customer growth, Mr. Cardey testified that 1996 revenues were \$7,000 greater than estimated in the MFR's, indicating customer growth was "right on target." T. 672-673.

The Commission should reject OPC's adjustments. The wastewater treatment plant should be considered 100% used and useful.

ISSUE 16: WHAT ARE THE APPROPRIATE USED AND USEFUL PERCENTAGES FOR THE WATER AND WASTEWATER FACILITIES?

GULF: *These are set forth in the MFRs and discussed in Issues 12 through 15 above.*****

A summary of the used and useful percentages for the water and wastewater facilities are set for in Appendix B, attached hereto.

ISSUE 17: ARE ADJUSTMENTS NECESSARY TO INCREASE CIAC AND DECREASE EQUITY FOR LINES BUILT FOR THE CALOOSA GROUP (AUDIT DISCLOSURE 1)?

GULF: *Gulf's accounting for the Caloosa Trace transaction should be approved with no adjustments because it strengthens Gulf's equity base, reflects the continuing commitment of the stockholders to provide quality service on the area, and will benefit consumers over the long pull.*****

In 1990, Caloosa Group, Inc., constructed \$160,928 of on-site facilities in a 133 lot subdivision called Caloosa Trace. The Caloosa Group owners were given stock upon the transfer of the assets to Gulf. T. 538-539, 543.

Staff and OPC recommend that the \$160,928 be credited to CIAC on the basis that "affiliate transactions be required to be treated the same as nonaffiliates." T. 450.

Staff does not disagree with the utility's position that this transaction was reviewed by Gulf's auditors and is in compliance with all rules and regulations of the FPSC as well as generally accepted accounting principles. T. 450.

Mr. Moore testified in detail in support of Gulf's accounting treatment of this transaction. T. 539-546. First, there is a substantial difference in the conditions under which the stockholders obtained service in contrast to other developers in the area. Gulf stockholders absorbed over \$1,500,000 in losses related to IDR construction loans to make water and wastewater capacity available for the benefit of the 15-20 active developers in the area and the customers who purchased homes from them. For that reason, there is no discrimination in the transaction where

Gulf issued stock for the assets of Caloosa. T. 543-544.

Second, the higher equity base resulting from issuance of stock significantly benefits customers. With a higher equity base and stable earnings, Gulf will have better prospects of successfully negotiating the refinancing of the IDRBS with lower interest rates plus freeing \$1 million of required funds that then will be invested in new facilities. T. 545-546, 614-616.

ISSUE 18: ARE ADJUSTMENTS NECESSARY TO REFLECT PREPAID CIAC AS USED AND USEFUL IN RATE BASE? (AUDIT DISCLOSURE 8)

GULF: *No adjustments are necessary to reflect prepaid CIAC as used and useful in rate base because prepaid CIAC is related to future customers.*****

Gulf's internal accounting procedure assures that prepaid balances for both water and wastewater are not associated with the used and useful plant already included in projected test year rate base. T. 676-677.

Staff has proposed that \$586,623.75 in prepaid connection fees be deducted in computing rate base on the assumption that those connections "appear" to be related to plant already in service. There is no study supporting that statement.

Mr. Cardey testified that a "test year" synchronizes four basic determinants in setting rates: (1) the revenues produced under the rate structure, (2) the expenses, including depreciation and taxes incurred to produce these revenues, (3) the property (rate base) that provides the service, and (4) return on said rate base. Staff's proposal is inconsistent with the legal framework of ratemaking outlined above, as well as the fundamentals in the MFRs.

The prepaid connection fees relate to future customers and Gulf's contractual obligation to meet their service requirement. T. 641-642.

In the test year in this case, the investment in non-used and useful plant exceeds prepaid connection fees, including the \$300,000 to be received in the future from the SFWMD, by 21%. Gulf's treatment of prepaid connection fees is consistent with its prior rate orders. Staff's and OPC's proposed adjustment for prepaid connection fees should be rejected. T. 642.

ISSUE 19: IF A MARGIN RESERVE IS APPROVED, SHOULD CIAC BE IMPUTED ON MARGIN RESERVE, AND IF SO, WHAT AMOUNT?

GULF: *If a margin reserve is approved, CIAC should not be imputed on margin reserve.*****

Gulf has included the investment in margin reserve in used and useful investment. If CIAC were imputed, the net effect would be to negate the Company's capital investment in plant and to have the stockholders absorb the cost of meeting the growth of the area. T. 145. Imputing CIAC deprives the utility of a return on and a return of investment in margin reserve. T. 646.

Mr. Cardey also testified that the 1996 test period synchronizes or matches the gross revenues of the Company with the operating expenses to produce those revenues of the utility property that provide the service. Imputing CIAC from future customers is out of synchronization with the test year principle. T. 145.

The net investment in margin reserve in the water operations is \$397,330. If imputed, \$412,500 would be offset by CIAC and

deducted from rate base leaving a negative amount of \$15,170. The loss of earning and loss of capital each year would be \$55,893. T. 645-646.

Imputing CIAC as shown above ignores the Company's obligation to serve the changing demands of present and potential customers. There should be no imputed CIAC in this case. T. 646-647.

In proposed rule making Docket No. 960258-WS, two Staff witnesses, Mr. Robert J. Crouch, P.E., and Mr. N. D. Walker, recommended margin reserve with no imputed CIAC. Mr. Cardey's testimony is consistent with the two Staff witnesses in the above docket. T. 647.

ISSUE 20: WHAT IS THE DOLLAR AMOUNT OF PLANT COSTS INCLUDED IN RATE BASE, AND WHAT DOLLAR AMOUNTS SHOULD BE INCLUDED IN RATE BASE AS CIAC, RELATED TO FUNDS RECEIVED FROM THE SOUTH FLORIDA WATER MANAGEMENT DISTRICT'S ALTERNATE WATER SUPPLY GRANTS PROGRAM?

GULF: *The amount of the effluent reuse mixing system plant costs included in rate base should be \$446,090, and the dollar amounts of CIAC (net) is \$185,371*****

Gulf applied for and received an Alternative Water Supply grant from the SFWMD for its Effluent Reuse Mixing System in the Fiscal Year 1997. The District will cost-share up to \$300,000 of the project's cost. T. 525. The grant has not yet been received. T. 630-631. Exhibit 8, p. 9, col. 2, lines 8-10, 13-15. CIAC is shown on Appendix B, p. 3 of 4, note 2.

ISSUE 21: ARE ADJUSTMENTS NECESSARY TO ACCUMULATED AMORTIZATION OF CIAC TO AMORTIZE CASH CONTRIBUTIONS USING YEARLY COMPOSITE RATES? (AUDIT EXCEPTION 2)

GULF: ***No adjustments are necessary. Gulf amortizes CIAC using a composite amortization rate that is the same as the composite rate of utility plant, excluding common plant. This is one of the alternative methods permitted pursuant to rule 25-30.140, F.A.C., which Gulf has followed for a number of years.***

Gulf's position was fully supported at hearing through the testimony of Ms. Andrews. T. 847-849. The proposed adjustments should be rejected and Gulf's existing practice of amortization of CIAC should be used in this case.

ISSUE 22: IS THE UTILITY'S METHOD OF PROJECTING ITS TEST YEAR WORKING CAPITAL ACCOUNTS REASONABLE, AND WHAT, IF ANY ADJUSTMENTS ARE NECESSARY?

GULF: ***Gulf's method of projecting average test year working capital accounts is reasonable, with adjustments as set forth in Gulf's positions on Issues 23 through 25.***

This issue results from the testimony of Ms. Welch, suggesting that Gulf did not provide any forecast methodology for the projection of working capital. T. 477. As a result, the Staff Audit contained working capital computations of the historic period August, 1995, through August, 1996. T. 447 and Exhibit 24. Other than asking the Utility why the historic working capital would change for the period September, 1996, through December, 1996, no independent analysis was performed by Staff as to the reasonableness of the working capital accounts for the projected test year ended December 31, 1996. Likewise, OPC witness Dismukes used the historic working capital calculation contained in the Staff Audit as a starting point. T. 310 and Exhibit 24. Therefore, neither the Staff nor OPC used a working capital allowance based on the Commission approved projected test year

ended December 31, 1996. T. 840, 846, 857. In fact, the working capital computations of Ms. Welch and Ms. Dismukes include four months of data prior to the start of the test year and exclude materially relevant data for the last four months.

Mr. Nixon testified in detail as to why the projected test year should be used and the impact on working capital accounts by failure of Ms. Welch and Ms. Dismukes to do so. T. 778-779. Mr. Nixon provided a detailed analysis of each projected current asset, current liability, and deferred debit account in the MFRs, T. 17-21, and concluded that the projected working capital accounts for the 1996 test year are reasonable and provide an acceptable basis for determining the allowance for working capital. T. 21-22. The testimony of Mr. Nixon was unrebutted.

Ms. Andrews, Gulf's Controller, testified that the working capital forecast for the projected test year was based on the projected balance sheet accounts which, in turn, were based upon monthly projected income statements, construction budget, cash flow statements, debt service schedules, and financing schedules. Ms. Andrews stated that all of these financial documents were given to the PSC and OPC Staff who, in turn, discussed them with Company personnel and had a good working knowledge of the methods used by Gulf. T. 856-857.

The question of whether adjustments are necessary must be answered in two parts, according to the category of the adjustment.

The first category includes those adjustments which are necessary to the projected working capital account balances

contained in the MFRs. All witnesses agree that accrued interest payable should be revised to \$269,790 (T. 782, 311, 488, and Exhibit 24, page 15) and that projected materials and supplies should be increase to \$37,476. T. 781, 311 and 448. Mr. Nixon testified that it was Commission policy to substitute the average actual rate case expense approved in this proceeding for the projected balance shown in the MFRs. T. 783.

The second category relates to additions or subtractions of the various projected test year working capital account balances in order to arrive at the appropriate working capital allowance. Mr. Nixon testified extensively concerning these adjustments. T. 784-788 and Exhibit 40.

Gulf's method of projecting its test year working capital accounts was reasonable and provides an acceptable basis for determining the allowance for working capital.

ISSUE 23: SHOULD UNAMORTIZED DEBT DISCOUNT AND ISSUANCE EXPENSE BE INCLUDED IN THE WORKING CAPITAL CALCULATION (AUDIT EXCEPTION 5)

GULF: *Unamortized debt discount and issuance expense should not be included in the working capital calculation because this amount is included elsewhere in the rate making process.*****

Witnesses Welch, Dismukes, and Nixon all agreed that unamortized debt discount and issuance expense should be excluded from the working capital calculation. T. 447, 780, 783-784.

Pursuant to letter of March 17, 1997, Gulf stipulated with Staff and OPC that this account is already included in determining the cost of debt in the cost of capital. Including this amount in

working capital would double count this amount. Working capital should be reduced by \$389,922 (Exhibit 40) based on the projected test year. OPC and Staff used a historic period outside of the test year.

ISSUE 24: IS AN ADJUSTMENT NECESSARY TO THE PROJECTED BALANCE OF ACCRUED INTEREST FOR THE INDUSTRIAL DEVELOPMENT REVENUE BONDS (IDRBs) INCLUDED IN THE WORKING CAPITAL CALCULATION? (AUDIT EXCEPTION 5)

GULF: ***The projected balance of accrued interest should be adjusted to \$269,790, as set forth on page 15 of the Staff Audit Report. However, the adjusted accrued interest balance should not be included in the working capital computation.***

All witnesses agreed that the projected 13-month average balance should be adjusted to \$269,790. See Issue 22 herein. The issue remains whether or not this payable should be excluded from the computation of the working capital allowance as one of the second category adjustments discussed above.

Mr. Nixon testified that decisions concerning which accounts to include or exclude in the working capital computation are complex and subjective, and that no definitive Commission guidance exists. T. 774. He further testified that it is very important in analyzing current assets and liabilities to utilize the matching concept, T. 776, one of the foundation Generally Accepted Accounting Principles. Mr. Nixon testified that interest payable is not funded by the operating cash account. Instead, a matching debt service special deposit account has been established to service debt. T. 777, 784, and 786. Following the matching principle, Mr. Nixon testified that since the special deposit used

to service debt was eliminated from the computation, the matching interest payable account should also be eliminated. Failure to eliminate accrued interest would artificially and unfairly reduce the Company's working capital requirements. T. 786. Mr. Nixon's testimony on this issue was unrebutted.

Ms. Welch made no attempt to follow the matching concept and included accrued interest in her computation based on her understanding of Commission policy. However, on cross examination, she testified that she was not giving any opinion regarding the allowance for working capital or the components thereof. T. 459, 461-462. Likewise, Ms. Dismukes includes accrued interest as a reduction to working capital, but does not explain the basis of her adjustment. T. 311.

Based on the evidence, the projected balance of average accrued interest payable should be adjusted to \$269,790 and eliminated from the working capital calculation.

ISSUE 25: SHOULD INTEREST RECEIVABLE BE INCLUDED IN THE WORKING CAPITAL CALCULATION? (AUDIT EXCEPTION 5)

GULF: *Interest receivable should only be included in the working capital calculation if accrued interest is included in the working capital computation.*****

Witness Welch, Dismukes, and Nixon all eliminated interest receivable from their working capital computations, but for different reasons.

Ms. Welch eliminated interest receivable based on her understanding of Commission policy. T. 447-448. Although Ms. Welch cites as policy the Commission's action in Southern States

and Gulf Power Company rate cases, she is apparently unaware that balance sheet working capital approved by the Commission in Docket No. 880882-WU included interest receivable. Mr. Nixon testified that the Commission has not adopted any rules or published any guidelines as to how balance sheet working capital is to be calculated for a water and sewer utility. T. 768. Again, Ms. Welch apparently made no attempt to match current assets and current liabilities. Ms. Dismukes does not address this issue specifically in her testimony, but her working capital computation begins with the balance determined in the Staff Audit, which excluded interest receivable. Exhibit 24.

Mr. Nixon excluded interest receivable from his working capital computation based on the matching concept. T. 785. He testified that if, for some reason, the Commission does not follow the matching concept and does not eliminate accrued interest payable, then accrued interest receivable should be included in the working capital calculation. T. 785. Mr. Nixon testified that interest receivable on the debt service special deposit is an investor source of working capital used to fund accrued interest payable. He noted that interest receivable is simply the other side of accrued interest payable. T. 785. Mr. Nixon's testimony on this issue was unrebutted.

ISSUE 26: WHAT IS THE APPROPRIATE ALLOWANCE FOR WORKING CAPITAL?

GULF: *The appropriate allowance for working capital is \$476,195 plus the average rate case expense allowed.*****

The MFRs filed by Gulf, the testimony and Exhibits of Mr. Nixon provide the only evidence of record as to the appropriate allowance for working capital for the projected test year ending December 31, 1996. Exhibit 40, T. 784-787.

Although Ms. Welch addressed the allowance for working capital, all of her computations were based on historic data, which included four months of data outside of the test year and excluded the last four months of the 1996 test year. T. 447. Further, she had no opinion as to what the allowance for working capital should be or what adjustments should be made. T. 461-462. Ms. Dismukes' computation is similarly flawed. T. 310.

Ms. Dismukes opined that Gulf's working capital requirement was a negative \$(46,062). T. 311. Ms. Dismukes eliminated all unamortized rate case expense and generally failed to follow the matching concept in analyzing current assets and current liabilities. Ms. Dismukes' rationale for eliminating unamortized rate case expense is as follows: "I have removed this amount to provide the Company with an incentive to minimize rate case expense." T. 310. Rejection of this proposal alone would change Ms. Dismukes' negative working capital to a positive allowance.

Mr. Nixon testified that it is long standing Commission policy to include average deferred rate case expense ultimately allowed in rate proceeding as a component of working capital. T. 783. Mr. Nixon thoroughly rebutted Ms. Dismukes' notion of negative working capital and the hypothetical example fashioned by Ms. Dismukes to support her testimony. T. 765-773.

Based on the unrebutted testimony of Mr. Nixon, the appropriate allowance for working capital is \$476,996 plus the average additional rate case expense allowed by the Commission in this proceeding.

ISSUE 27: WHAT ARE THE APPROPRIATE RATE BASE AMOUNTS?

GULF: *The appropriate rate base amounts are \$4,077,824 for water and \$4,483,584 for wastewater.*****

The calculation of the rate base amounts are shown on Appendix B, attached hereto.

COST OF CAPITAL

ISSUE 28: WHAT IS THE AMOUNT OF CREDIT ACCUMULATED DEFERRED INCOME TAXES THAT SHOULD BE INCLUDED IN THE CAPITAL STRUCTURE?

GULF: *The accumulated deferred income taxes are \$1,517,923 as shown on Schedule D-2, page 120 of the MFRs.*****

Mr. Nixon, who calculated the accumulated deferred income taxes as contained in the "C" section of the MFRs (Exhibit 8), was not cross examined and his testimony, Exhibits, and calculations were unrebutted. No other evidence exists to support a different number.

Staff's position in the prehearing order "that accumulated deferred income taxes should be increased for the deferred taxes related to the Commission approved rate case expense." However, there is absolutely no testimony of record regarding the addition of deferred income taxes related to Commission approved rate case expense.

Deferred taxes related to rate case expense would only arise if the Utility deducted all rate case expense as incurred on its

tax return, while deferring and amortizing such expense on its books. No decision on the treatment of rate case expense on the tax return has been made by Gulf's tax preparer. Because of the high degree of uncertainty on the tax treatment for the rate case expense and the fact that no testimony by any party exists on the record, the Staff position must be rejected.

ISSUE 29: WHAT IS THE APPROPRIATE WEIGHTED AVERAGE COST OF CAPITAL INCLUDING THE PROPER COMPONENTS, AMOUNTS, AND COST RATES ASSOCIATED WITH THE CAPITAL STRUCTURE FOR THE 1996 PROJECTED TEST YEAR?

GULF: *The appropriate weighted average cost of capital is 9.25%*****

Schedule D-1, page 118 (Exhibit 8) shows the calculation of cost of capital.

NET OPERATING INCOME

ISSUE 30: WHAT ARE THE APPROPRIATE WATER AND WASTEWATER GALLONAGE PROJECTIONS FOR FGCU FOR THE 1996 PROJECTED TEST YEAR, AND WHAT ADJUSTMENTS, IF ANY, ARE NECESSARY TO PROJECTED REVENUES?

GULF: *The MFRs already include all the necessary adjustments*****

Service to the FGCU commenced in 1996. The projected revenues for service to the university are shown in Exhibit 8 (MFR Sch. E-13, p. 152 and 154) and T. 143-144. The increase in expense is shown in Exhibit 8 (MFR Sch. B-3, pp. 73,74 and 76). This appears to be the only evidence on this issue.

ISSUE 31: WHAT ADJUSTMENTS, IF ANY, ARE NECESSARY TO THE 1996 PROJECTED TEST YEAR REVENUES TO REFLECT THE APPROPRIATE MISCELLANEOUS SERVICE REVENUES?

GULF: ***No adjustments are necessary to the 1996 projected test year revenues regarding miscellaneous service revenues.***

The miscellaneous service revenues, Exhibit 8 page 52, were not contested, and no adjustments are necessary.

ISSUE 32: IF A REUSE RATE IS APPROVED, AND THE RATE IS GREATER THAN \$0, SHOULD TEST YEAR REVENUES BE ADJUSTED?

GULF: ***Reuse is part of the utility's effluent disposal and treatment process, and as such, golf courses are not customers, and no rate is appropriate.***

Gulf's position is supported by the testimony of Mr. Moore. T. 553-561.

ISSUE 33: SHOULD ANY ADJUSTMENTS BE MADE TO INCLUDE IN TEST YEAR INCOME, INTEREST INCOME RECORDED BELOW THE LINE?

GULF: ***No adjustments to test year income should be made to include interest income recorded below the line. The projected cash balance for the operating account (test year ended 12/31/96) included interest earnings of \$559 (\$43 on 13 mo. average basis). This amount was removed from the working capital computation.***

This issue is related to working capital previously discussed in Issues 22 and 26. This issue arose because of Ms. Dismukes' proposal to include \$4,000 of interest earnings on the Company's cash operating account as above the line revenue. Staff agrees with this proposal. However, there is no evidence of record to support OPC's position on this issue.

In addition, Ms. Dismukes' working capital allowance is based on the historic 13-month period ended August 31, 1996, instead of on the approved projected test year ending December 31, 1996. Use of the projected test year shows that only \$43 on an average basis is included in Gulf's projected cash operating account balances.

T. 784, Exhibit 40.

The second problem with Ms. Dismukes' proposal is that it is blatantly unfair and confiscatory. Generally accepted regulatory theory has long held that interest income and expense are below the line items not recognized in the determination of operating income. By increasing test year income for interest income of \$4,000, the gross revenue requirement to be recovered in rates is decreased by \$4,000. In contrast, the working capital allowance impacts the revenue requirement by the product of the working capital allowance multiplied by the rate of return. Assuming a hypothetical rate of return of 10 percent, the impact of \$4,000 interest income in the cash component of working capital is only \$400. Thus, Ms. Dismukes' proposal results in a punitive \$3,600 net decrease in the revenue requirement.

Mr. Nixon testified on the current banking and operating environment, and noted that in a well managed utility, there is no such thing as cash which is not in an interest bearing account of some kind. T. 774-775. Mr. Nixon testified that the Commission should recognize today's operating conditions by allowing operating cash in the working capital computation, net of any interest earnings. T. 775. Mr. Nixon used the correct test period and eliminated interest earnings from the cash operating account and working capital allowance. T. 784 and Exhibit 40.

Based on the testimony of Mr. Nixon, basic fairness, and the lack of contrary testimony, no adjustment to test year income should be made for below the line interest income.

ISSUE 34: ARE ANY ADJUSTMENTS NECESSARY TO THE PROJECTED TEST YEAR SALARIES, BENEFITS AND PAYROLL TAXES FOR EMPLOYEES THAT PROVIDE SERVICES TO BOTH GULF AND THE CALOOSA GROUP (AUDIT DISCLOSURE 3)?

GULF: *No adjustments are necessary to the projected test year salaries, benefits and payroll taxes for employees that prorate services to both Gulf and the Caloosa Group. Studies show that the amounts stated are reasonable.*****

Mr. Cardey allocated employees' time who performed work for both Gulf and Caloosa group based on actual time expended in work for each entity. Mr. Cardey is the only witness who reviewed specifically the functions Gulf's employees perform for Caloosa, the percentage of time each employee spends on Caloosa's work, how much time they spent performing those functions, and then priced this time at the present salaries and insurance benefits. Exhibit 8 (KRC-3), T. 147-148, 649, 682-683.

The Court in Sunshine Utilities v. Public Service Commission, 624 So. 2d 306, 312 (Fla. 1st DCA 1993) reversed the PSC's allocation of employee salaries, stating: "PSC witness Willis agreed with utility witness Nixon that the best way to allocate employee expense was actual time."

Staff and OPC made no study of the work performed or the time spent by the personnel who performed the work. Instead they compared the payroll of the 5 Gulf employees who do the work for Caloosa with total payroll, which includes plant operator, meter readers and others who have no relationship to the work that the 5 Gulf employees perform for Caloosa, or the cost of that work. T. 650. In addition, Ms. Dismukes used wrong hourly rates instead of

actual rates and came to the wrong conclusion. T. 650-651.

The payroll adjustments proposed by Staff and OPC for services provided Caloosa should be rejected and Mr Carey's determination accepted, consistent with Sunshine Utilities v. Public Service Commission.

ISSUE 35: ARE ANY ADJUSTMENTS NECESSARY TO THE VICE PRESIDENT'S SALARY AND BENEFITS (AUDIT DISCLOSURE 13)?

GULF: *No adjustments are necessary to the vice president's salary and benefits.*****

Mr. Randall Mann is Vice President of Gulf Utility and in 1996 was paid \$49,608. Mr. Moore testified that Mr. Mann is paid based upon the value of his services. T. 120. Mr. Mann has been an employee of Gulf for 10 years. He holds a Masters Degree in Business Administration, he is a Certified Public Accountant and a Chartered Financial Analyst, and he is an integral part of Gulf's management team. He is the board liaison with Gulf, providing independent analysis and alternatives to those of management for board consideration. He participates in all Gulf's borrowings and related financing negotiations. He provided testimony and was a participant in Docket No. 94-00418, Southwest Florida Capital Corporation vs. Gulf Utility, involving the complex issue of CIAC. He is active in all tax-related matters and works with the auditors in preparation of Gulf's annual financial statements. T. 563-564.

Ms. Dismukes proposed a \$30,234 reduction of Mr. Mann's salary because she thought he should on average spend 10 hours per week on utility business and be paid on hourly rate of \$35.00 per hour. T. 302. Ms. Dismukes opinion should be rejected as not based upon

competent substantial evidence, and, as Mr. Moore characterized it: "the worst kind of micro-management." T. 563.

The Court in Metropolitan Dade Co. W&S. Bd. v. Community U. Corp., 200 So. 2d 831, 832-833 (Fla. 3rd DCA 1967) held that a regulatory commission in ruling upon the reasonableness of an executive salary allowance must base its ruling on evidence establishing individual duties and activities and the complexity of those duties. As cited therein:

it must never be forgotten that while the state may regulate with a view to enforcing reasonable rates and charges, it is not the owner of the property of public utility companies, and is not clothed with the general power of management incident to ownership.

The Commission is not the financial manager of the corporation and it is not empowered to substitute its judgment for that of the directors of the corporation; nor can it ignore items charged by the utility as operating expenses unless there is an abuse of discretion in that regard by the corporate officers.

Southwestern Bell Telephone Co. v. Public Service Commission of Missouri, 262 U.S. 276, 288-289 (1923). See also Sunshine Utilities of Central Florida, Inc. v. Florida Public Service Commission, 624 So. 2d 306 (Fla. 1st DCA 1993); Florida Bridge Co. v. Bevis, 363 So. 2d 799 (Fla. 1978). The evidence supports the value of Mr. Mann's services, and an adjustment to his salary is not supported by any evidence at hearing.

ISSUE 36: SHOULD ANY ADJUSTMENTS BE MADE TO SALARY EXPENSE FOR EXCESSIVE PAY INCREASES?

GULF: *No adjustments should be made to salary expense. Salary increases were reasonable.*****

The Company granted payroll increases in 1996 that average overall 6.5%. Mr. Moore testified that the increase recognizes merit increases, increases with advancement in operating licenses, and other factors.

Mr. Moore testified that Gulf's salary expense compares favorably to local utilities, based on the annual survey results of the nine companies that operate in Lee County. Exhibit 30 (JWM-5 and JWM-6). Even after having granted a 6.5% salary increase, Gulf is still operating at a lower cost per similar position for people with similar years' experience, than other area utilities. T. 562, 603-610, 636.

The evidence establishes the reasonableness of Gulf's wage and salary structure, including employee salary increases. No abuse of discretion in company management has been shown to exist. See Southwestern Bell Telephone Co. v. PSC of Missouri, 262 U.S. 276, 288-289 (1923), Sunshine Utilities of Central Florida v. Florida Public Service Commission 624 So. 2d 306 (Fla. 1st DCA 1993); Florida Bridge Co. v. Bevis, 363 So. 2d 799 (Fla. 1978); Metropolitan Dade Co. W&S. Bd. v. Community U. Corp., 200 So. 2d 831 (Fla. 3rd DCA 1967).

ISSUE 37: IS THE ANNUAL LEASE AMOUNT CHARGED TO GULF BY CALOOSA GROUP REASONABLE AND IF NOT, WHAT ADJUSTMENTS ARE NECESSARY (AUDIT DISCLOSURE 4)?

GULF: *The annual lease amount charged to Gulf by Caloosa Group is reasonable. This amount is justified based on an independent appraisal and the rental fee for the remainder of the space in the same building.*****

The rental charges Gulf is paying to its affiliate Caloosa Group on the new office building should be included in cost of service. Mr. Moore testified as to the numerous factors that management took into consideration in deciding to lease the new office space, including the fact the rent did not exceed the going market value. T. 547-551, 596-599.

An independent bank's appraiser's opinion was that the rental amount, including taxes, maintenance and insurance, was a reasonable charge. Exhibit 30 (JWM-5). In addition, Lee Memorial Hospital in 1996 leased two-thirds of the building at rental charges comparable to what Gulf is paying. T. 547-551, 649. Based on competent substantial evidence that the lease amount does not exceed the going market rate and is not otherwise inherently unfair, the PSC may not reject Gulf's rental charge. GTE Florida Incorporated v. Deason, 642 So. 2d 545 (Fla. 1994). In the Supreme Court of Florida in GTE v. Deason stated:

We do find, however, that the PSC abused its discretion in its decision to reduce in whole or in part certain costs arising from transactions between GTE and its affiliates, GTE Data Services and GTE Supply. The evidence indicates that GTE's costs were no greater than they would have been had GTE purchased service and supplies elsewhere. The mere fact that a utility is doing business with an affiliate does not mean that unfair or excess profits are being generated, without more [citation omitted]. We believe the standard must be whether the transactions exceed the going market rate or

are otherwise inherently unfair. See id. If the answer is "no," then the PSC may not reject the utility's position. The PSC obviously applied a different standard, and we thus must reverse the PSC's determination of this question.

GTE v. Deason, at 547-548.

At hearing Ms. Welch testified that she did not believe audit disclosure 4 gave an opinion on the appropriate rent amount. T. 463, 468. Ms. Welch testified that Commission policy is to use the lower of cost basis analysis or market value, and she was unaware of the GTE v. Deason opinion. Ms. Welch testified that she did not know about Gulf's financing situation with regard to building versus leasing, she did not investigate the management decisions that went into the leasing decision, and she has no basis to and does not take the position that Gulf's leasing decision was imprudent. T. 469-470.

Staff's use of cost basis for rent instead of market value is contrary to GTE v. Deason and must be rejected. The rental charge is reasonable and should be included fully in operating expenses.

ISSUE 38: ARE ANY ADJUSTMENTS NECESSARY TO THE COMMON MAINTENANCE EXPENSES ASSOCIATED WITH THE BUILDING LEASE (AUDIT DISCLOSURE 4)?

GULF: *No adjustments are necessary to the common maintenance expenses because they are billed to Gulf at cost.*****

Staff Audit disclosure 4 notes that maintenance costs paid with the lease are estimated and a portion may be refunded based on 1996 cost. Staff's adjustment is not based on the projected test year, but annualizes expenses incurred for the first seven months of 1996. No adjustments should be made to the common maintenance

expense because they are properly based upon the projected test year.

ISSUE 39: ARE ADJUSTMENTS NECESSARY TO ALLOCATE ADDITIONAL ADMINISTRATIVE AND GENERAL EXPENSES, INCLUDING RENT, OFFICE SUPPLIES, MISCELLANEOUS BUSINESS AND ADMINISTRATIVE EXPENSE, VEHICLE EXPENSE AND COMPUTER DEPRECIATION TO THE CALOOSA GROUP (AUDIT DISCLOSURE 3)?

GULF: *No adjustment should be made to these expenses, except an additional \$1400 should be allocated to the Caloosa Group primarily because of higher rental charges. There is no administrative expense.*****

Mr. Cardey testified as to the study he prepared entitled: "Allocation of General Office Expenses to Caloosa Group, Inc." Exhibit 8 (KRC-3), T. 147-149, 684-686. These expense allocations are based upon percentages of time employees worked for Caloosa, and should be allowed. Staff and OPC's allocation on a purely payroll comparison basis is not as thorough or accurate a determination of allocation and should be rejected.

Mr. Cardey testified that the cost for rent and supplies should be increased from \$600 to \$2000, due primarily to rent on the new office building. T. 162, 651-652.

Mr. Cardey allocated the cost of rent to Caloosa by first determining the square footage of the offices and the customer accounting and collecting area, and then multiplying the square footage of the offices of the five employees who perform services for Caloosa by the percentage of time each employee worked for Caloosa, which amounted to 49 square feet. The 49 square feet in relation to the 1,739 square feet of all office and customer accounting and collecting space is 2.8%, with an allocated cost of

\$1,991. T. 148, 651.

The computer is used for payroll and general accounting for 3-4 hours a month, and will be fully depreciated in 1997. The \$600 per year is reasonable. T. 148-149, Exhibit 8 (KRC-3).

Mr. Cardey and Mr. Moore specifically noted that no cost for Mr. Moore's vehicle used for Gulf business should be allocated to Caloosa because there is virtually no usage of the car for Caloosa. T. 552, 686.

Mr. Cardey's allocation methodology is based upon percentage of actual employee time. The OPC and staff approach is much less accurate and should be rejected. E.g. Sunshine Utilities v. Public Service Commission, 624 So. 2d 306, 312 (Fla. 1st DCA 1993) (best method of allocation based upon actual time), citing General Tel. Co. of Fla. v. Florida Pub. Serv. Comm'n, 446 So. 2d 1063, 1068 (Fla. 1984); Citizens of Fla. v. Hawkins, 356 So. 2d 214, 260, n. 18 (Fla. 1978).

ISSUE 40: ARE ANY ADJUSTMENTS NECESSARY TO GULF'S REQUESTED LEVEL OF DIRECTORS' FEES (AUDIT DISCLOSURE 2)?

GULF: *No adjustments to the directors' fees are necessary. These fees are necessary and proper in the conduct of Gulf's business.*****

Mr. Moore testified that Gulf has a board consisting of 5 members. Officers of the Company who are also board members do not receive director fees. Directors have potential liabilities in exercising their responsibility. It is a common practice to pay directors fees for their services. While Gulf's directors - like those on any board, may not attend every meeting, they are active,

involved, and participate in meetings among themselves and in conversations and meetings with management. The fees are reasonable given the size of the Company, the size of the construction and financing programs, and their responsibility. T. 564.

OPC reduced director's fees based upon OPC witness Dismukes' opinion that little is discussed at board meetings. In addition, one-half of the Chairman of the Board's fee was deleted by Ms. Dismukes because it was not evident to her why he should be paid twice as much as the other board members. T. 306-307. These adjustments should be rejected because they are not supported by evidence, and there is no evidence that the fees are in any way excessive or unfair. See Sunshine Utilities v. Public Service Commission, 624 So. 2d 306, 311 (Fla. 1st DCA 1993); Metropolitan Dade Co. W&S. Bd. v. Community U. Corp., 200 So. 2d 831, 833 (Fla. 3rd DCA 1993), and cases cited therein.

ISSUE 41: SHOULD ANY ADJUSTMENT BE MADE TO REMOVE EXPENSES FOR LIFT STATION COATING FROM THE TEST YEAR?

GULF: *No adjustments should be made for lift station maintenance.*****

Gulf included \$21,000 of annual cost for maintenance and repair of lift stations and manholes, not including labor costs. T. 817. Ms. Dismukes cut this in half to \$10,500. Mr. Messner testified that it is not possible to maintain adequate and safe service to customers for the \$250/lift station/year proposed by Ms. Dismukes. T. 798.

Mr. Messner testified that the \$21,000 is an annual cost which includes a detailed, weekly and annual program of preventative maintenance conducted on all system lift stations. T. 798-799, 816. In addition, major replacement work costing \$1500 - \$2000 per lift station, for 8-10 lift stations per year, is required. T. 799.

Three or four wet wells will be re-coated each year in each of the next 3 years. This is a necessary procedure. At \$8,000 per lift station, this cost is about \$24,000 per year. T. 799-800.

Ms. Dismukes used cost in the past to arrive at her adjustment, but the method by which Gulf accounts for these costs has changed. In prior years some of these costs were capitalized. In the future all these costs will be expensed. T. 800. OPC's proposed adjustment should be rejected by the Commission.

ISSUE 42: ARE ADJUSTMENTS NECESSARY TO REMOVE CHARITABLE CONTRIBUTIONS FROM OPERATIONS AND MAINTENANCE EXPENSES? (AUDIT EXCEPTION 3)

GULF: *No adjustments are necessary to remove charitable contributions from operations and maintenance expenses because these are not included in Gulf's test year.*****

Ms. Andrews testified, and the MFR's confirm, that no charitable contributions were included in the MFR's and Gulf did not request any as part of Gulf's revenue requirement. T. 867-868. For this reason, no adjustments to remove any such expenses are necessary or possible.

ISSUE 43: SHOULD ANY ADJUSTMENTS BE MADE TO REMOVE FROM TEST YEAR EXPENSES GOLF OUTINGS AND GIFT BASKET EXPENSES?

GULF: *****No adjustments to test year expenses for "golf outings and gift basket expenses" should be made because these expenses are not included in Gulf's test year.*****

Since these expenses are not included in the MFRs, no adjustment is appropriate.

ISSUE 44: SHOULD THE COMMISSION INCLUDE BUDGETED "UNANTICIPATED" EXPENSES IN THE TEST YEAR?

GULF: *****These miscellaneous expenses should be allowed in the test year*****

The Company must allow for these miscellaneous expenses that occur annually in the normal course of the business which are not itemized specifically in the budgetary process. As an example, Ms. Andrews testified that Gulf hired a safety consultant in order to manage the necessary safety program to meet OSHA standards. The term "unanticipated expenses" is a misnomer. T. 845, 868-869.

ISSUE 45: ARE ADJUSTMENTS NECESSARY TO REMOVE AMORTIZATION OF THE SAN CARLOS WATER LINE PROJECT (AUDIT DISCLOSURE 5)?

GULF: *****No adjustments are necessary to remove amortization of the water line project.*****

The San Carlos water line project was initiated at the request of Lee County health department staff. With what Gulf thought to be the support of the health department, it expended engineering costs to plan to run water lines throughout San Carlos Park. The project was only feasible financially if enforced with a mandatory hookup provision from the County Commission. T. 619-620.

However, the County Commission would not support a mandatory hookup ordinance. The project is therefore considered abandoned. T. 620. The Company is writing the cost off over 5 years. T. 851.

These engineering costs were incurred as reasonable management decisions, and should not be removed.

ISSUE 46: IS AN ANNUAL CUSTOMER SATISFACTION SURVEY NECESSARY, AND WHAT, IF ANY, ADJUSTMENTS ARE APPROPRIATE TO TEST YEAR EXPENSES (AUDIT DISCLOSURE 10)?

GULF: *The cost of an annual customer survey should be included in test year expenses.*****

A customer satisfaction survey should be done at least annually as part of the Company's ongoing effort to assure a satisfactory level of service to its customers. There is absolutely no connection between the \$3200 cost of the customer survey and charitable contributions. T. 864-866.

ISSUE 47: ARE ADJUSTMENTS NECESSARY TO REMOVE EXPENSED COSTS RELATED TO PRELIMINARY SURVEY CHARGES FOR FGCU (AUDIT DISCLOSURE 11)?

GULF: *No adjustments are necessary to remove expensed costs. These costs are for engineering service required under the bond indenture, engineering service on franchise mapping, etc. and only \$32 relate to FGCU.*****

Ms. Andrews testified that Staff's proposed adjustments on this issue were a result of error on Staff's part. T. 216-217, Exhibit 14. At hearing, Ms. Welch agreed, and deleted that portion of her testimony. T. 441.

ISSUE 48: ARE ADJUSTMENTS NECESSARY TO REMOVE LOCAL BUSINESS AND ENTERTAINMENT EXPENSES FOR GULF'S PRESIDENT (AUDIT DISCLOSURE 15)?

GULF: *No adjustments are necessary to remove "local business and entertainment expenses." All expenses are utility business expenses and are explained. There are no entertainment expenses.*****

Mr. Moore testified that many of the expenses set forth in Exhibit 5 specifically involved business discussions where he was, for instance, bringing persons together to solicit cooperation to accomplish a business goal. T. 104. In Mr. Moore's experience this business practice is a cost effective manner of reaching that goal. T. 103. These expenses should be allowed.

ISSUE 49: WHAT IS THE APPROPRIATE PROVISION FOR RATE CASE EXPENSE?

GULF: *The amount of rate case expense is \$251,890.65.*****

Rate case expense of \$219,999.65 is fully supported in Exhibit 30 (JWM-7) (as corrected at hearing, T. 583), and should be allowed as reasonable by the Commission.

ISSUE 50: WHAT ADJUSTMENTS ARE APPROPRIATE TO TEST YEAR DEPRECIATION EXPENSE? (AUDIT EXCEPTION 6)

GULF: *Test year depreciation expense, should be increased by \$78,338 for water and should be increased by \$42,770 for wastewater.*****

All parties to this proceeding are using the same depreciation rates. The difference in test year depreciation expense is in the investment in property being depreciated. Gulf agrees with Staff (Exception No. 6) regarding an error in Gulf's reducing depreciation expense for retirements. For the test year ending December 31, 1996, the adjusted depreciation expense and Reserve For Depreciation are shown on Exhibit 45 (CBA-3). The adjustments are:

	<u>Water</u>	<u>Wastewater</u>
Depreciation Expense	\$78,338	\$42,770
Depreciation Reserve	\$87,458	\$42,770

T. 845-856, Exhibit 49.

Since a test year ending December 31, 1996, is used in this case, Gulf's depreciation of the Three Oaks WWTP (put in service in December, 1995), includes 12 months of depreciation. T. 846.

Staff's depreciation included the depreciation of the plant for 10 months of December 1995 through August 1996 but excluded the 2 months of October and November of 1995. This illustrates the problem of not all parties using the test year approved by the Commission. T. 846.

ISSUE 51: WHAT IS THE APPROPRIATE PROVISION FOR INCOME TAX EXPENSE, BEFORE ANY RATE INCREASE FOR WATER AND WASTEWATER RESPECTIVELY?

GULF: *Income tax expense should be \$19,663 for wastewater and \$19,770 for water.*****

Gulf's calculations for income tax expense of \$19,663 for wastewater and \$19,770 for water for the projected test year ending December 31, 1996, as adjusted, are fully supported by the record and were undisputed at hearing. The expenses should be allowed by the Commission. T. 230, Exhibit 8 (KRC-7).

Attached as Appendix B is a revised MFR financials showing adjustments (Column 3) where the Company agrees with Staff and/or OPC. The note reference in column 4 details the adjustment. T. 840.

ISSUE 52: WHAT IS THE TEST YEAR OPERATING INCOME BEFORE ANY REVENUE INCREASE?

GULF: *Test year operating income is \$384,977 for water and \$97,152 for wastewater.*****

Operating income is shown on Appendix B, Column 5, and is explained in Issue 51, includes adjustments where the Company agrees with Staff and/or OPC.

REVENUE REQUIREMENT

ISSUE 53: WHAT IS THE APPROPRIATE REVENUE REQUIREMENT?

GULF: *The appropriate revenue requirement is \$2,282,299 for water and \$1,705,800 for wastewater*****

The revenue requirement of \$2,282,299 for water and \$1,705,800 for wastewater are shown on Appendix B, attached hereto.

Mr. Moore testified that if the analysis and recommendations of Staff and Public Counsel were implemented, Gulf would cease to function as a going concern. The Company would be unable to pay bond interest. It would be impossible to obtain the additional borrowings required to construct the plant and facilities needed to meet the growth of our service area. T. 537, 616-617.

Public Counsel's proposed revenue reduction of \$898,018 plus an additional reduction for an unknown amount for adjustments to rate base, would "absolutely wreck the Company financially." It would wipe out the equity account, put the Company in default of its outstanding debt securities, and throw the Company in bankruptcy. Similar analysis cannot be made for Staff testimony because Staff has never shown a revenue deduction estimate attendant to their work. T. 538. Both Mr. Bidy and Ms. Welch testified that they did not determine what effects their adjustments would have on the financial integrity of the Company. T. 342-343, 459. In other words, neither OPC or Staff considered the "end result" of their rate setting proposals. The revenue requirement proposed by Gulf should be approved.

RATES AND RATE STRUCTURE

ISSUE 54: SHOULD THE PUBLIC FIRE PROTECTION CHARGE BE CONTINUED, AND IF SO, WHAT IS THE APPROPRIATE CHARGE?

GULF: *The public fire protection charges should be continued, and should be as set forth in Appendix B, page 4, note 7, attached hereto.*****

The public fire protection charge based upon one-third of the base facility charge is set forth in Exhibit 8, page 128. T. 200. The parties have stipulated that pursuant to current Fla. Admin. Code R. 25-30.465, the rates should be based upon one-twelfth of the base facility charge (Prehearing Order, Proposed Stipulation No.11). The recalculated charges are set forth in Appendix B, page 4, note 7, attached hereto. This decreases the revenue from this charge from \$36,605 to \$9,142, a decrease of \$27,463.

ISSUE 55: SHOULD THE COMMISSION DETERMINE A REUSE RATE IN THIS PROCEEDING, AND IF SO, WHAT IS THE APPROPRIATE RATE?

GULF: *No reuse rate is appropriate because discharge by spray irrigation is part of Gulf's effluent disposal system, Gulf has no reasonable alternatives, and the Golf courses receiving the effluent will not accept the effluent if a charge is imposed.*****

OPC has proposed a \$.25 per thousand gal rate for reuse water. Gulf disagrees with this proposal which fails to recognize that for Gulf, the golf courses that use reuse water are not customers.

Gulf's effluent is disposed of 100% through golf course irrigation, in contrast with both Lee County and other utilities in Lee County which use golf course irrigation as a supplementary system. T. 553-554. Further, substantial investment in construction and maintenance by the golf courses is required to

comply with regulatory agency requirements for effluent storage. Exhibit 2, T.12-18, Exhibit 3, T. 22, 34-36, 553-554.

Gulf contracts with golf courses to take all of its effluent, even in rainy seasons. This avoids the costs of constructing expensive treatment facilities, temporarily eliminating the construction of a \$2.5 million deep injection well. Gulf customers have and will benefit from lower cost of spray irrigation for effluent disposal. T. 553, 554, 556, 560, 630.

Representatives from the four golf course reuse sites testified at hearing. All four of these golf courses have SFWMD consumptive use permits giving them groundwater as a source of water for their golf course irrigation. T. 555, 526.

Witnesses for all four golf courses testified that imposition of a reuse charge would result in limiting or ceasing use of Gulf's effluent, and the golf courses' using other water sources. T.26-31, 37, 44.

A witness for River Ridge Golf Course urged the Commission not to impose a reuse charge. T. 888-890. Gulf on a temporary basis is disposing of half a million gallons of effluent at the River Ridge project. Mr. Moore testified that this temporary disposal arrangement is another example of cooperation which does not cost money; but if an effluent reuse charge was required: "Gulf Utility would have been in a heck of a bind." T. 622-623.

Ms. Xanders testimony supports Gulf's position. The factors she lists to be considered in Gulf's case: "could justify the continuation of no charge for reuse." T. 490-491. Ms. Xanders

testified: "I would like to stress that I consider zero to be a reuse rate." T. 500.

Mr. Moore testified that imposition of a reuse charge would negatively impact Gulf's operations. Mr. Moore testified that such a charge would take an operation that is now low cost and efficient and subject it to untold litigation and untold cost consequences to the detriment to all parties: Gulf, the golf courses, and Gulf's customers. First, existing users would take as little reuse water as possible in order to avoid the expense. Second, prospective reuse sites would avoid or delay as long as possible entering agreements to accept reuse from Gulf. Third, on a daily basis, especially in wet weather, Gulf would find itself unable to dispose of effluent in the quantities it has historically delivered to the sites it now serves. T. 556-560.

Lee County Utilities (LCU) offers an example of the inability to dispose of effluent when a charge is imposed. Because LCU had a difficult time disposing of its effluent, it lowered its .21 per 1,000 gallons charge established in 1995 to \$.04 per 1,000 gallons in July 1996 for wet weather discharge. T. 558.

Mr. William Burns, Director of Water Use with the SFWMD, testified that Chapter 62-40, F.A.C. states that a reasonable amount of reuse of reclaimed water from domestic wastewater facilities shall be required within Critical Water Supply Problem Areas unless such reuse is not economically, environmentally, or technically feasible. T. 520, 523-524. If reclaimed water is available, a consumptive use permit applicant is required by Ch. 40

E-2, F.A.C., to submit an evaluation of the technical, economical, and environmental feasibility of using reclaimed water. Mr. Burns testified that: "the applicant's determination of feasibility is considered final, and the conclusions are not independently reviewed by District Staff." T. 522-527. This testimony refutes OPC's testimony. Ms. Dismukes based her .25/1000 gal. charge upon an assumption that the District: "should find that at a reasonable rate, reclaimed water is economically feasible." T. 295.

Mr. Burns testified that he is familiar with Gulf's discharge of effluent and the reuse program and that he is satisfied with it, and that in his experience if effluent costs more than use of well water, golf courses will use well water rather than reuse water, which would be an undesirable result. T. 533-535.

For these reasons, the present method of disposing of effluent should be retained, with no effluent reuse charge imposed.

ISSUE 56: IN LIGHT OF SECTION 367.0817, FLORIDA STATUTES, SHOULD ANY OF THE REVENUE REQUIREMENT ASSOCIATED WITH REUSE BE ALLOCATED TO GULF'S WATER CUSTOMERS AND RECOVERED THROUGH WATER RATES?

GULF: *Gulf does not believe that a reuse rate should be set, but if one is established, it should be allocated to the water customers pursuant to 367.0817.*****

To implement §367.0817, Fla. Stat., the benefits to the water customers from reuse water would have to be quantified and a method of allocating cost determined. Of Gulf's 7,000 water customers, 2,400 take wastewater service from Gulf and 4,600 have septic tanks. If a surcharge is added to the water rates for reuse water benefits, 4,600 water customers on septic tanks will be subsidizing

2,400 customers taking wastewater service from Gulf. T. 627-628.

ISSUE 57: WHAT IS THE APPROPRIATE MASTER METER INFLUENT SERVICE RATE?

GULF: ***The appropriate master meter influent service rate is a gallonage charge of 5.29/mgd plus a base facility charge based on the size of the meter.***

The current master meter influent service rate, as set forth in the MFRs, Exhibit 8, page 129, is appropriate. Mr. Moore verified at hearing that the justification still exists for continuation of this class of service for Mariners Cove and Coach Light Manor Parks establishes by PSC Order 21450. T. 121-122. No contrary evidence was presented at hearing.

ISSUE 58: WHAT ARE THE APPROPRIATE WATER AND WASTEWATER RATES?

GULF: ***The appropriate water and wastewater rates are those as set forth in the MFRs.***

Gulf's construction program requires a set of rates that will produce approximately a 9.25% rate of return on rate base. The proposed rates actually produced a lower rate of return than 9.25%. To that end, Gulf is requesting that its existing water rates be maintained, except that private fire protection rates be reduced to conform with Rule 25-30.465, and that wastewater rates be approved as set forth in the MFRs. In summary:

	<u>Revenues</u>	<u>Operating Income</u>	<u>Rate of Return</u>
Water	\$2,267,783	\$370,630	9.09%
Wastewater	<u>1,671,070</u>	<u>427,343</u>	<u>8.82</u>
Total	\$3,938,853	\$797,973	8.94%

* total operating income divided by total Rate Base.

Revenue of \$3.9 million will permit Gulf to maintain its credit, permit it to refinance existing debt, and permit it to raise additional capital to finance its construction program.

ISSUE 59: WHAT IS THE APPROPRIATE AMOUNT BY WHICH RATES SHOULD BE REDUCED FOUR YEARS AFTER THE ESTABLISHED EFFECTIVE DATE TO REFLECT THE REMOVAL OF THE AMORTIZED RATE CASE EXPENSE AS REQUIRED BY SECTION 367.0816, FLORIDA STATUTES?

GULF: *The appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense is one quarter of the approved rate case expense.*****

One quarter of the rate case expense of \$219,999.65 (Issue 49) is \$54,999.91, which is the appropriate amount by which rates should be reduced as required by §367.0816, Fla. Stat.

ISSUE 60: WHAT ARE THE APPROPRIATE AMOUNTS OF REFUNDS, IF ANY, FOR WATER REVENUES HELD SUBJECT TO REFUND AND THE INTERIM WASTEWATER INCREASE?

GULF: *No refunds are necessary.*****

Based upon Gulf's revenue requirement (Issue 53) and water and wastewater rates and charges approved on this case (Issue 54-58), no refunds are necessary.

SERVICE AVAILABILITY

ISSUE 61: SHOULD THE UTILITY'S TARIFF FILING TO MODIFY ITS SERVICE AVAILABILITY CHARGES BE APPROVED AS FILED?

GULF: *Gulf's request to modify its service availability charges should be approved as filed.*****

Gulf's tariff filing to modify its service availability charges was fully supported. T. 164-167, Exhibit 8 (KRC-2), KRC-5, KRC-6). No evidence opposing these charges was introduced at hearing. The \$800/ERC charge for residential wastewater service, and \$550/ERC charge for residential water service should be approved.

OTHER ISSUES

ISSUE 62: WHAT IS THE APPROPRIATE ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC) RATE?

GULF: *The appropriate AFUDC rate is 9.25%.*****

The AFUDC rate should be the most recent 12-month average embedded cost of capital, pursuant to Fla. Admin. Code. R. 25-30.116., that is, 9.25% as shown in Issue 29 herein.

ISSUE 63: SHOULD THE SPECIAL SERVICE AVAILABILITY AGREEMENT DATED DECEMBER 12, 1996 BETWEEN GULF AND THE BOARD OF TRUSTEES OF THE INTERNAL IMPROVEMENT TRUST FUND OF THE STATE OF FLORIDA (FGCU) BE APPROVED AS FILED?

GULF: *The special service availability agreement dated December 12, 1996 between Gulf and the Board of Trustees of the Internal Improvement trust Funds of the State of Florida (FGCU) should be approved as filed.*****

Mr. Moore testified as to the circumstance surrounding this service availability agreement. T. 87-90. No evidence was introduced at hearing in opposition to approval of this agreement. The agreement is consistent with Gulf's tariffs and should be approved pursuant to Fla. Admin. Code R. 25-30.550.

Dated this 3rd day of April, 1997.

Respectfully submitted



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GULF UTILITY COMPANY
COMPARISON OF NON-USED AND USED PROPERTY
WATER OPERATIONS
GULF AND OPC

% Non Used and Useful (1)	Gulf (2)	Supply			OPC (e) Treatment			Storage (9)
		San Carlos (3)	Cortoscrew (4)	Total (5)	San Carlos (6)	Cortoscrew (7)	Total (8)	
1 Plant Capacity (mgd)	4 215	2 808	3 600	6 408	2 415	1 800	4 215	2 600
2 Average of Five Day Max. (mgd)(1995)	2 746			2 746			2 746	
3 Florida Gulf Coast University Growth 1996	0 073	-	-	1 254	-	-	0.178 (f)	-
5 Subtotal (mgd)	3 059	2 415	0 585	3 000	2 415	0 509	2 924	1 462 (g)
6 Required Fire Flows (mgd)	0 360	-	-	-	-	-	-	0 180
7 Margin Reserve (mgd)	0 297	-	-	-	-	-	-	-
8 Total Flows (mgd)	3 716	2 415	0.585	3 000	2 415	0.509	2 924	1 642
9 Used and Useful	88.2 %	86.00 %	16.25 %	46.82 %	100.00 %	28.26 %	88.23 %	63.15 %
10 Non-used & Useful	11.8	14.00	83.75	53.18	0.00	71.74	11.77	36.85

\$ Non Used and Useful

11 Source of Supply								
12 Land		No Finding	No Finding	No Finding	No Finding	No Finding	No Finding	No Finding
13 Plant	\$ 241,215 (a)	No Finding	No Finding	No Finding	No Finding	No Finding	No Finding	No Finding
14 Treatment								
15 Land		-	-	-	-	-	-	-
16 Plant, Excl Skld 3		-	-	-	-	-	-	-
17 Skld 3	878,555 (b)	-	-	-	-	-	-	-
18 Reject Holding Tank	253,910 (c)	-	-	-	-	-	-	-
19 Storage, Inc Land		-	-	-	-	-	-	-
20 Total	<u>1,173,680</u>	-	-	-	-	-	-	-
21 Reserve for Depreciation	<u>(98,191) (d)</u>	-	-	-	-	-	-	-
22 Net Plant	<u>\$ 1,075,489</u>							

(a) Exhibit 8 page 166
 (b) Exhibit 8 page 9.col. 3,line 3
 (c) Exhibit 8 page 9.col. 3,line 8
 (d) Exhibit 8 page 9.col. 3,line 17 and page 166

(e) Exhibit 18 TLB-2
 (f) Five Day Max. 2 924 (Line 4) minus 2 746 (Line 3) = 0.178
 (g) 1.462/3.312 (Line 1) = 44% x 24Hrs. = 11 Hours of Max Daily Flow

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APPENDIX A

GULF UTILITY COMPANY
WATER OPERATIONS
RATE BASE, OPERATING INCOME, RATE OF RETURN
TEST YEAR - 1996

Description (1)	Present Rates				Proposed Rates		Revenue Requirements	
	MFR(b) (2)	Adjustment(a) (3)	Note Ref (4)	As Adjusted (5)	Rate Adjustment (6)	As Adjusted (7)	Adjustment (8)	Total (9)
1 Rate Base								
2 Utility Plant	\$ 18,695,154	\$		\$ 18,695,154		\$ 18,695,154		\$ 18,695,154
3 Dep. Reserve	(4,266,892)	(87,458)	1	(4,354,350)		(4,354,350)		(4,354,350)
4 Non-Used & Useful (Net)	(1,075,489)			(1,075,489)		(1,075,489)		(1,075,489)
5 Contrib. in Aid Const	(12,220,685)	(191,182)	2	(12,411,867)		(12,411,867)		(12,411,867)
6 Amortz of CIAC	2,942,325	5,811	2	2,948,136		2,948,136		2,948,136
7 Advances for Const	(4,885)			(4,885)		(4,885)		(4,885)
8 Working Capital	358,144	(77,019)	3	281,125		281,125		281,125
9 Rate Base	<u>\$ 4,427,672</u>	<u>\$ (349,848)</u>		<u>\$ 4,077,824</u>		<u>\$ 4,077,824</u>		<u>\$ 4,077,824</u>
10 Operating Revenues	\$ 2,295,357	\$		\$ 2,295,357	\$ (27,574) (c)	\$ 2,267,783	\$ (13,058)	\$ 2,282,299
11 Operating Rev. Deductions								
12 Operating Expenses	1,307,395	94,081	5	1,401,476		1,401,476		1,401,476
13 Depreciation	172,394	81,647	1	254,041		254,041		254,041
14 Taxes Other Than Income	227,872	(4,565)	6	223,107	(1,241)	221,866	(587)	222,520
15 Income Taxes	85,449	(53,693)		31,756	(11,986)	19,770	(4,893)	27,063
16 Total	<u>1,792,910</u>	<u>117,470</u>		<u>1,910,380</u>	<u>(13,227)</u>	<u>1,897,153</u>	<u>(5,280)</u>	<u>1,905,100</u>
17 Operating income	<u>\$ 502,447</u>	<u>\$ (117,470)</u>		<u>\$ 384,977</u>	<u>\$ (14,347)</u>	<u>\$ 370,630</u>	<u>\$ (7,778)</u>	<u>\$ 377,199</u>
18 Rate of Return	11.35%			9.44%		9.09%		9.25%

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APPENDIX B

(a) Adjustments stemming from Staff's and/or OPC's studies that Gulf agrees with.
See note reference.
(b) Exhibit 8, page 67, Column 4
(c) Reference Note 7

GULF UTILITY COMPANY
WASTEWATER OPERATIONS
RATE BASE, OPERATING INCOME, RATE OF RETURN
TEST YEAR - 1996

Description (1)	Present Rates			Note Ref (4)	As Adjusted (5)	Proposed Rates		Revenue Requirements	
	MFR(b) (2)	Adjustment(a) (3)	Rate Adjustment (6)			As Adjusted (7)	Adjustment (8)	Total (9)	
1 Rate Base									
2 Utility Plant	\$ 14,755,975	\$ (2,265)	4	14,753,710		\$ 14,753,710		\$ 14,753,710	
3 Dep. Reserve	(2,978,837)	(42,770)	1	(3,021,607)		(3,021,607)		(3,021,607)	
4 Non-Used & Useful (Net)								0	
5 Contrib. in Aid Const.	(9,060,383)			(9,060,383)		(9,060,383)		(9,060,383)	
6 Amortiz of CIAC	1,976,074			1,976,074		1,976,074		1,976,074	
7 Advances for Const.								0	
8 Working Capital	235,467	(39,677)	3	195,790		195,790		195,790	
9 Rate Base	<u>\$ 4,928,296</u>	<u>\$ (84,712)</u>		<u>\$ 4,843,584</u>		<u>\$ 4,843,584</u>		<u>\$ 4,843,584</u>	
10 Operating Revenues	<u>\$ 1,304,730</u>	<u>\$</u>		<u>\$ 1,304,730</u>	<u>\$ 366,340 (c)</u>	<u>\$ 1,671,070</u>	<u>\$ 401,070</u>	<u>\$ 1,705,800</u>	
11 Operating Rev. Deductions									
12 Operating Expenses	859,570	(4,022)	5	855,548		855,548		855,548	
13 Depreciation	173,851	42,770	1	216,621		216,621		216,621	
14 Taxes Other Than Income	132,610	2,799	8	135,409	18,485	151,894	18,048	153,457	
15 Income Taxes					19,664	19,664	32,144	32,144	
16 Total	<u>1,166,031</u>	<u>41,547</u>		<u>1,207,578</u>	<u>36,149</u>	<u>1,243,727</u>	<u>50,192</u>	<u>1,257,770</u>	
17 Operating income	<u>\$ 138,699</u>	<u>\$ (41,547)</u>		<u>\$ 97,152</u>	<u>\$ 330,191</u>	<u>\$ 427,343</u>	<u>\$ 350,878</u>	<u>\$ 448,030</u>	
18 Rate of Return	2.81%			2.01%		8.82%		9.25%	

(a) Adjustments stemming from Staff's and/or OPC's studies that Gulf agrees with
See note reference.

(b) Exhibit 8, Page 69, Column 4

(c) Reference Note 8

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GULF UTILITY COMPANY
NOTES TO
RATE BASE, OPERATING INCOME, RATE OF RETURN
TEST YEAR - 1996

Note 1 Depreciation

The Company made an error in the computation of depreciation. The corrected amounts for the test year are (tr 848, lines 7-9)

	Water	Wastewater
Depreciation Expense		
Mains	\$ 88,832	\$ 42,770
Adjust for Corkscrew WTP	(1,374)	
Amortz grant from SFWMD	(5,811)	
	\$ 81,647	\$ 42,770
Depreciation Reserve		
Reserve (Ex. 8, pages 7 & 10)	\$ 4,266,892	\$ 2,978,837
Adjustment	87,458	42,770
	\$ 4,354,350	\$ 3,021,607

Note 2 Allocation of \$300,000 Grant from SFWMD

	Invest(a)	CIAC	Used & Useful %(b)	Amount	%(c)	Amortizati Amount
Holding Tank	\$ 445,455	\$ 190,909	43	\$ 82,091	3 04	\$ 2,495
Pumps, Controls, etc.	<u>254,545</u>	<u>109,091</u>	100	109,091	3 04	3,316
	<u>700,000</u>	<u>300,000</u>		191,182		5,811

- (a) Exhibit 8, page 9, lines 29-32
- (b) Exhibit 8, page 9, col. 2, lines 7 & 12
- (c) Exhibit 45, CBA-3, line 10

Note 3 Working Capital

Total working capital is \$476,915 (Nixon RCN-1) and is allocated as follows

Water	\$ 281,125
Wastewater	195,790
	476,915

Note 4 Wastewater Plant

\$2,265 reduction in wastewater plant (tr 850, lines 6-9)

GULF UTILITY COMPANY
NOTES TO
RATE BASE, OPERATING INCOME, RATE OF RETURN
TEST YEAR - 1996

Note 5 Operating Expenses

	Water	Wastewater
Wages Increased staffing at Corkscrew WTP in accordance Chapter 17-699 (tr792, lines 10-25)	\$ 56,764	\$
Chemicals With additional looping of the water system and mixing of water from two water plants, there was some discoloring of water. The added chemicals solved the problem (tr 793 - 795)	49,594	
Contractual Services To amortize pond cleaning over 2 years rather than expense in 1 year. (tr842, lines 13-16)	(8,000)	
Remove non-recurring insurable lighting damage (tr 842, lines 20-23)		(1,819)
Rent Added charges to Coloosa (tr844, lines 1-5)	(924)	(476)
Misc Expenses*		
Remove NAWC lobby related dues	(550)	(283)
Rotary dues	(163)	(84)
Interest on operating account	(2,640)	(1,360)
	94,081	(4,022)
* (tr 844, lines 21-23)		

Note 6 Taxes, Other Than Income*

Regulatory Assessment Fees	\$ (715)	\$ (1,051)
Payroll Taxes - Allocation on payroll basis	3,850	3,850
	(4,565)	2,799
* (tr 849, lines 18-25)		

Note 7 Revenue - Water Revenues for private protection service per 25-30 465

Size *	Bills*	Present Rate-BFC	Per 25-30 465	Revenue
1 "	24	\$ 21 13	\$ 1 76	\$ 42
4	87	211 27	17 60	1,531
6	60	422 54	35 21	2,113
8	97	675 00	58 25	5,456
				9,142
Present Revenue				36,805
Difference				(27,463)

* Source Exhibit 8 page 152

Note 8 Revenues - Wastewater The revenue increase requested is \$366,340 (Exhibit 8, page 89) The rates are set forth in Exhibit 8, page 129, column 3

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of Gulf Utility Company's Post-hearing Statement of Issues and Brief has been furnished by hand-delivery on this 3rd day of April, 1997 to **MAGGIE O'SULLIVAN, ESQ.**, Division of Legal Services, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, and **STEVE REILLY**, Associate Public Counsel, Office of Public Counsel, Claude Pepper Building, Room 812, 111 W. Madison Street, Tallahassee, Florida 32399-1400.



B. Kenneth Gatlin