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OF COUNSEL
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October 8, 1997

HAND DELIVERY

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

RE: Docket No. **960329-WS**
Application of GULF UTILITY COMPANY for
an increase in Wastewater Rates, approval of a decrease in
Water Rates and approval of Service Availability Charges in
Lee County, Florida

Docket No. 960234-WS
Application for increase in rates and service availability
charges in Lee County by Gulf Utility Company

Dear Ms. Bayo:

Enclosed for filing, on behalf of Gulf Utility Company, are an
original and fifteen copies of a Notice of Specific Errors in Staff
Memorandum of September 25, 1997, in reference to the above docket.

Please acknowledge receipt of the foregoing by stamping the
enclosed extra copy of this letter and return same to my attention.

Very truly yours,

Kathryn G.W. Cowdery
Kathryn G.W. Cowdery

KGWC/pav
Enclosures

cc: Tim Vaccaro, Esq., Division of Legal Services
Stephen C. Reilly, Office of Public Counsel

RECEIVED & FILED

DOCUMENT NUMBER-DATE

10349 OCT-85

FPSC DIVISION OF RECORDS & REPORTING

Woods
[Signature]

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of GULF UTILITY) Docket No. 960329-WS
 COMPANY for an increase in Wastewater)
 Rates, approval of a decrease in Water) Filed: October 8, 1997
 Rates and approval of Service)
 Availability Charges in Lee County,)
Florida)

In Re: Application for increase in) Docket No. 960234-WS
 rates and service availability)
 charges in Lee County by Gulf) Filed: October 8, 1997
Utility Company)

NOTICE OF SPECIFIC ERRORS IN STAFF
MEMORANDUM OF SEPTEMBER 25, 1997

Gulf Utility Company (Gulf) files its Notice of Specific Errors in Staff Recommendation dated September 25, 1997 (Memorandum), and states:

1. Under issue two on page seven of the Memorandum, Staff fails to recognize that all of the \$10 million of debt is invested in utility plant that is presently in service (TR. page 78, lines 2-9). The Staff appears to believe there is some excess debt. However that is wrong, the record is clear that all of the debt is invested in plant.

Gulf raised \$10 million in 1988 to carry out a construction program reviewed by the Commission in Docket 88038-SU (1988) and 900718-WU (1991) and summarized again on Page 5 of Exhibit 8 (KRC-1). The above financing program was included in computing cost of Capital in the 1991 rate case as well as the present case.

The Company was profitable from 1993 - 1996. The rate order will turn the Company from a profitable to an unprofitable company

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10349 OCT-85

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by reducing revenues and failing to recognize increased cost of providing service.

2. In issue five on page 14 of the Memorandum in the fourth paragraph the Staff says that there were no projected flows for 1996. This is an erroneous statement. Such flows were furnished in the MFRs (Exhibit 8, KRC-1). See Schedule F-5 at page 159, Schedule F-6 at page 160, and Appendix A at page 168 of Exhibit 8 (KRC-1), and pages 138 - 139 of the transcript of testimony. At pages 170 - 177 of the transcript the testimony shows customer growth of 607 ERCs for water and 507 ERCs for wastewater. At pages 187 and 188 of the transcript testimony shows that the 250 gpm for wastewater and 396 gpm for water was supported by actual flows. This shows clearly that Gulf's estimate of 1996 flows is the sum of the 1995 flows, 1996 growth and margin reserve all computed on same basis.

3. Issue 5 on page 15 first paragraph of the Memorandum says the 1996 growth of 430 ERCs in water and 495 ERCs in wastewater are included in the margin reserve. This argument destroys the principle of margin reserve and has the effect of doubling the amount of CIAC included in rate base.

Docket No. 960329-WS includes revenues and CIAC, excluding Florida Gulf Coast University, from 607 ERC in the water operations and 507 in the wastewater operations. The university added another 183 ERC for water and 209 ERC for wastewater.

There is a Staff error in revenues as a result of adjusting for changes in customer growth. A second error in Staff's position is that when it imputes CIAC for growth included in margin reserve, it then doubles the CIAC associated with the customer growth in 1996 already included in rate base.

4. In issue 6 on page 16 of the Memorandum in the fifth paragraph, Staff agrees with Gulf that the San Carlos and the old portion of the Three Oaks WWTP is 100% used and useful and only Phase 3 (new plant at Three Oaks) is less than 100% used and useful. Staff said "Gulf did not segregate the funds by individual plant in its filing." That statement is incorrect as it relates to this issue.

Gulf has two wastewater treatment plants, the San Carlos and Three Oaks Plants (TR. 81), with Phase 1 and 2 (old plants) of Three Oaks constructed in 1989 and 1991 respectively and Phase 3 constructed in 1995 (Ex. 8, KRC-1, page 6, and Ex. 8, KRC-2 page 31).

By primary accounts, the total investment and Reserve for Depreciation for the both wastewater plants is shown on pages 20 and 35 of Exhibit 8 (KRC-1).

On page 171-Note 1 of Ex. 8 (KRC-1) is the investment in Phase 3 of the Three Oaks WWTP. By simple subtraction of Phase 3 from the total, the investment in the San Carlos and the old portion of Three Oaks WWTP is determined.

5. Issue 8 of page 20 of the Memorandum misstates Gulf's position and the facts in the case.

In its Motion for Reconsideration Gulf did not take issue with the rates for amortization of CIAC and the adjustments to depreciation expense of [\$12,967] for water and [\$7,804] for wastewater.

As to the adjustment of the cumulative amortization of CIAC, Staff witness Welch stated "Staff did not compute the effects on accumulated amortization." (Exh. 24, KLV-1 page 6) Ms. Welch said this at TR. 446:

The audit also calculated the 13-month average accumulated amortization. This calculation used the utility's general ledger for the period ending September 1996. This average, when compared to MRF Schedule A-14 results in a reduction to the water MFRs of \$115,371.53 and the wastewater MFRs should be reduced by \$98,456.33.

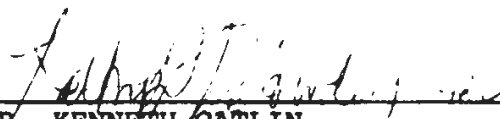
There is no evidence that the general ledger in September, 1996, is reasonable for the approved 1996 test year.

There is no evidence to support the reduction of amortization of CIAC by \$114,371.53 for water and \$98,456.33 for wastewater.

6. By this filing Gulf does not waive its position on issues not set forth herein. Gulf's position on all other issues remains as set forth in its testimony, exhibits, brief and Motion for Reconsideration.

DATED this 8th day of October, 1997.

Respectfully submitted,

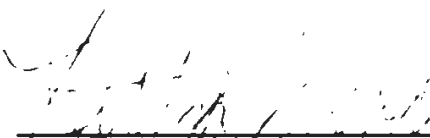


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Attorneys for
GULF UTILITY COMPANY

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by hand delivery to Mr. Tim Vaccaro, Esquire, Division of Legal Services, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, and to Mr. Stephen C. Reilly, Esquire, Office of Public Counsel, 111 W. Madison Street, Tallahassee, Florida 32399-1400, on this 8th day of October, 1997.



KATHRYN G.W. COWDERY