

FLORIDA PUBLIC SERVICE COMMISSION
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M E M O R A N D U M

November 6, 1997

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11:59
FPSC - Records/Reporting

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF WATER & WASTEWATER (MERCHANT, FUCHS, GALLOWAY)
DIVISION OF LEGAL SERVICES (VACCARO)

RE: DOCKET NO. ~~960234~~ 960234-WS - GULF UTILITY COMPANY -
INVESTIGATION OF RATES FOR POSSIBLE OVEREARNINGS

DOCKET NO. ~~960234~~ 960234-WS - GULF UTILITY COMPANY - APPLICATION
FOR AN INCREASE IN WASTEWATER RATES AND CHARGES, AND A
DECREASE IN WATER RATES AND CHARGES.

COUNTY: LEE

AGENDA: 11/18/97 - REGULAR AGENDA - POST HEARING DECISION -
PARTICIPATION IS LIMITED TO COMMISSIONERS AND STAFF

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\WAW\WP\960329WS.REC
ORAL ARGUMENT WAS NOT REQUESTED

This recommendation completely replaces the
recommendation filed on September 3, 1997.

DOCUMENT NUMBER-DATE

11469 NOV-65

FPSC-RECORDS/REPORTING

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CASE BACKGROUND

Gulf Utility Company (Gulf or utility) is a Class A utility which serves approximately 7,040 water and 2,435 wastewater customers in Lee County, Florida. The utility is located in a water use caution area as designated by the South Florida Water Management District (SWFWMD). Rate base was last established for Gulf's wastewater facilities by Order No. 20272, issued November 7, 1988, in Docket No. 880308-SU. Rate base for water facilities was last established by Order No. 24735, issued July 1, 1991, in Docket No. 900718-WU.

By Order No. PSC-96-0501-FOF-WS, issued April 11, 1996, in Docket No. 960234-WS, the Commission initiated an overearnings investigation and held \$353,492 in annual water revenues subject to refund. As noted by that order, the overearnings investigation has been combined with this rate proceeding.

On June 27, 1996, Gulf filed an application for an increase in wastewater rates, approval of a decrease in water rates, and approval of service availability charges. The minimum filing requirements (MFRs) were satisfied on August 23, 1996, which was established as the official filing date pursuant to Section 367.083, Florida Statutes. The utility's requested test year for interim purposes is the historical year ended December 31, 1995. The requested test year for final rates is the projected year ending December 31, 1996.

By Order No. PSC-96-1310-FOF-WS, issued October 28, 1996, the Commission suspended Gulf's proposed rates, approved interim wastewater rates subject to refund, and granted the utility's request to reduce its water rates and held additional water revenues subject to refund. The Prehearing Conference was held on February 17, 1997. The technical and customer hearings were held on March 5 and 6, 1997 at the Elks Club of Bonita Springs in Bonita Springs, Florida.

By Order No. PSC-97-0847-FOF-WS, issued July 15, 1997 (Final Order), the Commission approved final water and wastewater rates and charges for Gulf. On July 30, 1997, Gulf timely filed a Motion For Reconsideration of Order No. PSC-97-0847-FOF-WS. Gulf also filed a Motion to Release Escrow Funds on July 30, 1997. OPC filed a response to the Motion For Reconsideration on August 11, 1997, after an extension of time approved by the Commission. On September 18, 1997, Gulf filed a Request for Administrative Notice for a letter provided by an engineering firm to support the in-

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service time frame for the one million gallon reject holding tank. This recommendation addresses Gulf's Request for Administrative Notice, the Motion for Reconsideration and the Motion to Release Escrow Funds, and OPC's response to Gulf's Motion for Reconsideration.

On September 25, 1997, staff initially filed its recommendation addressing Gulf's motions. Subsequently, staff requested that the recommendation be deferred from the October 7, 1997 Agenda Conference, due to a request from the Chairman's office to all divisions to limit the number of items on the October 7 agenda. On October 8, 1997, Gulf filed a Notice of Specific Errors In Staff Memorandum of September 25, 1997. Gulf's notice did not request Commission action. On October 30, 1997, OPC filed a Notice of Specific Errors in Gulf Utility Company's Notice of Specific Errors in Staff Memorandum of September 25, 1997, in which OPC requests that the Commission disregard Gulf's notice. Staff has made no recommendation regarding the parties' notices. Neither filing is contemplated by Commission rule. As such, staff believes that both filings are improper and should not be considered.

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ISSUE 1: Should Gulf's Request for Administrative Notice be granted?

RECOMMENDATION: No. (VACCARO)

STAFF ANALYSIS: On September 18, 1997, Gulf filed a Request for Administrative Notice, in which it requests that the Commission take administrative notice of a letter provided by an engineering firm which purports to set forth the time period in which Gulf's one million gallon reject holding tank will reach start-up and be fully operational. Gulf has requested reconsideration of the Commission's decision to exclude this tank from rate base, as discussed in Issue No. 4. As grounds for its request, Gulf alleges that the facts stated in the letter should be administratively noticed, "because they are capable of accurate and ready determination by the Commission and staff," as provided in Section 90.202(12), Florida Statutes.

Section 90.202(12), Florida Statutes, provides that the following may be administratively noticed:

Facts that are not subject to dispute because they are capable of accurate and ready determination by resort to sources whose accuracy cannot be questioned. (Emphasis added.)

Examples of such facts are the exchange rate between American and Canadian currency and whether or not a specific location falls within county boundaries. See MacDonald v. International Chemalloy Corporation, 473 So. 2d 760 (Fla. 4th DCA 1985); and Liberty Mutual Insurance Company v. Magee, 389 So. 2d 1090 (Fla. 4th DCA 1980), respectively. These examples are facts which do not require formal proof because they are indisputable. Staff does not believe that the start-up and operational dates of a holding tank are the types of facts contemplated by the statute. Further, in the MacDonald case, the Court held that a letter from counsel was not sufficient authority to base judicial notice on the American/Canadian exchange rate. 473 So. 2d at 761. Likewise, staff does not believe that the letter provided by Gulf is sufficient authority upon which to base administrative notice of the facts alleged.

Staff also notes that pursuant to Section 90.901, Florida Statutes, "[a]uthentication or identification of evidence is

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required as a condition precedent to its admissibility." Gulf has not provided a witness to authenticate the letter in question and, at any rate, the record in this Docket is closed, barring inclusion of any new evidence. Based on the foregoing, the Commission should deny Gulf's Request for Administrative Notice.

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ISSUE 2: Should the Commission reconsider Order No. PSC-97-0847-FOF-WS based on Gulf's assertion that the order violates the "end result doctrine?"

RECOMMENDATION: No, the Commission should not reconsider Order No. PSC-97-0847-FOF-WS based on Gulf's assertion that it violates the "end result doctrine." (VACCARO)

STAFF ANALYSIS: In its Motion for Reconsideration Gulf requests that the Commission reconsider its Final Order on the basis that the Commission's order does not consider the effects it will have on the financial integrity of the utility, and, therefore, ignores the "end result doctrine." Citing Federal Power Commission v. Hope Natural Gas, 320 U.S. 591, 602 (1944), Gulf states that "the end result doctrine establishes the constitutional principle that rates which do not 'enable the company to operate successfully, to maintain its financial integrity, to attract capital and to compensate investors for the risk assumed' result in an unlawful confiscation of the utility's property." Gulf further states that "the end result doctrine applies in every rate case to determine whether just and reasonable rates have been set." Gulf cites, among others, the following cases in support of its statement: Tamaron Homeowners Association, Inc. v. Tamaron Utilities, Inc., 460 So. 2d 347, 353 (Fla. 1984); Westwood Lake, Inc. v. Dade County, 264 So. 2d 7, 9 (Fla. 1972).

In its motion, Gulf provided an Affidavit of Mr. James Moore, President of Gulf, which allegedly details the effect which the Final Order will have on the utility. In summary, the Affidavit provides that Gulf will not have a sufficient return to provide confidence in the financial integrity of the business, maintain its credit, and attract capital on reasonable terms. Gulf also states that "[t]he end result of the Final Order is that there is inadequate revenue from utility operations to pay bond interest on Gulf's outstanding debt securities." Finally, Gulf states that the Commission has set rates which are \$438,037 less than it requested; therefore, the Commission has set rates which are not fair, just and reasonable.

In its response to Gulf's motion, OPC agrees with the holdings of the cases cited by Gulf. However, OPC asserts that the hardships alleged in Mr. Moore's affidavit, are due to the issuance of excessive debt in 1988. OPC states that Mr. Moore testified at hearing that the utility borrowed \$10,000,000 in 1988, yet it was

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not required to borrow this much money. (TR 578) OPC further states that on cross-examination, Mr. Moore conceded that the amount of Industrial Development Revenue Bonds issued by the utility was a decision made by the utility, not customers. (TR 579) Likewise, Mr. Moore admitted that the losses sustained because of these bonds were the result of management decisions, not customer or developer decisions. (TR 579-580) OPC asserts that the loss depicted in Attachment 1 to Mr. Moore's Affidavit is due solely to the issuance of bonds which greatly exceeded the capital requirements of the utility. OPC concludes that a loss sustained by the company's excessive debt should be sustained by the utility, not the customers, and Gulf's Motion for Reconsideration should be denied.

The standard for determining whether reconsideration is appropriate is set forth in Diamond Cab Company of Miami v. King, 146 So. 2d 889 (Fla. 1962). In Diamond Cab, the Court held that the purpose for a petition for reconsideration is to bring to an agency's attention a point of fact or law which was overlooked or which the agency failed to consider when it rendered its order in the first instance, and it is not intended as a procedure for rearguing the case merely because the losing party disagrees with the judgment. Id. at 891. In Stewart Bonded Warehouse v. Bevis, 294 So. 2d 315 (Fla. 1974), the Court held that a petition for reconsideration should be based upon specific factual matters set forth in the record and susceptible to review. Staff has applied these standards in its analysis of Gulf's Motion for Reconsideration.

Staff agrees with the holdings in the case law cited by Gulf, but staff does not agree with the applicability of the cases to the instant situation. According to these cases, end results are rates which are just and reasonable. Staff believes that the Commission is well aware of its obligation to set just, reasonable and compensatory rates under Section 367.081(2)(a), Florida Statutes. By Order No. PSC-97-0847-FOF-WS (the Final Order), the Commission approved rates that would allow the utility the opportunity to earn a 9.20% rate of return on its investment and to recover its allowed level of expenses. The Commission fully considered all evidence presented and found that the final rates were just, fair and reasonable. It is apparent from Gulf's arguments that it is merely dissatisfied with the outcome of the hearing. Therefore, Gulf's arguments are inappropriate for reconsideration under the Diamond Cab case. Furthermore, staff notes that Gulf inappropriately

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relies on Mr. Moore's Affidavit and attachment, neither of which are a part of the record in this case. See Stewart Bonded Warehouse v. Bevis, 294 So. 2d 315 (Fla. 1974). Accordingly, staff believes that the Commission should not reconsider Gulf's motion.

Further, staff agrees with OPC that Gulf's excessive debt is not the responsibility of the ratepayers. The Commission correctly allowed the utility to collect interest on its rate base only, and, therefore, did not make a mistake of fact or law. Based on the foregoing, the Commission should deny Gulf's Motion for Reconsideration.

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ISSUE 3: If the Commission approves Gulf's Motion for Reconsideration, should it authorize Gulf to collect the difference between its interim and final rates in the form of a surcharge from those customers who received service during the interim period?

RECOMMENDATION: No. (VACCARO)

STAFF ANALYSIS: In its Motion For Reconsideration, Gulf requests the Commission to authorize it to collect the difference between its interim and final rates in the form of a surcharge from customers who received service during the interim period, if the Commission approves Gulf's Motion. In support of its request, Gulf states that if its Motion is approved, Gulf's revenue requirement for water will be greater than the revenue allowed for interim rates. Gulf alleges that, under case law, "utility companies must be allowed to recoup through a surcharge revenue deficiencies caused by interim rates set lower than final rates." In support of its argument, Gulf cites Southern States Utilities, Inc. v. Florida Public Service Commission, 22 Fla. L. Weekly D1492 (Fla. 1st DCA June 17, 1997) citing GTE v. Clark, 668 So. 2d 971 (Fla. 1996).

In its response to Gulf's Motion, OPC states that the utility's request should be denied. OPC states that Gulf misconstrues the Court's finding in Southern States. Further, OPC states that the Commission's rules and the Florida Statutes provide a different method of calculating interim and final rates, such that Gulf's requested surcharge would nullify the requirements of Section 367.082, Florida Statutes.

Staff believes that Gulf's request is inappropriate for reconsideration for several reasons. First, the utility raises new arguments regarding subject matter not previously contained in the record of this proceeding. See Stewart Bonded Warehouse 294 So. 2d at 317. Second, Gulf's request does not relate to whether the Commission made a mistake of fact or law in making its final decision on rates. See Diamond Cab 146 So. 2d at 891 (Fla. 1962). Therefore, Gulf's request is outside the scope of reconsideration.

Third, Gulf's argument is unsupported by case law. The Southern States decision is not applicable. As OPC asserts, Gulf misconstrues the Court's finding in Southern States. In the Southern States case, the Commission directed Southern States Utilities, Inc. (SSU) to make refunds to customers who overpaid under erroneously approved uniform final rates, but denied SSU a

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surcharge for customers who underpaid under the uniform rate structure. The Court determined that SSU could collect the surcharge from customers who underpaid and, citing the GTE case, stated that "equity applies to both utilities and ratepayers **when an erroneous rate order is entered.**" Southern States, 22 Fla. L. Weekly at D1492. Because the Southern States and GTE cases only address surcharges involving erroneously approved final rates, neither case supports Gulf's position. In the present case, Gulf has never alleged that the Commission's determination of interim rates was in any way erroneous.

Finally, the determination of the appropriate interim amount is one strictly made following the formula found in Section 367.082, Florida Statutes. Interim rates "protect utilities from 'regulatory lag' associated with full blown rate proceedings." Citizens of the State of Florida v. Public Service Commission, 425 So. 2d 534, 540 (Fla. 1981). These rates provide the utility relief pending the Commission's final decision on rates, requiring only a prima facie showing of entitlement to relief. As such, interim rates are not intended to provide a utility with the same level of relief which may be established by a complete evidentiary hearing. Gulf's requested surcharge would undermine the purpose of interim rates. The interim statute does not contemplate a true-up or surcharge of any alleged deficiency later. Therefore, staff believes that a surcharge would defeat the purpose of interim rates. Based on the foregoing, staff recommends that the Commission deny Gulf's requested surcharge.

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ISSUE 4: Should the Commission reconsider its decision to exclude the one million gallon reject holding tank for the Corkscrew Water Treatment Plant from rate base?

RECOMMENDATION: No. (FUCHS, VACCARO)

STAFF ANALYSIS: Gulf states on pages 6 and 7 of its Motion for Reconsideration that the Commission misapprehended Section 367.081(2), Florida Statutes, in excluding the cost of construction of the one million gallon reject holding tank from rate base. That section states, in part:

The Commission shall also consider the investment of the utility in land acquired or facilities constructed or to be constructed in the public interest within a reasonable time in the future, not to exceed, unless extended by the Commission, 24 months from the end of the historical period used to set rates.

According to Gulf, the language plainly states that the Commission shall consider the investment in facilities to be constructed "24 months from the end of the historical test period." In its motion, Gulf references a statement from page 12 of the Final Order in this case which stated, "had there been at least a signed contract to construct the reject holding tank, we could have considered its inclusion in some manner." Gulf maintains in its petition, that the Final Order overlooked Gulf's legal argument that the holding tank should be in rate base because it is required by Gulf's Florida Department of Environmental Protection (DEP) permit, and that the minimum filing requirements (MFRs) contain all information required by Rule 25-30.4415, Florida Administrative Code (FAC), in order to include the cost of this tank in rate base. Furthermore, Gulf requests the docket be kept open until the completion of the million gallon holding tank project for the purpose of including it in rate base.

In regard to keeping the docket open, OPC points out, in its response to Gulf's Motion, "Such a procedure might be a reasonable option if the Commission could satisfy itself that a material savings could be realized for the ratepayers. However, upon verification that the facilities have been completed, the Commission must also verify the proper amount of CIAC to offset the investment and the proper used and useful percentage of the facilities."

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OPC, in its Response to Motion for Reconsideration states, "The Company had the obligation to present the evidence, which is made a part of the record, to support the inclusion of this facility in its rate base. At the hearing, the company clearly failed to meet this burden." OPC further states that, "It is not appropriate for Gulf to now utilize a motion for Reconsideration to supplement the record to bolster its case on this issue, after the hearing has been completed. That is not the purpose of a Motion for Reconsideration, per the Diamond Cab Co. case." OPC further states that the plain language of Section 367.081(2), Florida Statutes, only requires the Commission to consider the investment of the utility in land acquired or facilities constructed within a reasonable time in the future.

The utility chose an historic test year ending December 31, 1996. As of the end of the utility requested test year, there was no construction initiated, nor firm contract signed, for construction of the holding tank. Staff provided Gulf ample opportunity to produce firm evidence of a signed contract or other proof of construction up to and including the customer hearing dates of March 5-6, 1997. Utility witness Moore was asked at the hearing regarding the disposition of plans for the tank. His responses indicated that the tank had not been constructed nor were any contracts in hand to indicate construction would be initiated in the foreseeable future. (TR 128-129) There is no evidence in the record to support the utility's position for reconsideration. Staff agrees with OPC's position that language provided in Section 367.081(2), Florida Statutes, only requires the Commission to give consideration to future investments in land or facilities. At the hearing, several questions were asked of Mr. Moore to permit the utility to show some proof of a firm contract or to provide positive, satisfactory evidence of an intent for imminent initiation of construction of the tank. No such evidence was provided.

The utility's argument, that the Final Order overlooked the legal argument that the reject holding tank should be included in rate base because of DEP permit requirements and that the MFRs contain all information required by Rule 25-30.4415, FAC, to include the cost of the tank, is invalid. This rule only states the filing requirements for requesting recovery of such plant costs; it does not automatically authorize recovery without further supporting evidence. Again, Gulf was given opportunities at the hearing in March to produce evidence of construction or firm

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contracts for construction of the tank. Neither was forthcoming. The responses to staff questions produced no firm information that would satisfy the requirement of completion within the 24 month period in question. Gulf has the option of initiating a limited proceeding or another rate case in order to place the holding tank in rate base.

With respect to keeping the docket open for possible inclusion of the investment for the million gallon reject holding tank, staff agrees with OPC. This is more involved than simply including new investment dollars in rate base. While leaving this docket open might possibly result in lower rates for customers in this docket, it would set a precedent for future dockets. The record in this docket has been closed. Parties and the Commission should note that another docket can be opened at a subsequent time to readdress Gulf's rates.

Based on the evidence in the record, the Commission did not make a mistake of fact or law in its decision on this issue. Therefore, staff recommends that the Commission deny the Motion For Reconsideration to include the one million gallon holding tank in rate base. Staff further recommends that the Commission deny the request to leave this docket open to include the million gallon holding tank investment in rate base.

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ISSUE 5: Should the Commission reconsider its decision to use 1995 flows in lieu of 1996 flows when calculating used and useful percentages for the water and wastewater treatment plants?

RECOMMENDATION: Yes. The Commission should reconsider its decision to use the 1995 flows and replace them with 1996 projected flows. The 1996 projected flows should reflect the corrections made by staff as the result of evidence presented at the hearing. (FUCHS, VACCARO)

STAFF ANALYSIS: Gulf states in its Motion for Reconsideration, that the Final Order in this docket is in error due to the use of 1995 flows instead of projecting test year 1996 flows in determining used and useful percentages for the water and wastewater plants. The motion states that the Commission overlooked the inclusion of flows for the Florida Gulf Coast University (FGCU) and overlooked inclusion of additional flows required by the 1996 growth of 430 equivalent residential connections (ERCs) in the water operations and 495 ERCs in the wastewater operations.

In its response to Gulf's Motion for Reconsideration, OPC states that the calculations utilizing single family residence (SFR) or ERCs of 396 gallons per day (GPD) for water and 250 GPD for wastewater presented by the utility were high.

Gulf is correct in its assertion that the Commission incorrectly relied on 1995 flows in calculating used and useful percentages. Since the company requested a projected 1996 test year, the Commission should have used the projected 1996 flows. However, since the staff used 1995 flows in its final recommendation, the Commission's decision did not take Gulf's request into account. Therefore the Commission, in reaching its final decision, overlooked a material point of fact.

The 1996 projected flows, as well as the projected growth in ERCs, provided by Gulf in its filing (EXH 8), however, were incorrect, as revealed at the hearing in this docket. Testimony at the service hearing revealed current ERC flows for the utility to be 206 GPD for water and 158 GPD for wastewater. (TR 176-177)

In Table 1, staff has provided a comparison of the flows provided by the company, which were based on 396 GPD/SFR for water and 250 GPD/SFR for wastewater, to the staff corrected flows of 206

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GPD/SFR for water and 158 GPD/SFR for wastewater as revealed at the hearing. (TR 176-177)

Finally, staff notes that the Commission did not overlook the 1996 growth of 430 ERCs for water and 495 ERCs for wastewater and the flows projected from the Florida Gulf Coast University. Those ERCs and the University flows were included in the margin reserve. Therefore the Commission should not address these points in reconsidering this issue.

Based on a review of the evidence in the record, staff recommends the Commission should reconsider its decision to use 1995 flows and replace those flows with 1996 projected flows as corrected by staff.

TABLE 1

	UTILITY PROVIDED FLOWS		CORRECTED FLOWS	
	WATER MGD	WASTEWATER MGD	WATER MGD	WASTEWATER MGD
Average 5 day max flow	2.746	XXXXXX	2.746	XXXXXX
Average daily flow, max month	XXXXXX	0.67	XXXXXX	0.67
Annual Growth(1)	0.24	0.127	0.0886	0.0782
Fireflow(2)	0.36	XXXXXX	0.18	XXXXXX
Margin Reserve(3)	0.297	0.3	0.133	0.117
Florida Gulf Coast University(4)	0.073	0.052	0.073	0.052

(1) Utility: Water 607 ERC x 396 GPD/ERC
 Wastewater 507 ERC x 250 GPD/ERC
 Corrected: Water 430 ERC x 206 GPD/ERC
 Wastewater 495 ERC x 158 GPD/ERC

Growth projections and flows per ERC claimed by Gulf were not supported by evidence presented during the hearing for this case. Staff corrected flows are shown above.

(2) Utility: 0.360 GPD requested, Commission approved 0.180 GPD

(3) Utility: Water 1.5 years x 500 ERC x 396 GPD/ERC
 Wastewater 3 years x 400 ERC x 250 GPD/ERC
 Corrected: Water 1.5 years x 430 ERC x 206 GPD/ERC
 Wastewater 1.5 Years x 495 ERC x 158 GPD/ERC

(4) Provided by utility in MFRs. (EXH 8) Peak flows were used for wastewater since actual max. month flows were unavailable.

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ISSUE 6: Should the Commission reconsider its application of used and useful percentages to the total investment in the wastewater treatment plants and, if yes, what used and useful percentages should be applied to the individual treatment plants?

RECOMMENDATION: Yes. Only phase 3 of the Three Oaks WWTP should be considered to be less than 100% used and useful. Based upon the proper application of used and useful percentage and due to the recalculation of flows using projected 1996 flows, as discussed in Issue 5, the used and useful percentages for the wastewater treatment plants should remain 100% for the San Carlos WWTP and phases 1 and 2 of the Three Oaks WWTP and should be 92.49% for phase 3 of the Three Oaks WWTP. (FUCHS, VACCARO)

STAFF ANALYSIS: Gulf argues, in its Motion for Reconsideration, that the Final Order is in error because the Commission applied a used and useful percentage of 72.11% to the entire investment in the wastewater treatment plants. Gulf further argues that the Commission overlooked the fact that the San Carlos plant is 100% used and useful and phases 1 & 2 of the Three Oaks plant are 100% used and useful.

OPC states in its Response to Motion for Reconsideration that the Commission found that no adjustments should be made to the old Three Oaks WWTP(phases 1 & 2). OPC further states that the Commission made this finding when considering separate used and useful percentages for the old Three Oaks plant relative to the new Three Oaks plant.

Staff agrees with the utility that the Commission incorrectly applied the used and useful percentage, intended solely for phase 3 of the Three Oaks WWTP plant, to the entire investment instead of limiting it to the investment in the phase 3 portion of the plant. The reason for the incorrect application, in this case, was because, in its recommendation, staff had difficulty segregating the investment between plant accounts for the various WWTPs. It appeared that the filing contained only the total investment in account 380.4. Subsequent to the Commission's final order, staff discovered that Gulf filed the account breakdown necessary to segregate the various dollars as a note in the appendices on page 171 of the MFRs. (EXH 8) The investment dollars were filed with the interim rates filing information in this docket. Using the data found there, staff is now able to segregate the proper investment for phase 3 of the Three Oaks plant from the remaining plants in

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the WWTP accounts. However, the Commission did not have the benefit of this information at the time of its vote. Therefore, the Commission overlooked a material point of fact in making its decision on this issue.

The San Carlos WWTP and the Three Oaks WWTP are separate non-interconnected facilities, and, as such, should be considered separately. The Commission did approve different used and useful percentages for the San Carlos WWTP, phases 1 & 2 of the Three Oaks WWTP and phase 3 of the Three Oaks WWTP plants. In Order No. PSC-97-0847-FOF-WS, the Commission found that the San Carlos WWTP (pg. 23) and phases 1 & 2 of the Three Oaks WWTPs (pg. 14) were 100% used and useful. Phase 3 of the Three Oaks WWTP was found to be 72.11% used and useful using 1995 flows.(pg. 23) Although not specifically stated on page 23 of the order, the Commission was referring only to phase 3 of the plant. This fact is clarified by comparing staff's recommendation to the Final Order.

In Issue 5, of the post hearing recommendation, staff recommended no adjustments should be made to the old Three Oaks WWTP and that it should be considered 100% used and useful. The Commission voted in favor of this recommendation. On page 14 of the Final Order, the Commission states, "In consideration of the evidence, we conclude that no adjustments will be made to the **old Three Oaks plant.**" (emphasis added) Issue 15, of the same recommendation concerns the actual used and useful percentage adjustments to the WWTPs. Based on staff's recommendation, the Commission found that the Three Oaks plant was 72.11% used and useful. (Final Order at page 23) Although it was not specifically mentioned that the 72.11% used and useful pertained solely to phase 3, it is implied, because the recommendation in Issue 5 specified the old Three Oaks Plant was to have no adjustments, meaning it was to be considered 100% used and useful.

Furthermore, as discussed in Issue 5, the Commission erred by using 1995 historical flows in lieu of the utility requested 1996 projected flows. Using the projected 1996 flows requested by Gulf in its filing and corrected by staff, results in a used and useful percentage of 92.49% instead of the previously recommended 72.11%, for only the portion of the Three Oaks WWTP known as phase 3.

Attachment A shows the calculations for phase 3 of the Three Oaks WWTP used and useful percentage using the corrected flows from the projected 1996 test year. The projected flows from

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the Florida Gulf Coast University have been removed from the margin reserve flows and placed as an independent line item, due to an adverse effect on the imputation of CIAC, as discussed in Issue 8.

Staff recommends the Commission reconsider its application of used and useful percentages to the investment in Gulf's wastewater treatment plants and grant a used and useful percentage of 100% to the investment in the San Carlos WWTP and phases 1 and 2 of the Three Oaks plant, and grant a used and useful percentage of 92.49% to the investment in phase 3 of the Three Oaks WWTP.

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ISSUE 7: Should the Commission, on its own motion, reconsider its calculation of used and useful investment in additional water treatment plant accounts not addressed in the original recommendation and, if yes, what are the accounts and what used and useful application should be applied to those accounts?

RECOMMENDATION: Yes. Due to the recalculation of flows using projected 1996 flows and the inclusion of accounts not addressed in the original recommendation, the used and useful percentages for the following water treatment plant accounts should be:

Account No. 304.3 (Structures and Improvements) (Corkscrew treatment building)	93.80%
Account No. 309.2 (Supply Mains)	84.40%
Account No. 320.3 (Water Treatment Equipment)	77.66%
Account No. 339.3 (Other plant and Misc. Eqpt.) (FUCHS, VACCARO)	89.20%

STAFF ANALYSIS: During the research required by the reconsideration petition filed by Gulf regarding the 1996 projected flows, staff discovered that we had not only erroneously used the historical 1995 flows in lieu of the requested 1996 projected flows, we also left out three water treatment plant accounts and failed to offer the Commission an opportunity to vote on the used and useful percent granted in this docket to the investment dollars in those accounts. The result of the omission had the effect of granting the utility 100% used and useful on investment in accounts which the utility, by requesting a lesser amount of used and useful treatment, agreed were not 100%. Moreover, these additional accounts were not addressed by OPC in its Citizens Response to Motion for Reconsideration.

In Order No. 24735, issued July 1, 1991, in Docket Number 900718-WU (EXH 1), the Commission granted less than 100% used and useful percentages to the structure containing the Corkscrew water treatment equipment (account no. 304.3), the raw water supply line from the Corkscrew well field (account no. 309.2), and the Corkscrew water reuse line (account no. 339.3), which transports unusable reject water created in the reverse osmosis water treatment process from the water treatment plant to the disposal site where it is blended with treated wastewater and sprayed on the disposal site. Additionally, due to the reconsideration of flows from 1995 historical flows to projected 1996 flows, a slight difference in used and useful percentage for the water treatment

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equipment results (account no. 320.3). Researching the various accounts revealed the oversights we are now attempting to correct.

Account No. 304.3 (Water Treatment Plant-Structures & Improvements)

In Order No. 24735, the Commission made an adjustment of \$82,324 to the building housing the water treatment equipment based on a used and useful finding of 76.15%. Gulf, in its MFRs for this case, requested an adjustment of only 6.2 percent or \$38,667. Since the last rate case in 1991, two additional skids have been added to the treatment equipment with the third skid placed in service in December of 1996. (TR 191) Staff believes it is appropriate to grant a higher used and useful percentage in this proceeding. Therefore, staff concurs with the utility's request of 93.8% used and useful for the Corkscrew water treatment facility structure account no. 304.3.

Account No. 309.2 (Source of Supply and Pumping Plant-Supply Mains)

The raw water line from the well field was found to be 70.7% used and useful according to Order No. 24735, issued as a result of the previous docket. The utility installed a larger than required line, due to environmental concerns for the Corkscrew swamp. The larger line negated the need to further disturb the environmentally sensitive area in order to install additional lines as the need for more capacity grew. The Commission accepted the utility's concerns for environmental protection, sound engineering design and economic effectiveness and granted a used and useful percentage of 70.7%. At that time there were only two wells in operation with nine additional wells drilled, but undeveloped. In this docket, utility witness Cardey testified that an additional three wells have been equipped with pumps bringing the total number of developed wells to five of the eleven originally drilled. (TR 192) Witness Cardey further testified that the well pumps each have a capacity of 500 GPM. (TR 192) Staff believes that 500 GPM times 5 wells times 1440 minutes per day equals 3.6 MGD, which is several times larger than the 1991 well capacity. In Order No. 24735, the Commission granted a used and useful percent of 70.7%. The capacity generated by the addition of three wells indicates an increase in used and useful is appropriate. In its MFRs (EXH 8), the utility requested 84.4% used and useful for account no. 309.2. Staff concurs with the utility.

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Account No. 320.3 (Water Treatment Plant-Water Treatment Equipment)

Use of the projected 1996 flows, in lieu of the historical 1995 flows, results in a slight increase in the account no. 320.3 (Water Treatment Equipment) from 77.15% to 77.66%. Attachment B shows the calculations for the water treatment equipment used and useful percentage. In these calculations, we used the staff corrected 1996 projected flows, the corrected single family residence flows of 206 GPD/ERC for margin reserve calculation and we added the projected Florida Gulf Coast University flows, scheduled to begin in the third quarter of 1997, as a separate line item.

Account No. 339.3 (Water treatment Plant-Other Plant & Misc. Eqpt.)

The Corkscrew reuse line was found to be 75% used and useful by the Commission, in Order No. 24735. The plant capacity at that time was 0.5 MGD, with only one Reverse Osmosis skid in operation. Presently there are three skids with the third one placed in service in December 1996. (TR 191) Plant capacity is now permitted at 1.8 MGD. (TR 191) The increase in plant flows produces an increase of reject water. The utility requested an increase of used and useful percentage in account no. 339.3, to 89.2% in its MFRs. (EXH 8) Staff believes this is reasonable and concurs with the request.

Staff recommends the Commission, on its own motion, reconsider and approve used and useful percentages for the following water treatment plant accounts:

Account No. 304.3 (Structures and Improvements) (Corkscrew treatment building)	93.80%
Account No. 309.2 (Supply Mains)	84.40%
Account No. 320.3 (Water Treatment Equipment)	77.66%
Account No. 339.3 (Other Plant and Misc. Eqpt.)	89.20%

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ISSUE 8: Should the Commission reconsider its decision to impute CIAC on the margin reserve for the wastewater operations?

RECOMMENDATION: No. The Commission did not make a mistake of fact or law on the imputation of CIAC on the margin reserve. However, as a result of the change in used and useful percentages for water and wastewater, the amount of CIAC related to the margin reserve should be decreased. The correct balance of prepaid CIAC included in rate base should be \$90,662 for water and \$240,711 for wastewater. Further, the Final Order on page 33 should be corrected to state that the gross amount of CIAC collected on the margin reserve should be \$594,000, not \$1,594,000. (MERCHANT, VACCARO)

STAFF ANALYSIS: Gulf argued in its Motion For Reconsideration that the Final Order is in error in the wastewater operations on the imputation of CIAC on the margin reserve. This is related to Gulf's previous argument (addressed in Issue 6) that the San Carlos and Phases 1 and 2 of the Three Oaks wastewater treatment plants were found by the Commission to be 100% used and useful without a margin reserve. Gulf contended that the only margin reserve available was in Phase 3 of the Three Oaks wastewater treatment plant. As such, Gulf argued that the Final Order overstated CIAC and understated rate base for wastewater.

Gulf attached Appendix "F" to its Motion For Reconsideration to support its contention that the Commission improperly imputed CIAC. The appendix describes the adjustment that was made by the Commission in the Final Order and compares it to what Gulf contends is the net plant and used and useful amounts for the Three Oaks Phase 3 treatment plant. While Gulf believes that this appendix supports its calculation, the dollar amount of the net plant for the Three Oaks Phase 3 treatment plant reflected in Appendix F is not contained in the record. As such, staff cannot recommend that this appendix be considered by the Commission. See Stewart Bonded Warehouse, 294 So. 2d 315 (Fla.1974).

In its Response to the Motion For Reconsideration, OPC stated that the commission made no error with respect to the Three Oaks wastewater treatment plant. Therefore, OPC concluded that no adjustment to imputed CIAC is required and the Commission should reject Gulf's request for reconsideration.

In the Final Order, the Commission fully analyzed the evidence in the record regarding the issue of imputation of CIAC on the margin reserve, as well as the issue of prepaid CIAC and how those amounts should be considered in rate base. Based on the utility's arguments in its Motion For Reconsideration, Gulf is not disputing

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the rationale used by the Commission to impute CIAC or reclassify prepaid CIAC to used and useful CIAC. The issue in dispute is what amount of net plant should have been included in the margin reserve.

As a result of the corrections recommended to the used and useful plant, discussed previously in Issues 5 through 7, the amount of CIAC related to the margin reserve should be reduced. Other than the change in the used and useful percentages, staff became aware that the margin reserve gallonage in the Final Order included the gallonage for the FGCU. When staff removed this amount from the margin reserve and placed it in instead as an increase to test year flows, the percentage of plant attributed to the margin reserve was reduced. As such, the amount of CIAC associated with plant in the margin reserve also decreased. By including the gallonage for the university in the margin reserve, the Commission erroneously overstated the amount of CIAC. Specific adjustments for the CIAC collected from the university were already appropriately made to rate base by the utility.

Staff's corrected amount of net plant included in the margin reserve is now \$90,662 and \$240,711. Both of these amounts are less than the projected amounts of prepaid CIAC, as well as fifty percent of the amount of CIAC that would be collected from the number of ERCs included in the margin reserve period. As stated on page 33 of the Final Order, the amount of CIAC, either imputed or reclassified from prepaid amounts, should be limited to the amount of net plant included in the margin reserve. Accordingly, staff recommends that only \$90,662 for water and \$240,711 for wastewater be included in rate base as CIAC attributed with the margin reserve.

Further, in staff's review of the Final Order, we found a typographical error on page 33. In the first sentence of the last paragraph on that page, the Final Order states that the gross amount of CIAC collected on the margin reserve would be \$1,594,000. The correct amount is \$594,000, which is calculated by multiplying 743 ERCs times the \$800 plant capacity charge, as detailed in the second sentence of that paragraph. While this typographical error does not change the end result of the imputation of CIAC on margin reserve, staff believes that the Final Order should be corrected.

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ISSUE 9: Was there an issue that addressed the valuation date of CIAC, and if so, should the Commission reconsider its decision?

RECOMMENDATION: No, there was no issue identified in the case that dealt with the valuation date of CIAC. Regardless, the Commission should not reconsider its decision in the Final Order. (MERCHANT, VACCARO)

STAFF ANALYSIS: In its Motion For Reconsideration, the utility argued that the Commission used an unapproved test period to determine the amount of CIAC. The utility alleged that the Commission ignored the approved projected test year and used a test year ended September 30, 1996. The utility argued that the Final Order was in error when it increased CIAC by \$115,371 for water and \$98,456 for wastewater. It contended that the Commission compared the 13-month average balance of CIAC at September 30, 1996 to the 13-month average at December 31, 1996. The utility argued that the Commission took the difference between these two amounts and added the difference to the December 31, 1996 balance of CIAC. It concluded that the amounts were already included in the 1996 test year and that there was a doubling of CIAC. As a result, rate base was understated.

In support of its argument, Gulf attached Appendix G to its motion, which Gulf purported to be pages 5 and 6 of the Commission Staff Audit Report, identified and entered into the record as Exhibit 24. For clarification purposes, staff points out that Gulf's Appendix G is not pages 5 and 6 of Exhibit 24. It is a re-typed version of the last paragraph of page 5 and all of page 6. The title, subject, statement of fact and the beginning of the auditor's opinion were omitted from this appendix.

In its Response to the Motion For Reconsideration, OPC stated that the utility made the same argument regarding the unapproved test period during the hearing and that the Commission rejected the argument. OPC agreed that the Commission used the 13-month average ended September 30, 1996 to test the reasonableness of the utility's projections, and that analysis proved that those projections were not reasonable. As such, the Commission did not use an unapproved test year as alleged by the utility. OPC stated that the utility is merely rearguing a position that was rejected by the Commission and the utility's suggestion of error should be dismissed.

At first glance, staff was confused as to which issue Gulf's arguments related. No issue in the prehearing order, or subsequently identified at the hearing, addressed the issue of the

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valuation date of CIAC. In the table of contents of the Final Order, the only issues regarding CIAC were for the Caloosa Group lines, prepaid CIAC, imputation of CIAC on the margin reserve, and the grant received from the SFWMD. Upon further review, staff realized that the dollar amount of the adjustment that the utility quoted related to the issue on accumulated amortization of CIAC regarding the correct amortization rate to be used. That issue, however, had no relevance to the valuation date of CIAC.

That issue arose because the utility was not amortizing its CIAC in compliance with Rule 25-30.140, Florida Administrative Code. The evidence in the case reflected that the staff auditor recalculated the 13-month average balance of accumulated amortization of CIAC (AACIAC) for the historical year ended August, 1996. This clearly was not the projected test year ended December 31, 1996, approved for this case. However, the utility had ample opportunity by Late-filed Exhibit 50 to recalculate what the appropriate test year average would have been using the methodology according to the rule. For whatever reason, the utility did not make this calculation and simply reiterated its position that the rule allowed this "alternative" methodology employed by Gulf. The Commission, in the Final Order, stated that Gulf had not used the appropriate methodology to amortize its CIAC and relied on the best information in the record to correct this error. The Commission also stated that if the utility wished to have AACIAC corrected to a fully-supported balance, it is not precluded from requesting that adjustment in its next filing.

Based on the above, staff does not believe that the utility has shown that the Commission made an error or mistake of fact or law in its Final Order.

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ISSUE 10: Should the Commission reconsider its decision to disallow an annual customer satisfaction survey?

RECOMMENDATION: No, the Commission should not reconsider its decision. The Commission did not make a mistake of fact or law when it determined that an annual survey is not necessary and the same results could be achieved by including a questionnaire in the monthly bill. (MERCHANT, VACCARO)

STAFF ANALYSIS: By Order No. PSC-97-0847-FOF-WS, the Commission allowed the costs associated with the utility's customer satisfaction survey; however, the costs were amortized over five years. Thus, test year expenses were reduced by \$5,145 for water and \$2,650 for wastewater to reflect the amortization of the \$9,744 expense. The Commission found that it is important for a utility to be aware of its customers opinions regarding its quality of service and that a survey is a legitimate method for Gulf to determine those opinions. However, due to the utility's current and historical high quality of service, an annual survey was not necessary. Further, the utility could receive feedback from the customers by including a questionnaire in the monthly bill. The Commission commended the utility for the level of service that Gulf provides to its customers.

In its Motion For Reconsideration, the utility argued that the survey was necessary on an annual basis because it would allow management to anticipate problems and solve them more quickly. An annual survey is a better method to anticipate problems and correct them early rather than waiting until problems develop. Gulf argued that the full cost should be allowed as an operating expense.

In its response to the utility's motion, OPC agreed with the Commission's decision that a survey is not necessary every year and that the same results could be accomplished at essentially no cost by including a questionnaire with the customers' bills.

Staff believes that the utility's motion with regard to the customer survey is a mere reargument of the position taken during hearing. The utility has not shown that the Commission has erred by failing to consider evidence in the record or made any mistake of fact or law according to the standard for reconsideration set forth in the Diamond Cab case. Accordingly, the utility's Motion For Reconsideration of this issue should be denied.

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ISSUE 11: Should the Commission consider inclusion of added labor and chemical costs for the water operations that were not included in the utility's minimum filing requirements (MFRs)?

RECOMMENDATION: No, the Commission should not consider these costs, because the utility did not ask for recovery of such costs in the MFRs. (MERCHANT, VACCARO)

STAFF ANALYSIS: In its Motion For Reconsideration, Gulf asked for the inclusion of added labor and chemical costs associated with the Corkscrew water treatment plant (WTP). The utility has requested an additional \$49,594 in chemical costs for stabilizing water in the distribution system, and \$56,764 for the labor cost of two additional operators needed with the expansion of the Corkscrew WTP. The utility contended that, even though these costs were unknown at the time of filing this case, the staff auditors recognized such costs in the audit report. Therefore, the utility argued that the Commission overlooked case law which requires the Commission to recognize factors which affect future utility rates, and that test year data must be adjusted for known changes. The utility cited the following cases in its motion: Floridians United v. Public Service Commission, 475 So. 2d 241 (Fla. 1985) and Gulf Power Company v. Bevis, 289 So. 2d 401 (Fla. 1974).

The Final Order, according to Gulf, is contrary to Section 367.081(3), Florida Statutes, which states that:

The commission, in fixing rates, may determine the prudent cost of providing service during the period of time the rates will be in effect following the entry of a final order relating to the rate request of the utility and may use such costs to determine the revenue requirements that will allow the utility to earn a fair rate of return on its rat base.

Gulf argued that these costs were a prudent cost of providing service in 1996, as well as when the new rates are in effect, and should have been included in the revenue requirement.

In its response to the utility's motion, OPC stated that it is not the Commission's duty to include expenses in the test year which were not requested by the utility. OPC further pointed out that these costs were not identified as an issue in the Prehearing Order. OPC argued that the utility was not in compliance with Rule 25-22.056, (3) (a), Florida Administrative Code, which states that: "In the event that a new issue is identified by a party in a post-

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hearing statement, that new issue shall be clearly identified as such, and a statement of position thereon shall be included."

OPC added that Gulf's only mention of this issue in its post-hearing brief was a note buried in an appendix which was referenced as additional documentation to Issue 51. OPC concluded that the Commission should reject the utility's motion because it was Gulf who failed to include the allowance in the MFRs, it was Gulf who continued to fail to identify it as an issue (even after staff's audit report was released), and it was Gulf who failed to properly identify or discuss this allowance in its post-hearing brief. It is Gulf's responsibility to make its case, not staff's, and so the consequences should be borne by Gulf.

Staff believes that it is the utility's burden to prove that its requested expenses are prudent. See Florida Power Corp. v. Cresce, 413 So. 2d 1187, 1191 (Fla. 1982). If the utility fails to ask for relief, staff agrees with OPC that it is not the Commission's responsibility to provide that relief. Regardless, this Motion for Reconsideration is the improper vehicle to request costs not requested, nor ever considered by the Commission in the record of this docket. This request falls out of the parameters established by Diamond Cab for the Commission to address on reconsideration. Accordingly, staff recommends that the Commission should not consider these costs, because the utility did not request recovery of such costs in this application and because the request is not appropriate during reconsideration.

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ISSUE 12: Should the Commission reconsider its decision to reallocate the salaries of Gulf's employees that also provide services for the Caloosa Group?

RECOMMENDATION: No. The Commission relied on competent substantial evidence in the record to reallocate these common salaries and the utility has not shown that the Commission made any errors of fact or law. (MERCHANT, VACCARO)

STAFF ANALYSIS: In the Final Order, the Commission reallocated the salaries and benefits of five of Gulf's employees that also provide services to the Caloosa Group (Caloosa). Caloosa is a land developer that has the same owners with the same proportionate ownership interests as Gulf. Utility witness Cardey testified that he performed a review of the services provided to Caloosa. Based on his review, no salary expense allocation to Caloosa was needed as his estimate was approximate to what was actually paid. Both OPC witness Dismukes and staff witness Welch testified that the hourly rate charged to Caloosa was less than the rate charged to Gulf. Both witnesses relied upon the utility's Earnings and Deductions reports (Exhibit 32), which detailed the earnings for each of the five employees, along with the hours worked during each period. Utility witness Cardey testified on rebuttal that the reports were based on information from 1988 and the hours were set for computer payroll purposes and his actual review of employees hours was necessary. The Commission found that Mr. Cardey did not provide a solid basis on which to determine the reasonableness of the Caloosa salaries and found his explanations and analysis insufficient regarding this issue. As such, the Commission relied upon the breakdown of hours as reflected on the Earnings and Deductions reports, as provided to the OPC and staff witnesses by the utility.

In its Motion For Reconsideration, Gulf argued that the Final Order misapplied the law by failing to take into account actual, updated information in allocating salaries and other expenses between Gulf and Caloosa. It again cited Sunshine Utilities v. Public Service Commission, 624 So. 2d 306 (Fla. 1st DCA 1993), where the Court found that in a rate case, "the best way to allocate employee expenses was actual time." Gulf's Motion even included the statement (outside of the record) that the report called "Earnings and Deductions" has been updated, and today shows salary only, which conforms to the actual practice of the Company. In the Final Order, the Commission also reallocated some of the common administrative and general costs between Gulf and Caloosa based on payroll costs. As a result of this alleged incorrect salary reallocation to Caloosa, Gulf argued that the common

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administrative and general costs were also incorrect in the Final Order.

OPC, in its response, argued that Gulf's arguments are nothing more than a reargument of positions debated at the hearing. Further, Exhibit 32 was a document produced by the Company and was a September 1995 through August 1996 "Earnings and Deductions" Report. It reflected the time spent on Caloosa projects as well as the related salary. It was objective evidence provided by the utility and the Commission, as well as the staff and OPC witnesses, had good reasons to rely on this document to determine the amount of salaries that should be allocated or charged to Caloosa. Third, OPC argued that the newly updated "Earnings and Deductions" Report referred to by Gulf in its brief, was not in evidence and hence could not have been relied upon by the Commission.

OPC also contested the utility's suggestion that Mr. Cardey's analysis was based upon "actual time" which would comport with the requirements of the Sunshine case. OPC continued that Mr. Cardey's analysis was not, as alleged, based upon actual time, as none of the employees that worked for both the utility and Caloosa kept time records of the amount of time they spent working for each company. Mr. Cardey's analysis, as the Commission agreed, was based upon subjective judgements, not objective records. In Sunshine, the Court found that "actual time sheets" were submitted to support the allocation advocated by the utility. No such time sheets were submitted in the instant docket. OPC concluded that the Commission should reject Gulf's request for reconsideration as it raises no matters of fact or law overlooked or errors made by the Commission concerning the salary reallocation.

Staff agrees with OPC that the utility's Motion For Reconsideration is merely a reargument of the issues of the case. Further, Gulf's attempt to persuade the Commission that what the Earnings and Deductions reports reflect today, is inappropriate. This new document is outside of the record in this case, as well as irrelevant, as it fails to provide sufficient proof of the actual number of hours that the employees spend on Gulf or Caloosa work. Staff believes that actual time sheets would have been the most conclusive support for how much time each employee spent performing their assigned duties. Absent this information in the record, the Commission relied on the utility's own internal documents, the Earnings and Deduction reports (Exhibit 32). The Commission found that Mr. Cardey's review, without other substantive means of validation of how much time was spent on Caloosa work did not satisfy the utility's burden of proof. Staff believes that the Commission fully considered the evidence in the record and made no

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errors of fact or law in considering that evidence. As such, staff believes that the Commission should not reconsider its adjustment to reallocate either the salaries and benefits. Correspondingly, the Commission should not reconsider its adjustment to the common administrative and general expenses.

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ISSUE 13 What are the appropriate water and wastewater rate bases?

RECOMMENDATION: The appropriate revised rate base amounts should be \$3,483,659 for water and \$4,302,133 for wastewater. (MERCHANT)

STAFF ANALYSIS: Based upon staff's recommendations to reconsider the water and wastewater used and useful adjustments and imputation of CIAC on the margin reserve, the newly revised rate base amounts should be \$3,483,659 for water and \$4,302,133 for wastewater. The water and wastewater rate base schedules are attached as Schedules 1-A and 1-B, and the adjustments to rate base are attached as Schedule 1-C.

For comparison purposes, the rate bases approved by the Commission in the Final Order were \$3,449,029 for water and \$3,164,213 for wastewater. Staff's recommended rate bases on reconsideration represent an increase of \$34,630 (or 1.00%) and \$1,137,920 (35.96%) for water and wastewater, respectively, over those approved in the Final Order.

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ISSUE 14: What is the appropriate wastewater revenue requirement?

RECOMMENDATION: The following revised revenue requirement should be approved: (MERCHANT)

	Total	\$ Increase	% Increase
Water	\$2,056,775	\$-238,582	-10.39%
Wastewater	\$1,612,895	\$308,165	23.62%

STAFF ANALYSIS: The revenue requirement is a summation measure that depends on previously approved provisions for rate base, cost of capital, and operating expenses. Based upon staff's proposed recommendations concerning the issues under reconsideration, the newly revised revenue requirements are as shown above. The operating income statements, which reflect the water and wastewater revenue requirement calculations, are attached as Schedules 3-A and 3-B, and the adjustments are shown on Schedule 3-C.

For comparison purposes, the revenue requirements approved by the Commission in the Final Order were \$2,051,020 for water and \$1,435,940 for wastewater. Staff's recommended revenue requirements on reconsideration represent an increase of \$5,755 (or 0.28%) and \$176,955 (12.32%) for water and wastewater, respectively, over those approved in the Final Order.

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ISSUE 15: What are the appropriate water and wastewater rates?

RECOMMENDATION: Consistent with staff's recommendation in Issue 14, the recommended rates should be designed to allow the utility the opportunity to generate annual operating water revenues in the amount of \$2,056,775 and annual operating wastewater revenues in the amount of \$1,612,895. The utility should be required to file revised tariff sheets and a proposed customer notice to reflect the appropriate rates pursuant to Rule 25-22.0407(10), Florida Administrative Code. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Section 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof to staff of the date notice was given within 10 days after the date of notice. (GALLOWAY)

STAFF ANALYSIS: Based upon staff's proposed recommendations concerning the issues under reconsideration, and specifically the affect that these issues have on the utility's annual operating water and wastewater revenue requirement, staff is recommending that rates be designed to allow the utility the opportunity to generate annual operating water revenues in the amount of \$2,056,775 and wastewater revenues in the amount of \$1,612,895.

In its initial filing, the company requested permanent rates designed to produce water revenues in the amount of \$2,139,422 and wastewater revenues in the amount of \$1,671,070. According to the utility's MFRs, the requested revenues represent a decrease in water revenues of \$155,935 or 6.79% and an increase in wastewater revenues of \$366,340 or 28.07%. While the only change to this issue from the Final Order is the recommended amount of water and wastewater revenues which should be recovered through rates, for background purposes, a discussion of the standard aspects of designing rates for this utility is included.

Allocation of the revenue requirement was not an issue in this case. Ms. Andrews, a utility witness, testified that an allocation was assigned based on number of customers served. (TK 212) Staff believes that a more accurate method of allocation should be used when designing rates. Therefore, the recommended rates were allocated consistent with Commission practice based on a fixed cost versus variable cost basis.

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Further, pursuant to the Final Order, the miscellaneous revenues, in their entirety, are excluded from the water revenues only, rather than from both water and wastewater revenues. As set forth on page 87 in Order No. PSC-97-0847-FOF-WS, the utility's tariff provides that whenever both water and sewer service are provided, only a single charge is appropriate unless circumstances beyond the control of the Company require multiple actions. The miscellaneous revenues were included in total by the utility as water miscellaneous revenues. It has been Commission practice to allow a utility to record miscellaneous revenues in this way when both water and wastewater miscellaneous charges exist.

Consistent with the utility's request and the Final Order, Staff recommends a 20% differential between the residential and general service wastewater gallonage charges. (EXH 8) The purpose of the 20% differential in the wastewater gallonage charge between residential and general service customers recognizes that approximately 20% of the water used by residential customers is used for purposes such as irrigation and is not collected by the wastewater systems.

The utility should be required to file revised tariff sheets and a proposed customer notice to reflect the appropriate rates pursuant to Rule 25-22.0407(10), Florida Administrative Code. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice.

Staff has included for reconsideration purposes, a comparison of the utility's water and wastewater rates prior to filing, Commission approved interim rates, Gulf's requested final rates, Commission approved final rates, and Staff's recommended reconsidered final rates shown on Schedules Nos. 4-A and 4-B.

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ISSUE 16: What is the appropriate master meter influent service rate?

RECOMMENDATION: Consistent with Issues 14 and 15, the appropriate master meter influent service rate is the base facility charge associated with the related meter size along with a gallonage charge of \$4.34 per 1,000 gallons. (GALLOWAY)

STAFF ANALYSIS: Consistent with staff's recommendation in Issue 13 to adjust the wastewater revenue requirement pursuant to the utility's request for reconsideration, the resulting master meter influent service rate is the base facility charge associated with the related meter size along with a gallonage charge of \$4.34 per 1,000 gallons. While the utility's request for reconsideration addressed in Issue 13 has resulted in a change to wastewater rates, no further analysis regarding this issue is necessary.

However, as in the prior issue, for background purposes, Commission Order No. 21450, issued on June 26, 1989 in Docket No. 890110-SU, stated that an excess influent consumption charge is appropriate for those master metered wastewater customers whose wastewater flows exceed the customer's water flows. According to this Order and testimony provided by Mr. Moore, two customers in the utility's service area are affected by the master meter influent service rate. These customers are Coach Light Manor and Mariner's Cove, both mobile home parks. (TR 121-122)

Mr. Moore testified that the excessive infiltration situation described in PSC Order No. 21450 will exist as long as no further repairs to the system are made. Mr. Moore testified that, to his knowledge, no repairs have been made to either mobile home park since the issuance of Order No. 21450. (TR 121) Based on testimony provided, Staff believes that an infiltration problem still exists for these two master-metered wastewater customers, resulting in the need for continuing the master meter influent service rate.

Pursuant to Order No. 21450, the gallonage charge was calculated for the master metered wastewater customers at four percent above the gallonage charge for general service customers. Further, pursuant to this Order, the total charge for these customers consisted of a gallonage charge (as stated above) per 1,000 gallons of influent for all wastewater flows, in addition to

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the existing base facility charge. This methodology and these charges are described on page 3 of PSC Order No. 21450.

Staff believes that the appropriate base facility charge related to the customer's meter size along with a gallonage charge rate four percent above the general service wastewater gallonage rate will insure equitable treatment of all wastewater customers in the system. No testimony was presented to the contrary. In consideration of the foregoing, staff recommends that the gallonage charge should be \$4.34 per 1,000 gallons as found on Schedule No. 4-B, for the master meter influent customers.

DOCKETS NOS. 960234-WS & 960329-WS
DATE: NOVEMBER 6, 1997

ISSUE 17: What is the appropriate amount by which water and wastewater 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?

RECOMMENDATION: The water and wastewater rates should be reduced as shown on Schedules Nos. 5-A and 5-B and as set forth in Order No. PSC-97-0847-FOF-WS, to remove annual rate case expense reflecting gross-up for regulatory assessment fees and four-year amortization, in the amount of \$38,010 and \$18,730, respectively. The decrease in rates should become effective immediately following the expiration of the four-year recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reduction not later than one month prior to the actual date of the required rate reduction. (GALLOWAY)

STAFF ANALYSIS: Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four-year period by the amount of rate case expense previously authorized in the rates. The reduction will reflect the removal of water and wastewater revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$38,010 and \$18,730 annually. The removal of rate case expense will reduce rates as recommended by staff on Schedule No. 5-B.

The utility should be required to file revised tariffs no later than one month prior to the actual date of the required rate reduction. The utility also should be required to file a proposed customer notice setting forth the lower rates and reason for the reduction.

If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the removal of the amortized rate case expense.

DOCKETS NOS. 960234-WS & 960329-WS
DATE: NOVEMBER 6, 1997

ISSUE 10: What are the appropriate amounts of refunds, if any, for the water revenues held subject to refund and the interim wastewater revenue increase?

RECOMMENDATION: The utility should be required to refund 11.97% of the water revenues held subject to refund from April 11, 1996, to November 1, 1996, the date of the interim rate reduction. From November 1, 1996, to the effective date of the final rate, Gulf should refund 4.40% of the water revenues held subject to refund for the period subsequent to the interim rate reduction. No refund is necessary for wastewater. The refund should be made with interest in accordance with Rule 25-30.360(4), FAC. The utility should be required to submit the proper refund reports pursuant to Rule 25-30.360(7), FAC. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), FAC. (MERCHANT)

STAFF ANALYSIS: In the Final Order, the Commission approved the methodology for refund purposes for Gulf's water revenues held subject to refund and the interim wastewater increase. Specifically, the Commission adjusted the final revenue requirements to remove any ratemaking components not in service or incurred during the time interim rates were in effect. For this case, the Commission only removed rate case expense and related regulatory assessment fees as the components not included during the time interim rates were in effect. The adjusted revenue requirements were then compared to the adjusted test year revenues to determine whether any refund should be ordered. The water test year revenues were annualized for the two time periods using the rates prior to the water interim rate reduction and the rates subsequent to the water interim rate reduction. The Commission also recalculated the interim wastewater revenues using the projected test year billing determinants. These annualized revenues are shown below and did not change as a result of any other changes made in this recommendation on reconsideration. The only numbers that have changed that impact the refund calculation are the adjusted final revenue requirements for both water and wastewater.

By Order No. PSC-96-0501-FOF-WS, issued April 11, 1996, the Commission initiated an overearnings investigation and held \$353,492 or 16.92 percent in annual water revenues subject to refund. By Order No. PSC-96-1310-FOF-WS, issued on October 28, 1996, the Commission approved an interim wastewater rate increase and water rate reduction, with additional water revenues held

DOCKETS NOS. 960234-WS & 960329-WS
 DATE: NOVEMBER 6, 1997

subject to refund. For wastewater, the Commission approved a revenue requirement of \$1,288,391 for interim purposes. This resulted in an annual increase of \$170,821 or 15.29%. For the water system, the Commission calculated an interim revenue requirement of \$1,796,651, which resulted in decreased revenues of \$329,920 or a negative 15.51%.

Based on the revised revenue requirements recommended in Issue 14, staff has recalculated the adjusted revenue requirement for the interim collection period to be \$2,018,765 for water and \$1,594,165 for wastewater. As shown below, the annualized water revenue requirements for both the first and second interim periods exceed the adjusted final revenue requirement for water. In order to determine the appropriate refund percent, miscellaneous revenues have been excluded. Compared to the restated interim revenue requirement, the revised revenue requirement for wastewater exceeds interim revenues and no wastewater refund is necessary.

	<u>Water</u>		<u>Wastewater</u>
	<u>Pre-interim</u>	<u>Interim</u>	<u>Interim</u>
1 Adj. Final Rev. Req.	\$2,018,765	\$ 2,018,765	\$1,594,165
2 Less: Misc. Revenues	\$ -34,800	\$ -34,800	\$ 0
3 Revenues- Serv. Rates	\$ 1,983,965	\$ 1,983,965	\$1,594,165
4 Restated Annualized Interim Revenues	\$ <u>2,221,539</u>	\$ <u>2,071,243</u>	\$ <u>1,442,084</u>
5 Refund Amt. (ln 3-4)	\$ <u>237,574</u>	\$ <u>87,278</u>	\$ <u>-152,081</u>
6 Refund Percentage	11.97%	4.40%	0.00%

Section 367.082(4), Florida Statutes, states that refunds shall not be in excess of the amounts held subject to refund. The refund amounts above are less than the amounts held subject to refund; therefore, no limitation is necessary and the full percentages should be made. As shown in the above schedule, for the period April 11, 1996, to October 31, 1996, the utility should be required to refund 1.97% of the water revenues collected during this time frame. From November 1, 1996, the utility should be required to refund 4.40% of the water revenues collected during this time frame until the effective date of the final water rates. The refunds should be made with interest as required Section 25-

DOCKETS NOS. 960234-WS & 960329-WS
DATE: NOVEMBER 6, 1997

30.360(4), FAC. Further, staff is recommending that the utility be required to submit the proper refund reports pursuant to Rule 25-30.360(7), FAC. Also, the utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), FAC.

For comparative purposes, the Final Order required refunds of 12.30% and 4.70% for the pre- and post-interim water rates, respectively, and similarly did not require a refund for wastewater interim rates.

DOCKETS NOS. 960234-WS & 960329-WS

DATE: NOVEMBER 6, 1997

ISSUE 19: Should the escrow funds or any portion of the escrow funds be released as requested in the utility's Motion to Release Escrow Funds which was filed on July 30, 1997?

RECOMMENDATION: Yes. Escrow funds in the amount of \$104,000 can be released from the utility's escrow account. (GALLOWAY)

STAFF ANALYSIS: Pursuant to Order No. PSC-96-1310-FOF-WS, issued October 28, 1996, the total amount of potential refunds for the water and wastewater systems was calculated at \$439,653. This amount considered potential overearnings addressed in Order No. PSC-96-0501-FOF-WS, for the water system, any additional potential overearnings, and the potential refund amount associated with the interim wastewater revenue increase.

An escrow account was established by the utility to comply with security requirements set forth in Order No. PSC-96-1310-FOF-WS. As stated in the utility's Motion to Release Escrow Funds which was filed on July 30, 1997, the escrow account balance as of June 30, 1997 was \$555,332. The utility is requesting that a portion of this balance be released given that the current balance is in excess of the security requirement as referenced above.

Staff believes that a portion of the escrow funds may be released for several reasons. When the security amount was calculated initially, staff considered potential overearnings as addressed in Order No. PSC-96-0501-FOF-WS along with any additional potential overearnings for the water system plus the interim wastewater revenue increase. Pursuant to Order No. PSC-97-0847-FOF-WS, issued July 15, 1997, final rates were approved allowing the utility the opportunity to earn a Commission approved revenue requirement. While the Commission ordered a revenue decrease for the water system, a revenue increase was ordered for the wastewater system. The result, in terms of security, is that the entire initial calculation of \$439,653 is not necessary for refund purposes.

Considering the revenue requirements and the refunds approved in Order No. PSC-97-0847-FOF-WS, staff has recalculated the appropriate security amount necessary for refunds. The updated security amount is \$255,778. Staff believes that releasing \$104,000 from the escrow account, as requested by the utility in its motion, will not harm the customers. Staff believes that the release of this portion of the escrow balance will not put any

DOCKETS NOS. 960234-WS & 960329-WS
DATE: NOVEMBER 6, 1997

customer at risk of not receiving the appropriate refund. Therefore, staff is recommending the release of \$104,000 from the utility's escrow account.

DOCKETS NOS. 960234-WS & 960329-WS
DATE: NOVEMBER 6, 1997

ISSUE 20: Should the docket be closed?

RECOMMENDATION: Yes. This docket should be closed after the time for filing an appeal has run, upon staff's verification that the utility has completed the required refunds with interest and the proper revised tariff sheets and customer notice have been filed by the utility and approved by staff. Further, the utility's escrow account can be closed upon staff's verification that the refund has been completed. (MERCHANT, VACCARO)

STAFF ANALYSIS: This docket should be closed after the time for filing an appeal has run, upon staff's verification that the utility has completed the required refunds with interest and the proper revised tariff sheets and customer notice have been filed by the utility and approved by staff. Further, the utility's escrow account can be closed upon staff's verification that the refund has been completed.

**GULF UTILITY COMPANY
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDED 12/31/96**

**SCHEDULE NO. 1-A
DOCKET 960329-WS**

	TEST YEAR PER UTILITY	UTILITY ADJUSTMENT	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENT	STAFF ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$16,700,337	\$1,794,445	\$18,494,782	(\$700,000)	\$17,794,782
2 LAND & LAND RIGHTS	\$200,372	\$0	\$200,372	\$0	\$200,372
3 NON-USED & USEFUL COMPONENT	(\$193,954)	(\$881,535)	(\$1,075,489)	\$120,523	(\$954,966)
4 ACCUMULATED DEPRECIATION	(\$4,173,672)	(\$93,220)	(\$4,266,892)	(\$23,103)	(\$4,289,995)
5 CIAC	(\$12,220,685)	\$0	(\$12,220,685)	(\$174,161)	(\$12,394,846)
6 AMORTIZATION OF CIAC	\$2,942,325	\$0	\$2,942,325	(\$103,093)	\$2,839,232
7 ADVANCES FOR CONSTRUCTION	(\$4,885)	\$0	(\$4,885)	\$0	(\$4,885)
8 WORKING CAPITAL ALLOWANCE	\$358,144	\$0	\$358,144	(\$64,179)	\$293,965
9 RATE BASE	\$3,807,982	\$819,890	\$4,427,672	(\$944,013)	\$3,483,659

**GULF UTILITY COMPANY
SCHEDULE OF WASTEWATER RATE BASE
TEST YEAR ENDED 12/31/96**

**SCHEDULE NO. 1-B
DOCKET 960329-W5**

1 UTILITY PLANT IN SERVICE	\$14,282,349	\$0	\$14,282,349	(\$2,265)	\$14,280,084
2 LAND	\$473,626	\$0	\$473,626	\$0	\$473,626
3 NON-USED & USEFUL COMPONENT	\$0	\$0	\$0	(\$115,584)	(\$115,584)
4 ACCUMULATED DEPRECIATION	(\$2,978,837)	\$0	(\$2,978,837)	(\$21,385)	(\$3,000,222)
5 CIAC	(\$9,080,383)	\$0	(\$9,080,383)	(\$364,295)	(\$9,424,678)
6 AMORTIZATION OF CIAC	\$1,978,074	\$0	\$1,978,074	(\$80,055)	\$1,898,019
8 ADVANCES FOR CONSTRUCTION	\$0	\$0	\$0	\$0	\$0
11 WORKING CAPITAL ALLOWANCE	\$235,467	\$0	\$235,467	(\$42,579)	\$192,888
RATE BASE	\$4,928,296	\$0	\$4,928,296	(\$626,163)	\$4,302,133

**GULF UTILITY COMPANY
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED 12/31/96**

**SCHED. NO. 1-C
DOCKET 960329-WS
PAGE 1 OF 1**

PLANT IN SERVICE

1 To remove the projected cost of the reject holding tank	(\$700,000)	\$0
2 To correct transposition error to wastewater plant in rate base (Stip #1)	0	(2,265)
Total	<u>(\$700,000)</u>	<u>(\$2,265)</u>

NON-USED AND USEFUL

To reflect net non-used and useful adjustment	<u>\$120,523</u>	<u>(\$115,584)</u>
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ACCUMULATED DEPRECIATION

1 To remove the projected cost of the reject holding tank	\$21,313	\$0
2 Correct error to test year depreciation rate used	(44,416)	(21,385)
Total	<u>(\$23,103)</u>	<u>(\$21,385)</u>

CIAC

1 CIAC for lines which should have been contributed by Caloosa Group	(\$88,114)	(\$92,815)
2 Reflect prepaid and/or impute CIAC on the margin reserve	(\$90,662)	(\$240,711)
3 Impute CIAC for grant from SFWMD (Stip #15)	(15,385)	(30,769)
Total	<u>(\$174,161)</u>	<u>(\$364,295)</u>

ACCUM. AMORT. OF CIAC

1 CIAC for lines which should have been contributed by Caloosa Group	\$10,855	\$14,145
2 Reflect prepaid CIAC on the margin reserve	\$1,281	\$4,020
3 Impute CIAC for grant from SFWMD (Stip #15)	142	238
4 To decrease for utility's use of a composite rate on total CIAC amort.	(115,371)	(98,456)
Total	<u>(\$103,093)</u>	<u>(\$80,055)</u>

WORKING CAPITAL

To reflect 13-month average adjusted working capital using the balance sheet approach.	<u>(\$64,179)</u>	<u>(\$42,579)</u>
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**GULF UTILITY COMPANY
CAPITAL STRUCTURE
TEST YEAR ENDED 12/31/96**

**SCHEDULE NO. 1
DOCKET 960329-WS**

PER UTILITY 1996 - YEAR-END

1 LONG TERM DEBT	\$8,868,424	\$0	(\$1,673,070)	\$8,995,354	74.77%	10.63%	7.95%
2 SHORT-TERM DEBT	\$75,360	\$0	(\$14,909)	\$60,391	0.65%	11.01%	0.07%
3 PREFERRED STOCK	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
4 COMMON EQUITY	\$1,077,292	\$0	(\$208,021)	\$869,272	9.29%	11.88%	1.10%
5 CUSTOMER DEPOSITS	\$206,735	\$0	\$0	\$206,735	2.20%	6.00%	0.13%
6 DEFERRED INCOME TAXES	\$1,517,923	\$0	(\$282,707)	\$1,225,216	13.10%	0.00%	0.00%
7 DEFERRED ITC'S-ZERO COST	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
8 DEFERRED ITC'S-WTD. COST	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
9 OTHER	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
10 TOTAL CAPITAL	\$11,544,735	\$0	(\$2,188,787)	\$9,355,948	100.00%		9.25%

PER COMMISSION 1996 - 13-MONTH AVERAGE

11 LONG TERM DEBT	\$8,868,424	\$0	(\$2,790,205)	\$5,878,219	75.57%	10.63%	8.03%
12 SHORT-TERM DEBT	\$75,360	\$0	(\$24,257)	\$51,103	0.66%	11.01%	0.07%
13 PREFERRED STOCK	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
14 COMMON EQUITY	\$1,077,293	(\$160,929)	(\$284,981)	\$621,403	7.99%	11.88%	0.95%
15 CUSTOMER DEPOSITS	\$206,735	\$0	\$0	\$206,735	2.64%	6.00%	0.16%
16 DEFERRED INCOME TAXES	\$1,517,923	\$0	(\$495,728)	\$1,022,195	13.14%	0.00%	0.00%
17 DEFERRED ITC'S-ZERO COST	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
18 DEFERRED ITC'S-WTD. COST	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
19 OTHER	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
17 TOTAL CAPITAL	\$11,544,735	(\$160,929)	(\$3,598,014)	\$7,778,655	100.00%		9.21%

Staff Specific Adjustments

A) Reduce equity for lines which should have been contributed by Caloosa.

	LOW	HIGH
RETURN ON EQUITY	10.88%	12.88%
OVERALL RATE OF RETURN	9.13%	9.29%

**GULF UTILITY COMPANY
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED 12/31/88**

**SCHEDULE NO. 3-A
DOCKET #64325-W5**

1 OPERATING REVENUES	2,295,357	(155,935)	\$2,139,422	\$155,935	\$2,295,357	(\$238,582)	\$2,056,775
						-10.30%	
OPERATING EXPENSES:							
2 OPERATION AND MAINTENANCE	1,307,385	0	1,307,385	(34,985)	1,272,400		1,272,400
3 DEPRECIATION	165,417	0	165,417	60,922	226,339		226,339
4 AMORTIZATION	6,977	0	6,977	0	6,977		6,977
5 TAXES OTHER THAN INCOME	227,672	(7,017)	220,655	255	220,910	(10,736)	210,174
6 INCOME TAXES	0	29,383	\$29,383	\$78,298	\$105,681	(\$85,738)	\$19,943
7 TOTAL OPERATING EXPENSES	1,707,461	22,366	\$1,729,827	\$102,480	\$1,832,307	(\$88,474)	\$1,735,833
8 OPERATING INCOME	\$587,896	(\$178,301)	\$409,595	\$53,455	\$463,050	(\$142,107)	\$320,943
9 RATE BASE	\$3,607,982		\$4,427,872		\$3,483,658		\$3,483,658
10 RATE OF RETURN	16.29%		9.25%		13.29%		9.21%

GULF UTILITY COMPANY
 STATEMENT OF WASTEWATER OPERATIONS
 TEST YEAR ENDED 12/31/86

SCHEDULE NO. 3-B
 DOCKET 960329-WS

1 OPERATING REVENUES	1,304,730	386,340	\$1,671,070	(\$386,340)	\$1,304,730	\$308,165 23.62%	\$1,612,895
OPERATING EXPENSES							
2 OPERATION AND MAINTENANCE	859,570	0	\$859,570	(\$24,674)	\$834,897		\$834,897
3 DEPRECIATION	170,257	0	\$170,257	\$35,005	\$205,262		\$205,262
4 AMORTIZATION	3,594	0	\$3,594	\$0	\$3,594		\$3,594
5 TAXES OTHER THAN INCOME	132,610	16,485	\$149,095	(\$14,795)	\$134,300	\$13,867	\$148,167
6 INCOME TAXES	0	32,706	\$32,706	(\$118,822)	(\$86,116)	\$110,744	\$24,628
7 TOTAL OPERATING EXPENSES	1,106,031	49,191	\$1,215,222	(\$123,286)	\$1,091,936	\$124,612	\$1,216,548
8 OPERATING INCOME	\$138,699	\$317,149	\$455,848	(\$243,054)	\$212,794	\$183,554	\$386,347
9 RATE BASE	\$4,928,296		\$4,928,296		\$4,302,133		\$4,302,133
10 RATE OF RETURN	2.81%		9.25%		4.95%		9.21%

**GULF UTILITY COMPANY
ADJUSTMENTS TO OPERATING INCOME
TEST YEAR ENDED 12/31/96**

**SCHED. NO. 3-C
DOCKET 960329-WS
PAGE 1 OF 1**

OPERATING REVENUES

Remove requested final revenue increase/(decrease) **\$155,935** **(\$366,340)**

OPERATION & MAINTENANCE EXPENSE

1 Reallocate salaries to Caloosa Group	(\$5,905)	(\$3,042)
2 To reduce salary increase to 5%	(4,895)	(2,521)
3 To reallocate common maint. expenses for leases to Caloosa Group	(2,378)	(1,224)
4 Reallocate additional A&G, vehicle, computer, etc. to Caloosa Group	(6,086)	(3,140)
5 To remove projection for unanticipated expenses	(3,300)	(1,700)
6 Correct 5-year amortization of San Carlos water line project	(2,264)	0
7 To amortize costs associated with customer survey	(5,145)	(2,650)
8 To reduce president's meals and entertainment costs	(1,072)	(553)
9 To reflect adjusted rate case expense amortization	16,091	8,289
10 To remove lobbying expenses (Stip #4)	(523)	(269)
11 To remove Rotary dues (Stip #6)	(155)	(80)
12 To remove pond cleaning expenses (Stip #7)	0	(8,000)
13 Add consulting expenses to rate case expense (Stip #8)	(4,205)	(1,979)
14 To reduce vice president's salary	(15,150)	(7,804)
Total	(\$34,925)	(\$24,674)

DEPRECIATION EXPENSE-NET

1 To correct test year depreciation expense	\$78,338	\$42,770
2 To adjust for non-used and useful depreciation expense	361	(4,063)
3 CIAC for lines which should have been contributed by Caloosa Group	(2,106)	(2,755)
4 Reflect prepaid CIAC on the margin reserve	(2,563)	(8,040)
5 Impute CIAC for grant from SFVMD (Stip #15)	(142)	(236)
6 To adjust ty amort. exp. for use of composite rates for CIAC amort.	(12,967)	7,329
Total	\$60,922	\$35,005

TAXES OTHER THAN INCOME

1 RAFs on revenue adjustments above	\$7,017	(\$16,485)
2 Reallocate payroll taxes	(6,047)	2,741
3 Correct test year regulatory assessment fees	(715)	(1,051)
Total	\$255	(\$14,795)

INCOME TAXES

To adjust to test year income tax expense	\$76,298	(\$118,822)
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UTILITY: GULF UTILITY COMPANY
 COUNTY: LEE COUNTY DIVISION
 DOCKET NO. 88028-W8

Schedule 4A

WATER RATE SCHEDULE

Monthly Rates

	Rate Prior to Filing	Commission Approved Rate	Utility Requested Final Rate	Final Rate Pursuant to Order No. PSC-07-0817-PDF-W8	Staff Recommended Reconsidered Rate
RESIDENTIAL, MULTI-FAMILY, & GENERAL SERVICE					
Base Facility Charge					
5/8"x3/4"	\$8.45	\$7.88	\$7.88	\$7.77	\$7.78
3/4"	\$12.88	\$11.82	\$11.82	\$11.68	\$11.68
1"	\$21.13	\$19.70	\$19.70	\$19.43	\$19.48
1-1/2"	\$42.28	\$38.38	\$38.38	\$38.85	\$38.82
2"	\$87.61	\$83.02	\$83.02	\$82.18	\$82.27
3"	\$136.21	\$128.03	\$128.03	\$124.32	\$124.85
4"	\$211.27	\$198.82	\$198.82	\$184.25	\$184.81
6"	\$422.54	\$383.85	\$383.85	\$388.60	\$388.21
Gallage Charge, per 1,000 gallons	\$2.18	\$2.01	\$2.01	\$1.93	\$1.94
IRRIGATION & PUBLIC AUTHORITY					
Base Facility Charge					
5/8"x3/4"	\$8.45	\$7.88	\$7.88	\$7.77	\$7.78
1"	\$21.13	\$19.70	\$19.70	\$19.43	\$19.48
1-1/2"	\$42.28	\$38.38	\$38.38	\$38.85	\$38.82
2"	\$87.61	\$83.02	\$83.02	\$82.18	\$82.27
3"	\$136.21	\$128.03	\$128.03	\$124.32	\$124.85
4"	\$211.27	\$198.82	\$198.82	\$184.25	\$184.81
Gallage Charge, per 1,000 gallons	\$2.18	\$2.01	\$2.01	\$1.93	\$1.94
PRIVATE FIRE PROTECTION					
Base Facility Charge					
1"	\$7.04	\$6.58	\$6.58	\$1.82	\$1.82
1-1/2"	\$14.08	\$13.12	\$13.12	\$3.24	\$3.24
2"	\$22.64	\$21.01	\$21.01	\$5.18	\$5.19
3"	\$45.07	\$42.01	\$42.01	\$10.38	\$10.38
4"	\$70.42	\$68.37	\$68.37	\$16.18	\$16.22
6"	\$140.85	\$131.28	\$131.28	\$32.38	\$32.43
8"	\$226.36	\$210.05	\$210.05	\$51.80	\$51.87
12"	\$508.84	\$584.52	\$584.52	\$138.21	\$138.38
TYPICAL MONTHLY BILL COMPARISONS					
- Residential Usage (gallons) -					
3,000	\$14.83	\$13.91	\$13.91	\$13.56	\$13.60
5,000	\$19.25	\$17.93	\$17.93	\$17.42	\$17.48
10,000	\$38.05	\$27.86	\$27.86	\$27.07	\$27.18

UTILITY: GULF UTILITY COMPANY
 COUNTY: LEE COUNTY DIVISION
 DOCKET NO. 98029-W8

Schedule 48

WASTEWATER RATE SCHEDULE

Monthly Rates

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final Rates	Final Rates Proposed to Order No. PCC-07-0047-POP-W8	Staff Recommended Reconsideration Rates
RESIDENTIAL					
Base Facility Charge All Meter Sizes	\$14.48	\$16.73	\$16.48	\$16.00	\$16.21
Residential Gallonage Charge, per 1,000 gallons Wastewater Gallonage Cap - 10,000 gallons	\$3.07	\$3.55	\$4.23	\$3.37	\$4.04
GENERAL SERVICE, MULTI-FAMILY, & PUBLIC AUTHORITY					
Base Facility Charge: 5/8"x3/4"	\$14.48	\$16.73	\$16.48	\$16.00	\$16.21
1"	\$36.20	\$41.82	\$41.19	\$40.01	\$40.52
1-1/2"	\$72.39	\$83.62	\$82.37	\$80.02	\$81.04
2"	\$115.85	\$133.83	\$131.81	\$128.03	\$129.88
3"	\$231.68	\$267.64	\$263.61	\$256.05	\$259.32
4"	\$362.01	\$418.19	\$411.89	\$400.08	\$405.18
6"	\$724.01	\$836.38	\$823.78	\$800.17	\$810.36
Gallonage Charge, per 1,000 gallons (No Maximum)	\$3.88	\$4.25	\$5.08	\$4.05	\$4.88
MASTER METER INCLUDING SERVICE					
Base Facility Charge: 5/8"x3/4"	\$14.48	\$16.73	\$16.48	\$16.00	\$16.21
1"	\$36.20	\$41.82	\$41.19	\$40.01	\$40.52
1-1/2"	\$72.39	\$83.62	\$82.37	\$80.02	\$81.04
2"	\$115.85	\$133.83	\$131.81	\$128.03	\$129.88
3"	\$231.68	\$267.64	\$263.61	\$256.05	\$259.32
4"	\$362.01	\$418.19	\$411.89	\$400.08	\$405.18
6"	\$724.01	\$836.38	\$823.78	\$800.17	\$810.36
Gallonage Charge, per 1,000 gallons (No Maximum)	\$3.64	\$4.25	\$5.29	\$4.21	\$5.04
TYPICAL MONTHLY BILL COMPARISONS					
- Residential Usage (gallons) -					
3,000	\$23.68	\$27.36	\$29.17	\$26.11	\$26.33
5,000	\$38.83	\$34.48	\$37.63	\$32.85	\$36.41
10,000	\$45.18	\$52.23	\$56.78	\$46.70	\$56.61

UTILITY: GULF UTILITY COMPANY
 COUNTY: LEE COUNTY DIVISION
 DOCKET NO. 980329-WS

Schedule 6A
 Water

Schedule of Rate Decrease After Expiration of
 Amortization Period for Rate Case Expense

RESIDENTIAL, MULTI-FAMILY, & GENERAL SERVICE	Final Rates Pursuant to Order No. PSC-97-0847-FOF-WS	Staff Recommended Decrease
Base Facility Charge		
5/8"x3/4"	\$7.78	\$0.19
3/4"	\$11.68	\$0.29
1"	\$19.46	\$0.47
1-1/2"	\$38.92	\$0.95
2"	\$62.27	\$1.51
3"	\$124.55	\$3.04
4"	\$194.61	\$4.75
6"	\$389.21	\$9.49
Gallonge Charge, per 1,000 gallons	\$1.94	\$0.03
IRRIGATION & PUBLIC AUTHORITY	Final Rates Pursuant to Order No. PSC-97-0847-FOF-WS	Staff Recommended Decrease
Base Facility Charge:		
5/8"x3/4"	\$7.78	\$0.19
1"	\$19.46	\$0.47
1-1/2"	\$38.92	\$0.95
2"	\$62.27	\$1.51
3"	\$124.55	\$3.04
4"	\$194.61	\$4.75
Gallonge Charge, per 1,000 gallons	\$1.94	\$0.03
PRIVATE FIRE PROTECTION	Final Rates Pursuant to Order No. PSC-97-0847-FOF-WS	Staff Recommended Decrease
Base Facility Charge:		
1"	\$1.62	\$0.04
1-1/2"	\$3.24	\$0.08
2"	\$5.19	\$0.13
3"	\$10.38	\$0.25
4"	\$16.22	\$0.40
6"	\$32.43	\$0.86
8"	\$51.87	\$1.36
12"	\$139.39	\$3.58

UTILITY: GULF UTILITY COMPANY
 COUNTY: LEE COUNTY DIVISION
 DOCKET NO. 000329-W8

Schedule 6B
 Wastewater

Schedule of Rate Decrease After Expiration of
 Amortization Period for Rate Case Expense

	Staff Recommended Reconsideration Rates	Staff Recommended Decrease
RESIDENTIAL		
Base Facility Charge All Meter Sizes	\$16.21	\$0.25
Residential Gallonage Charge, per 1,000 gallons Wastewater Gallonage Cap - 10,000 gallons	\$4.05	\$0.03
GENERAL SERVICE, MULTI-FAMILY, & PUBLIC AUTHORITY		
	Staff Recommended Reconsideration Final Rates	Staff Recommended Decrease
Base Facility Charge:		
5/8"x3/4"	\$16.21	\$0.25
1"	\$40.52	\$0.61
1-1/2"	\$81.04	\$1.22
2"	\$129.66	\$1.95
3"	\$259.32	\$3.90
4"	\$405.18	\$6.09
6"	\$810.36	\$12.18
Gallonage Charge, per 1,000 gallons (No Maximum)	\$4.86	\$0.04
MASTER METER INFLUENT SERVICE		
	Staff Recommended Reconsideration Final Rates	Staff Recommended Decrease
Base Facility Charge:		
5/8"x3/4"	\$16.21	\$0.25
1"	\$40.52	\$0.61
1-1/2"	\$81.04	\$1.22
2"	\$129.66	\$1.95
3"	\$259.32	\$3.90
4"	\$405.18	\$6.09
6"	\$810.36	\$12.18
Gallonage Charge, per 1,000 gallons (No Maximum)	\$5.06	\$0.05

WASTEWATER TREATMENT PLANT USED AND USEFUL CALCULATION

GULF UTILITY COMPANY (THREE OAKS PLANT)

$\% \text{ USED AND USEFUL} = \frac{(2 + 2a + 3 - 4)}{1}$		92.49 %
	1	*****
(1)	Capacity of plant	750,000 GPD

(2)	Average Daily Flow (max month projected 1996)	524,365 GPD
(2a)	Florida Gulf Coast University (Beginning 3rd qtr '97)	52,000 GPD

(3)	Margin Reserve (not to exceed 20% of present ERC's):	
	(a) Average number of customers in ERCs	3,457

	(b) Projected yearly customer growth in ERCs (regression analysis of most recent 4 years)**	495

	(c) Construction time for additional capacity (in months)	18

	Margin Reserve =	117,315 GPD
	(3b x [3c/12]) x 158gpd/erc*	*****
(4)	Excessive Infiltration	0 GPD

	(a) Total amount	0 GPD

	(b) Reasonable amount	0 GPD

*158 gpd/erc=calculated from refiled schedule F-10 MFRs as revealed at the hearing

** Company provided only 4 years of growth data for wastewater

UTILITY NAME: GULF UTILITY COMPANY
 TEST YEAR: 12-31-96

WATER TREATMENT PLANT USED AND USEFUL CALCULATION

GULF UTILITY COMPANY

$$\% \text{ USED AND USEFUL} = \frac{(3 + 4 + 4a + 5 - 6)}{1} = 77.66 \%$$

(1)	Capacity of plant		4,215,000 GPD
(2)	Average Daily Flow (Projected 1996 [5a + 5b x 206Gal/ERC]*)		1,805,796 GPD
(3)	5 max day average flow (Projected 1996)		2,887,848 GPD
(4)	Fire flow capacity required		360,000 GPD
	Fire flow available		180,000 GPD
(4a)	Florida Gulf Coast University (Beginning 3rd qtr '97)		73,000 GPD
(5)	Margin Reserve (not to exceed 20% of present ERC's)		
	(a) Average number of unit connections	8,336	
	(b) Projected yearly customer growth in ERCs (regression analysis of most recent 5 years)	430	
	(c) Construction time for additional capacity (in months)	18	
	Margin Reserve = [5b x (5c/12)] x 206gpd/erc*		132,870 GPD
(6)	Excessive Unaccounted for water		0 GPD
	(a) Total amount	38,615 GPD	5.81 % of Avg. Daily Flow
	(b) Reasonable amount	66,484 GPD	10.00 % of Avg. Daily Flow

* 206 gpd/erc=calculated from refiled schedule F-9 MFRs as revealed at the hearing