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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

IN RE: DOCKET NO. 000768-GU - Request for rate increase by City Gas Company of Florida.

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BEFORE: CHAIRMAN E. LEON JACOBS, JR.
COMMISSIONER J. TERRY DEASON
COMMISSIONER LILA A. JABER
COMMISSIONER BRAULIO L. BAEZ

PROCEEDINGS: AGENDA CONFERENCE

ITEM NUMBER: 14

DATE: Tuesday, January 16, 2001

PLACE: 4075 Esplanade Way, Room 148
Tallahassee, Florida

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PARTICIPANTS:

MATT BRINKLEY, Commission Staff.
RICK MELSON, on behalf of City Gas Company.
JAY REVELL, Commission Staff.
MARLENE STERN, on behalf of the Commission Staff.
DAVE WHEELER, Commission Staff.

STAFF RECOMMENDATION

Issue 1: Is City's quality of service adequate?
Recommendation: Yes. City's quality of service is satisfactory.

Issue 2: Is City's test year request for permanent rate relief based on a historical test period ending September 30, 1999, and a projected test period ending September 30, 2001, appropriate?
Recommendation: Yes. With the adjustments recommended by staff in the following issues, the 1999 and 2001 test years are appropriate.

Issue 3: Are the customer growth and therm forecasts by rate class appropriate?
Recommendation: No. The test year customer and therm forecasts by rate class should be adjusted by $1,866,852 to reflect the effect of annualizing customer and therm growth associated with the Clewiston Pipeline Expansion Project.

Issue 4: Should an adjustment be made for the Clewiston Pipeline Expansion Project?
Recommendation: Yes. Plant in Service should be increased by $13,355,569, Construction Work in Progress (CWIP) should be reduced by $5,232,615, Depreciation Expense should be increased by $418,278, and Accumulated Depreciation should be increased by $272,832. In addition, Revenues should be increased by $1,866,852.

Issue 5: Should an adjustment be made to Plant, Accumulated Depreciation, and Depreciation Expense for canceled and delayed projects?
Recommendation: Yes. CWIP should be reduced $35,000; Plant in Service should be reduced $465,675; Accumulated Depreciation should be reduced $12,254; and Depreciation Expense should be reduced $14,228.

<u>Issue 6</u>: Should the GDU acquisition adjustment be approved?
<u>Recommendation</u>: Yes. The GDU acquisition adjustment should be approved.

<u>Issue 7</u>: Should the Vero Beach lateral acquisition adjustment be approved?
<u>Recommendation</u>: Yes. The Vero Beach lateral acquisition adjustment should be approved.

<u>Issue 8</u>: Should the Homestead lateral acquisition adjustment be approved?
<u>Recommendation</u>: Yes. The Homestead lateral acquisition adjustment should be approved.

<u>Issue 9</u>: Should an adjustment be made to plant retirements for the projected test year?
<u>Recommendation</u>: No adjustment is necessary for the plant retirements in the projected test year.

<u>Issue 10</u>: Should rate base be reduced to remove inactive service lines that have been inactive for more than five years?
<u>Recommendation</u>: No rate base adjustment is necessary to remove service lines that have been inactive for more than five years.

<u>Issue 11</u>: Should an adjustment be made to Plant, Accumulated Depreciation, Depreciation Expense, and CWIP to reflect non-utility operations?
<u>Recommendation</u>: Yes. Plant should be increased $112,469, Accumulated Depreciation should be increased $98,561, Depreciation Expense should be increased $32,651, and CWIP should be decreased $24,635 to reflect non-utility operations.

<u>Issue 12</u>: Should an adjustment be made to Plant, Accumulated Depreciation and Depreciation Expense for corporate allocations by NUI Corporation to City?
<u>Recommendation</u>: Yes. Plant, Depreciation Reserve, and Depreciation Expense should be reduced $243,427, $97,107, and $35,549, respectively for non-utility operations.

<u>Issue 13</u>: What is the appropriate amount of CWIP for the projected test year?
<u>Recommendation</u>: The appropriate amount of CWIP for the projected test year based on staff adjustments is $1,417,684.

<u>Issue 14</u>: What is the appropriate projected test year Total Plant?
<u>Recommendation</u>: The appropriate amount of Total Plant for the projected test year is $185,784,407.

<u>Issue 15</u>: What is the appropriate projected test year Depreciation Reserve?
<u>Recommendation</u>: The appropriate projected test year Depreciation Reserve is $68,397,507.

<u>Issue 16</u>: Should an adjustment be made to allocate Working Capital to reflect non-utility operations and corporate allocations?
<u>Recommendation</u>: Yes. Working Capital should be decreased $285,455 to reflect non-utility operations.

<u>Issue 17</u>: Should an adjustment be made to "Project Development Costs"?
<u>Recommendation</u>: Yes. Working Capital should be increased by $40,584 and expenses should be reduced by $81,167. In addition, the Company should be directed to establish specific guidelines for determining which expenses should be capitalized and for determining when a project should be considered abandoned and when the associated accumulated capitalized expenses should be charged to operating expenses.

<u>Issue 18</u>: What is the appropriate projected test year Working Capital Allowance?
<u>Recommendation</u>: The appropriate projected test year Working Capital is $3,543,416.

<u>Issue 19</u>: What is the appropriate projected test year rate base?
<u>Recommendation</u>: The appropriate projected test year rate base is $120,930,316.

<u>Issue 20</u>: What is the appropriate cost rate of City's common equity for the projected test year?
<u>Recommendation</u>: The appropriate cost rate for City's common equity for the projected test year is 11.5%, with a range of plus or minus 100 basis points.

<u>Issue 21</u>: What is the appropriate amount of accumulated deferred taxes to include in the capital structure?
<u>Recommendation</u>: The appropriate amount of accumulated deferred taxes to include in the capital structure is $10,488,832.

Issue 22: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure?
Recommendation: The appropriate amount of unamortized investment tax credits (ITCs) to include in the capital structure is $883,654. The appropriate cost rate is zero.

Issue 23: Has FAS 109 been appropriately reflected in the capital structure, such that it is revenue neutral?
Recommendation: Yes. FAS 109 has been appropriately reflected in the capital structure, such that it is revenue neutral.

Issue 24: What is the appropriate capital structure for City Gas?
Recommendation: The appropriate capital structure for City should be based on NUI Utilities, Inc.'s capital structure for investor sources. Amounts for customer deposits, deferred taxes, and ITCs should be specifically identified at the City level.

Issue 25: What is the appropriate weighted average cost of capital for the projected test year?
Recommendation: The appropriate weighted average cost of capital for the projected test year is 7.85%.

Issue 26: Has City properly removed PGA revenues, expenses and taxes-other from the projected test year?
Recommendation: Yes, the Company has properly removed PGA revenues, expenses, and taxes-other from the projected test year.

Issue 27: Has City properly removed conservation revenues, expenses, and taxes-other from the projected test year?
Recommendation: Yes, the Company properly removed conservation revenues, expenses, and taxes-other from the projected test year.

Issue 28: What is the appropriate amount of projected test year total Operating Revenues?
Recommendation: The appropriate level of projected test year total Operating Revenues is $35,441,489.

Issue 29: Should an adjustment be made for the gain on sale of the Medley property?

Recommendation: Yes. Projected test year working capital should be reduced by $48,148, and expenses should be reduced by $36,111 to amortize the gain on the sale of the Medley property.

Issue 30: Has the Company properly allocated expenses between regulated and nonregulated operations?
Recommendation: No. Expenses should be reduced $267,871 for non-utility operations. A non-utility adjustment for Account 923, Outside Services, in the amount of $506,017, which includes NUI corporate services, is recommended in Issue 38.

Issue 31: Should an adjustment be made to expenses for certain memberships, dues, and charitable contributions?
Recommendation: Yes, 1999 expense should be reduced $4,685 and projected expenses should be reduced $4,970.

Issue 32: Should an adjustment be made to employee insurance and benefits?
Recommendation: Yes. Expenses in Account 926, Employee Pensions and Benefits, should be increased by $357,075. Additionally, Plant in Service should be increased $31,910.

Issue 33: What is the appropriate amount of rate case expense and what is the appropriate amortization period for that expense?
Recommendation: Based on the latest information provided by the Company, the appropriate amount of rate case expense is $199,456, amortized over four years.

Issue 34: Should an adjustment be made to bad debt expense?
Recommendation: Yes, bad debt expense should be reduced $297,441.

Issue 35: Should an adjustment be made for late fees related to leased vehicles?
Recommendation: Yes, expenses should be reduced $3,540 in the test year and $3,775 in the projected test year.

Issue 36: Should meter turn ons, turn offs expenses be reduced?

Recommendation: Yes, projected test year expenses should be reduced $217,910 for duplication of expenses.

Issue 37: Should an adjustment be made to remove duplicative O&M expenses?
Recommendation: Yes, O&M expenses should be reduced $276,708 to eliminate duplicative expenses.

Issue 38: Should an adjustment be made to Account 923, Outside Services?
Recommendation: Yes. Account 923 should be reduced $506,017 for non-utility operations and $40,328 for duplicative expenses.

Issue 39: Should an adjustment be made to the various expense accounts for the Call Center?
Recommendation: Yes. An adjustment should be made to reduce expenses related to the Call Center by $31,888.

Issue 40: Are the trend rates used by City to calculate projected O&M expenses appropriate?
Recommendation: Yes. The trend rates used by the Company are appropriate.

Issue 41: Has City used the appropriate trend basis for each O&M account?
Recommendation: Yes. The Company has used the appropriate trend basis for each account.

Issue 42: Should the projected test year O&M expense be adjusted for the effect of any changes to the trend factors?
Recommendation: No. Projected test year O&M expenses should not be adjusted for changes to the trend factors.

Issue 43: Should an adjustment be made for odorizing costs?
Recommendation: Yes, projected test year expenses should be reduced $7,286 to amortize the prepaid odorant costs over two and one half years.

Issue 44: What is the appropriate amount of projected test year O&M expense?
Recommendation: The appropriate amount of projected test year O&M expense is $18,142,658.

Issue 45: What is the appropriate amount of

projected test year depreciation and amortization expense?
Recommendation: The appropriate amount of projected test year depreciation and amortization expense is $7,332,329.

Issue 46: What is the appropriate amount of Taxes Other Than Income Taxes?
Recommendation: The appropriate amount of Taxes Other is $2,484,259.

Issue 47: What is the appropriate Income Tax Expense, including current and deferred income taxes and interest reconciliation?
Recommendation: The appropriate Income Tax Expense, including current and deferred income taxes and interest reconciliation, is $1,069,487.

Issue 48: What is the appropriate level of Total Operating Expenses for the projected test year?
Recommendation: The appropriate level of Total Operating Expenses for the projected test year is $29,028,732.

Issue 49: What is the appropriate amount of projected test year Net Operating Income?
Recommendation: The appropriate amount of projected test year Net Operating Income is $6,412,757.

Issue 50: What is the appropriate projected test year revenue expansion factor to be used in calculating the revenue deficiency including the appropriate elements and rates?
Recommendation: The appropriate revenue expansion factor is 1.6269.

Issue 51: What is the appropriate projected test year revenue deficiency?
Recommendation: The appropriate projected test year revenue deficiency is $5,011,296.

Issue 52: Should any portion of the $1,640,777 interim increase granted by Order No. PSC-00-2102-PCO-GU, issued November 6, 2000, be refunded to customers?
Recommendation: No portion of the $1,640,777 interim revenue increase should be refunded.

Issue 53: Should City be required to submit, within 60 days after the date of the PAA order in this

docket, a description of all entries or adjustments to its future annual reports, rate of return reports, published financial statements, and books and records that will be required as a result of the Commission's findings in this rate case?
Recommendation: Yes. The utility should be required to fully describe the entries and adjustments that will be either recorded or used in preparing reports submitted to the Commission.

Issue 54: What are the appropriate billing determinants to be used in the projected test year?
Recommendation: The appropriate billing determinants to be used in the projected test year are indicated on Attachment No. 6, page 15 of staff's January 25, 2001 memorandum.

Issue 55: What is the appropriate cost of service methodology to be used in allocating costs to the various rate classes?
Recommendation: Staff's cost of service methodology adjusted for adjustments made to rate base, operations and maintenance expense, and net operating income.

Issue 56: If any revenue increase is granted, what are the appropriate rates and charges for City resulting from the allocation of the increase among customer classes?
Recommendation: The rates and charges are detailed in Attachment No. 7 of staff's memorandum.

Issue 57: What is the appropriate effective date for any new rates and charges approved by the Commission?
Recommendation: All new rates and charges should become effective for meter readings on or after 30 days from the date of the vote approving the rates and charges.

Issue 58: Should this docket be closed?
Recommendation: Yes. This docket should be closed upon issuance of a consummating order unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the proposed agency action.

CHAIRMAN JACOBS: So we're going to go now to Item 14, and before we begin Item 14, I believe Commissioner Palecki wants to give a statement.

COMMISSIONER PALECKI: Mr. Chairman, I will be recusing myself from Item 14.

CHAIRMAN JACOBS: Very well. Show that Commissioner Palecki is recused. Item 14.

MS. STERN: Item 14 is staff's recommendation in the City Gas rate case. And for the record, we would like to note that the recommendation was revised on Friday, the 12th, and that the Commission is voting on the revised recommendation.

We also have one minor correction to make on Issue 2. Under staff analysis, the third -- second paragraph, the second sentence in the second paragraph, the dates, the years should be 2001, not 2000. So the sentence should read, "New rates for City will go into effect 30 days after the January 16, 2001 agenda, or about February 15, 2001."

CHAIRMAN JACOBS: Very well. Did you want to introduce this at all, or do we go to the companies? Did you want to introduce this at all, or we just go to the companies?

MR. REVELL: I think the Company probably has a couple of short comments.

CHAIRMAN JACOBS: Very well. Mr. Melson.

MR. MELSON: Chairman Jacobs and Commissioners, Rick Melson representing City Gas. We are simply here to answer questions today. While we probably would not agree 100% with the staff's methodology on every issue, I think in total it's a good recommendation. So we're prepared to answer any questions the bench may have.

CHAIRMAN JACOBS: Very well. Commissioners?

COMMISSIONER JABER: Commissioner, I have general questions about rate case expense, and this shouldn't take a lot of time. On Issue 33, staff, help me understand the analysis you do for rate case expense. Do you -- what do you require the utility to give you?

MR. REVELL: Basically what they provide us is a computer printout of the legal, travel, extra labor expenses that go into preparing the rate case, and we examine their documentation for accuracy and completeness and prudency as far as the types of expenses incurred.

Now, they budgeted -- or what they actually incurred was fairly close to their budgeted amount. There was one expense of approximately $34,000 extra that they incurred for a special mailout to customers notifying them of the customer hearing.

We were able to come to a -- well, the reason this is being revised is because when the recommendation was filed, we didn't have complete information of what the rate case expense would be. The filing was on the 4th, and they hadn't closed their December 31st books. The number in here is complete through today, because they were able to come up with a close number for travel and, of course, per diem expenses, since in some cases NUI and City personnel had been here on at least two other occasions, I think a couple of times. A couple of individuals have been here three times. Normally sometimes what we have to do is have a new number at the hearing or at the agenda, but we were able to have the number last Friday.

COMMISSIONER JABER: Is the level of detail such that you would know an actual breakdown of costs associated with the specific duties performed?

MR. REVELL: Right. In the particular case of what we got from City, it breaks it down by individual. We were able to identify specific individuals, dates and, of course, the amount, and it was easy to tell which were transportation, which were meals, copy expenses, legal expenses, postage, consulting fees. So it was about a four- or five-page breakdown by category.

COMMISSIONER JABER: The consultant fees, would they include an engineer? Would there be a reason for an engineer to be included, or are they in-house consultants?

MR. REVELL: There were consulting fees. I think the consulting fee specifically identified was not an engineer. But that's always possible that engineering fees could be included if the situation warranted it.

COMMISSIONER JABER: And are there deficiencies in these kinds of filings, like filing deficiencies where you would go back and request more information of the Company?

MR. REVELL: As far as rate case expense?

we could. We did not in this case. We did request updates on at least two other occasions, which the Company was able to provide. We discussed it with them on trips to Tallahassee, and they sent it up as soon as they returned home.

COMMISSIONER JABER: When you receive those kinds of updates, is there cost -- is the cost associated with giving staff that information included in rate case expense?

MR. REVELL: Probably not, because it would generally be provided by, in this particular case, personnel in Miami, and that would be considered part of their I guess day-to-day salary and benefits package during their normal workweek. And also, generally it only involves a computer printout, so it really wouldn't involve that much additional expense on the part of any Company personnel in any event.

COMMISSIONER JABER: As a matter of course -- this is the last question. As a matter of course, if that kind of update is provided by an outside consultant, would that be allowed in rate case expense?

MR. REVELL: Well, the consultants

generally would provide the documentation to the Company. In the documentation we received from City for this case, there was no source document from their consultants included.

COMMISSIONER JABER: Okay. I don't know if any other Commissioner has any questions, Chairman Jacobs, but I can move staff.

COMMISSIONER DEASON: I have a few questions. I have questions concerning Issues 6, 7, and 8. These issues deal with the inclusion of a positive acquisition adjustment. And what I would like to do, if I could, is direct staff's attention to a previous item which the Commission has just voted upon, which was Item 13.

On page 17 of that recommendation, there's a discussion of some precedent which the Commission uses in analyzing positive acquisition adjustments, and I agree with that approach. And from my reading of staff's discussion on the issues in City Gas, it appears that staff is making the same points. It's just that in Item 13, those points were not met, and we disallowed the positive acquisition adjustment.

Staff is recommending in Item 14 that these be approved, and I just want to make sure that staff's -- they do not enumerate the criteria which are delineated in Item 13 on page 17 of the recommendation, and I just want some discussion. Did staff consider these items, and if so, which of these items meet the criteria for you to include the positive acquisition adjustment for City Gas?

The items are increased -- fees that the Commission can and should consider when considering a positive acquisition adjustment. There are five items. One is increased quality of service. I think that's one of the points you make. Two is a lower -- lowered operating costs. I think you make that point, in that you're saying that if these expenses were to take place, this was the most cost-effective way to facilitate these expansions and that it was beneficial to existing as well as to customers which were added to the system.

MR. REVELL: That's correct.

COMMISSIONER DEASON: Then there are three other items, increased ability to attract capital, lower overall cost of capital, and 5, more professional and experienced management.

I don't think that the last three apply. I think that the first do apply. And I just want staff's feedback. I think these are good criteria, and I want to make sure before we ever approve a positive acquisition adjustment, this is the analysis we undertake and that we find at least one or more of these five reasons as to why we are approving a positive acquisition adjustment. And I need staff's -- as I understand your analysis, you're basically indicating -- even though you don't say it in so many words, you're saying that Items 1 and 2 are being met. Now, please explain that to me.

MR. REVELL: I think that's a big one, particularly for City, because I think the total of the three acquisition adjustments only -- these three only amount to about 1,400,000. So I don't think the increased ability to attract -- was number 3 attract financing?

COMMISSIONER DEASON: Yes, number 3 was the ability to attract capital, you know, on favorable terms. I don't think that applies here.

MR. REVELL: That wouldn't. No, that

wouldn't apply here.

COMMISSIONER DEASON: A lower overall cost of capital, I don't think that applies. And more professional and experienced management, that may be the case, but I don't think that's what you're indicating.

I think that you're -- you're recommending approval because of quality of service that's going to be provided to customers, particularly those customers which were present formerly under a propane system that would then be allowed to receive natural gas.

And lower operating costs, in the sense that this is a cost-effective way to facilitate an expansion, in that it not only benefits -- and I guess this is the key question. It not only benefits those customers which are being added to the system, but it benefits customers which are already on the system because you have a larger base to spread fixed costs?

MR. REVELL: Correct.

COMMISSIONER DEASON: That is the basis for the recommendation?

MR. REVELL: One and 2 were the primary factors. And I would say from the standpoint of

City, I think as a natural gas company, with the regulation they have, 1 would somewhat take care of itself, the quality of service.

But one of the attractive features for City was the fact that they were able to purchase these systems, actually have pipe in the ground for approximately a third to a fourth of the cost of what it would have cost them to do it themselves. And even though these items were fully depreciated on the books and -- in the case of laterals, it was Florida Gas Transmission, and it was -- General Development Utilities had the propane system.

COMMISSIONER DEASON: Staff is convinced that --

MR. REVELL: They thought that the lower cost of -- the lower operating costs were probably the most attractive feature.

COMMISSIONER DEASON: Okay. In reading your analysis on these issues, it struck me that, of course, obviously, one of the benefits of these expansions and the cost-effective manner of providing these expansions is that the Company is going to be achieving increased revenue. And you even include revenue projections to capture the growth that's going to take place.

Let me ask this question. Did you account for those increased revenues in your projected revenue for this rate case, or are these projections outside the scope of this rate case?

MR. REVELL: The 2001 projections are in the MFRs. The 2002 are outside, the large increases for --

COMMISSIONER DEASON: So we have a 2001 projected test year. To the effect --

MR. REVELL: Right.

COMMISSIONER DEASON: To the extent that there are revenue enhancements as a result of these positive acquisition adjustments, they have been accounted for in that test year.

MR. REVELL: Correct.

COMMISSIONER DEASON: Then I have a question on -- it's really more of a clarification question. It has to do with Issue 11, and these are allocations of costs. In reading your analysis, apparently there was -- just let me go to the page. It's on page 14 of your recommendation. In the first full paragraph under staff analysis, you make reference to a changed square footage allocation. Could you explain what that change was?

MR. BRINKLEY: Based on what the engineer personally reviewed on some of the different facilities, he calculated a minor change in Hialeah, one of their offices down there. The bulk of the adjustment is for a change to what -- the engineer intended to use a weighted average basis for square footage, and he used a simple average. And when I recalculated it based on a weighted average of square foot of the facilities, I came up with this adjustment.

COMMISSIONER DEASON: Okay. Now, how do you go about weighting the square footages based upon --

MR. BRINKLEY: Based upon square footage.

COMMISSIONER DEASON: Okay. Well, I'm trying to understand, what was the mistake that was made, and how did you correct it?

MR. BRINKLEY: Okay. What he did was, he took, for instance, the square footage for a particular office. He looked at the non-utility portion to the total of that particular facility, and say he came up with 20%

non-utility. Then he turned around and looked at the other facilities and came up with percentages, and then he added them and divided them by the number of facilities, the five, and that was a simple average.

I took the square footage of all of the buildings and calculated the non-utility square footage of all the buildings and applied that.

COMMISSIONER DEASON: Okay. I understand, and I agree with what you did. And that's the reason why there's a fairly material adjustment that had to be made.

Mr. Chairman, that's all the questions I have.

CHAIRMAN JACOBS: I have a question, going back to Item 6, 7. As I understood it, your rationale -- and I guess this is probably more appropriate to the propane system. Your rationale as to the amount of the acquisition adjustment is that the purchase amount was reasonable because it was less than the amount that would have been incurred had a similar facility been built by the Company; is that correct?

MR. REVELL: That's correct.

CHAIRMAN JACOBS: How do we confirm those estimates? Do we have any idea what the development costs would have been for the Company? Has that been done?

MR. REVELL: I did see an analysis that City Gas did that proved to their satisfaction it was a good purchase price. And the only other documentation I had was that it -- things like the amortization on a yearly basis over 30 years. I did not see an updated chart. The only thing, there were some construction numbers, original construction costs which were -- I don't think I've got that. It's about a million something. Let me see if I can find that real quick.

COMMISSIONER DEASON: While staff is looking at that, let me ask one other question on the acquisition adjustment. It goes without saying, and I assume this is the case, that these transactions were arm's length, there was no affiliate transactions involved in any of these acquisitions.

MR. REVELL: No, they were totally arm's length. But GDU was a propane system. Issues 7 and 8 involved unused presently -- well, at the time, unused laterals of Florida Gas Transmission. They were I think dedicated utility plant pipelines that were no longer -- or laterals that were no longer needed, and they put them up for sale, and they happened to be in a perfect geographic location for City.

Commissioners, that's the only documentation I've got. I don't have anything that was specifically done by our staff.

CHAIRMAN JACOBS: The concern for me is what we appear to be saying is that so long as a purchase is done which would not exceed any comparable construction cost, then that's a reasonable acquisition adjustment for us.

MR. REVELL: Well, I think the important thing is that -- I think we would look at more than that. There might be some situations where if you were going in an area that would never generate any customers, you might be able to pick up something cheaper than you could build it yourself, but I think you would still need to examine the surrounding area for potential customers and potential growth in the future. And these particular three happened to be right in the middle of City Gas's present territory. And in the case of the Homestead lateral, it adds approximately 100 square miles to their territory that they can financially serve. It goes right down the U.S. 1 corridor for approximately two-thirds of the length of Homestead.

CHAIRMAN JACOBS: I understand. And I don't think that it's unreasonable to look at that, but when I look at issues of equity between shareholders and ratepayers, here you have a piece of property that's going to come onto the books of the Company and will probably have escalating value. And what we say -- and the Company probably didn't pay -- let me not make that statement. That's not clear. But it's arguable as to whether or not there is some actual benefit in the acquisition of the property itself to the shareholders, i.e., they may have gotten that property at a price that is lower than its actual market price, so on their books they have a premium recorded. And then what we say is that ratepayers should then allow -- should be required to give them a recovery of this value that was obtained for very little cost.

And if that is what we're saying, I'm concerned that we be as exact as possible, because whatever we're saying ratepayers ought to provide some recovery for, in my mind, it ought to be pretty much for the ratepayers' interest. And I'm concerned that if we say so long as it's less than what the Company would have built, and we don't have real strong documentation of what the building cost would have been, we have somewhat of a fuzzy picture there, particularly in light of the idea that we've been very, very careful in water and wastewater analyses in looking at acquisition adjustments. I wouldn't want us to loosen that standard to some great degree in other industries. I think we ought to be as clear and as concise when we look at this.

And for today's purpose, I'm prepared to, for the reasons you stated, and for this case only, to see this as a benefit. But for future cases, I think it's really important that we not set this as the bar. The bar in my mind should be much more -- there should be a much more careful scrutiny of the amount of recovery we allow in the acquisition adjustment.

Now, then, in the lateral purchases, it's my understanding that much of that has to do with projected future growth. Is that correct?

MR. REVELL: Well, the present revenue covers, or very definitely contributes to City's bottom line. Both laterals, however, do have a greater degree of potential growth simply because the GDU system was -- the majority, even though they do anticipate approximately 8-1/2% growth for 2002, that was a fairly established system, a fairly full system. That was a matter of buying out an ongoing concern, you might say. The laterals start from a base that there were -- it was a dedicated line that City now at a lower construction cost is able to add commercial, and particularly commercial and residential customers, starting from obviously a zero base.

CHAIRMAN JACOBS: So the revenue that will accrue from these laterals is existing revenue?

MR. REVELL: Yes, it is. And it's a positive contribution to the bottom line, and it's -- approximately one year past the projected test year, it's going to more than double, something like 130% or more.

CHAIRMAN JACOBS: Okay. My concern is that when I saw that, that sounds like a discussion regarding used and useful. If these assets are pretty much going to be used for future growth, it sounds like you're going to do some kind of used and useful adjustment. What I hear you saying is that the essence of the use of that, the revenues that come from that are there now, and therefore, a used and useful adjustment wouldn't be of any real consequence or significance.

MR. REVELL: Well, I think in this case it's already covering all their costs. I don't deal with used and useful that much, but I think this is a situation that, like most projects, they're built into a particular area. The bigger the area grows, the more customers can go into it. So I think that's probably an argument you could make on any project. Even if it was feasible from the beginning, you would hope there would be more customers next year and more customers the year after that. And if it was fully built out to start with, then you wouldn't be able to add any additional customers at all.

CHAIRMAN JACOBS: Right, right.

Again, my concern is that in approving -- if that is indeed the vote, I wouldn't want this to be the bar. In my mind, there ought to clearly to be a used and useful analysis that would apply to an acquisition adjustment, especially when, as you indicated here, much of the use of that acquisition has to do with growth.

I'm prepared -- the analysis that you give here, i.e., that the costs are essentially covered by existing revenues, I think is a reasonable consideration to apply in whether or not you would do a used and useful adjustment. But I absolutely think that the analysis ought to include that. I wouldn't want to rule it out, and I didn't see it here, so that's why I wanted to raise it.

COMMISSIONER DEASON: Let me ask another question, since we're kind of delving into this a little bit. Issues 7 and 8, they address acquisition of a lateral. Staff has made the review, and it appears that it was a cost-effective, prudent thing to do, and I'm not really debating that. The question is: Why does this even come up as a question of an acquisition adjustment? Is it because Florida Gas Transmission is a regulated utility regulated by FERC?

MR. REVELL: We talked about that, and I think they're acquisition adjustments as far as issues in the recommendation because that's what they were included as in the MFRs. The acquisition adjustments that I'm most familiar with, indirectly or directly, are not of this type. In the case of 7 and 8, there are no customers at all. I think it's an acquisition adjustment in the sense that they paid more than book value.

COMMISSIONER DEASON: Well, that raises another interesting question. The book value for both of these laterals was zero, and we know that it had some value. I just assumed that for Florida Gas Transmission's purposes, apparently they were going to abandon -- they had no further use, and apparently they have some accounting flexibility from FERC, and they just basically wrote these off of their books, and for their books, they had zero value.

MR. REVELL: Exactly, yes. The only

documentation on that, there was an indication in the audit work papers that our auditors did check with Florida Gas Transmission, and they do have zero -- or were zero book value on their books. But I don't know what their accounting standards were or how many years they amortized them over. They're approximately I think 35-year-old systems.

COMMISSIONER DEASON: Now, let me ask you this question. Let's assume -- and this is strictly assumption. I have no idea what it cost Florida Gas Transmission to build, say, the lateral which is described in Issue 8. Let's just assume that it cost them a million dollars to build it, and they still had it on their books at a million dollars, and City Gas comes in and says, "Look, we're going to buy this lateral, and City Gas is going to sell it to us for 450,000, and it's cost-effective for us to do it. But we want to put a million dollars in our rate base, because that's what was on Florida Gas Transmission's books." What would you do then?

MR. REVELL: My first feeling is that you're right, it would be purchase price. It wouldn't be anything on FGT's books.

COMMISSIONER DEASON: Okay. Well, that's my position too, but maybe I'll get you to testify when we have an acquisition adjustment investigation again.

CHAIRMAN JACOBS: That takes care of your questions?

I was about to delve off into this ROE discussion, but I think I'll hold off. I think I get the point, so I don't have any further questions.

No further questions? Do I have a motion?

You had a motion, didn't you?

COMMISSIONER DEASON: I can second the motion.

CHAIRMAN JACOBS: Moved and seconded that Item 14 be approved. Without objection -- I guess I should take a vote. All in favor say "aye."

COMMISSIONER JABER: Aye.

COMMISSIONER BAEZ: Aye.

COMMISSIONER DEASON: Aye.

CHAIRMAN JACOBS: All opposed? Show Item 14 approved. I should be recorded as voting "aye" as well.

Now we'll revert to Item 12. We're going to take about a five-minute break to give Commissioner Palecki a moment to get back into the room.

(Short recess.)

CHAIRMAN JACOBS: We're going to go back on the record. I hear from staff that we need to revert back to Issue 11, so staff --

MR. WHEELER: Yes, Item 14. I just want to reiterate that as a result of the amended recommendation, the revenue requirement was changed by about $121,000, and I just wanted to make clear that the rates that are attached to the original recommendation do not reflect that change, so that the staff will be making a minor change to the rates in order that they recover the total revenue requirement as adjusted.

COMMISSIONER DEASON: Mr. Chairman, I can recommend that we allow staff to make those changes consistent with the methodology, just make sure that they correct for the revisions that were made to the recommendation earlier. That's what you're asking us to let you do; correct?

MR. WHEELER: Yes.

CHAIRMAN JACOBS: There's a motion. Is there a second?

COMMISSIONER BAEZ: Second.

COMMISSIONER JABER: Second.

CHAIRMAN JACOBS: It has been moved and seconded that staff be allowed to modify its recommendation with regard to the rate schedule. All in favor say "aye."

COMMISSIONER JABER: Aye.

COMMISSIONER DEASON: Aye.

COMMISSIONER BAEZ: Aye.

CHAIRMAN JACOBS: Aye. Opposed?

Item 14 as amended is approved.

(Conclusion of consideration of Item 14.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON )

I, MARY ALLEN NEEL, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter transcribed under my supervision; and that the foregoing pages numbered 1 through 34 are a true and correct transcription of my stenographic notes.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, or relative or employee of such attorney or counsel, or financially interested in the action.

DATED THIS 22nd day of January, 2001.

Mary Allen Neel

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