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2 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

3

4 In re: Emergency Petition by) DOCKET NO. 981609-WS
 5 D.R. Horton Custom Homes, Inc.)
 6 to eliminate authority of)
 7 Southlake Utilities, Inc. to)
 8 collect service availability)
 9 charges and AFPI charges in Lake)
 10 County)

11

12 In re: Complaint by D.R. Horton)
 13 Custom Homes, Inc. against) DOCKET NO. 980992-WS
 14 Southlake Utilities, Inc. In)
 15 Lake County regarding collection)
 16 of certain AFPI charges.)
 17

18 **TESTIMONY**
 19 **OF**
 20 **GARY C. WHITE**
 21 **ON BEHALF OF SOUTHLAKE UTILITIES, INC.**

22 Q. Please state your name and address.

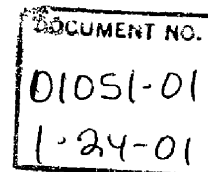
23 A. Gary C. White, 3 Sleepy Hollow Drive, Clifton Park,
 24 New York.

25 Q. What is your occupation?

A. I am the Director of Accounting with Guastella
 Associates, Inc., a firm which provides utility
 consulting services primarily for municipal and
 investor-owned water and wastewater utilities.

Q. Please state your educational background and
 professional experience.

A. I received a Bachelor of Science degree in Business
 Administration from Valparaiso University in 1972.



1 I graduated with an Accounting major and a Finance
2 minor. I have also completed a course in utility
3 regulation sponsored by the National Association of
4 Regulatory Commissioners (NARUC), the Florida Public
5 Service Commission, and the University of Utah.

6 I was employed in the unregulated, private industry
7 sector between 1972 and 1984 with responsibilities
8 in various areas of business management, accounting
9 and finance. Since 1984, my experience has been
10 concentrated in the areas of management, valuation,
11 and rate setting for water and sewer utilities.
12 During this period, I was responsible for the rate
13 regulation department of General Development
14 Utilities, Inc. which was the largest investor-owned
15 water and sewer utility in Florida. I was
16 subsequently employed as the General Manager of
17 Country Knolls Water Works, an investor-owned
18 utility in upstate New York. I managed all of the
19 utility's regulatory, accounting and operations
20 activities on a day-to-day basis. I began my
21 employment with Guastella Associates in 1992.

22 My experience in utility matters includes the
23 preparation of cost of service and revenue
24 requirement analyses for both private and municipal
25 utilities. I have prepared cost allocation,

1 connection charge, and rate design studies; revenue
2 requirement forecasts; population growth and system
3 capacity projections; market value analyses and
4 various operations and management evaluations. I
5 have provided rate, regulatory and system valuation
6 services for clients in Connecticut, Florida,
7 Illinois, Indiana, Maine, Maryland, Massachusetts,
8 Montana, New Jersey, New York, Pennsylvania and
9 Rhode Island.

10 I have served as an instructor at a seminar for
11 developer related water and sewer utilities,
12 sponsored by Florida State University and at a
13 utility rate seminar conducted by the New England
14 Chapter of the National Association of Water
15 Companies.

16 Q. How long have you practiced in the area of utility
17 management and rate regulation?

18 A. I have been involved in the utility industry for
19 sixteen years.

20 Q. Are you a member of any professional association?

21 A. I am a member of the American Water Works
22 Association.

23 Q. I show you a document labeled Exhibit GCW-1. Can
24 you identify it?

25 A. Yes. It is my resume.

1 Q. Before what regulatory agencies and municipal
2 jurisdictions have you presented expert testimony?

3 A. I have testified as an expert witness in regulatory
4 hearings in Connecticut, Florida, New Jersey, and
5 New York.

6 A. Did you prepare, or have prepared at your direction
7 and under your supervision, the testimony you are
8 about to give in this matter?

9 A. Yes.

10 Q. What is the nature of your assignment in this
11 matter?

12 A. Guastella Associates was retained as consultants to
13 Southlake Utilities, Inc. My assignment was to
14 examine the books, records, and financial statements
15 of the utility, and coordinate my work with that of
16 John F. Guastella to prepare an analysis of the
17 company's past and future collection of service
18 availability (CIAC) and allowance for funds
19 prudently invested (AFPI) charges.

20 At the onset of this assignment, I was informed that
21 the utility and the Florida Public Service
22 Commission (FPSC) staff had extended a considerable
23 effort, including a staff audit and discovery period
24 without resolution. It was therefore necessary to
25

1 perform our own investigation, independent of the
2 previous efforts.

3 Q. I show you a document previously marked Exhibit JFG-
4 2. Are you familiar with it?

5 A. Yes. It is the Connection Charge Analysis (JFG
6 Report) that we at Guastella Associates prepared to
7 address this matter.

8 Q. Please explain your involvement in the preparation
9 of the JFG Report.

10 A. I began the process with a field audit conducted at
11 the office of Robert Chapman III, President of
12 Southlake Utilities. During the initial two-day
13 audit, I examined and reviewed literally every
14 financial record on hand for the period of 1991
15 through 1999. I also took copies of the Annual
16 Reports, FPSC Orders, pertinent correspondence and
17 general ledger reports for that period. The next
18 few weeks were spent in my office comprehending the
19 information, compiling and setting up computer
20 spreadsheet files that would enable us to perform
21 the assigned task.

22 I, then, made a second visit to Mr. Chapman's
23 office. During this visit, I examined engineers'
24 reports, DEP permits and correspondence, the FPSC
25 audit findings, and the Company's responses to staff

1 interrogatories. I field tested a developer
2 agreement by tracking the payments and connections
3 made under the agreement. I spent considerable time
4 auditing cash receipt, cash disbursement, general
5 ledger, and trial balance reports which provided the
6 detailed support for all CIAC and AFPI transactions
7 for 1993 through 1999. The Company also provided me
8 with thirty-one spreadsheet programs which Mr.
9 Chapman and Norman Mears, the utility's accountant,
10 had developed to address the connection charge
11 issue. After compiling the volumes of information
12 obtained during the audits, the next step was to
13 track all CIAC and AFPI charges received by the
14 Company from the respective developer/payer, match
15 the payment to a customer connection, and reconcile
16 this information to the Company's books and Annual
17 Reports. Once completed, this information served as
18 the basis for the first phase of our analysis, which
19 was to establish the current status of CIAC and AFPI
20 collected to date.

21 The next phase was to establish future levels of
22 CIAC and AFPI charges which required information
23 regarding future customer growth and future utility
24 plant investment necessary to serve that growth.
25 This information, which was provided by independent,

1 third party engineering and economic research firms,
2 was examined and used in the preparation of our
3 analysis.

4 Q. Please provide a brief explanation of the schedules
5 within the JFG Report.

6 A. As background information, when I reviewed Docket No.
7 PSC-96-1082-FOF-WS, I found two errors within the
8 calculation of AFPI charges established in this
9 docket: The FPSC Staff used an erroneous water flow
10 per equivalent residential connection of 350 gallons
11 per day. This flow represents an average day
12 demand. They compared this average flow to the
13 water plant capacity, which was designed on the
14 basis of a maximum day demand. This error resulted
15 in an overstatement of future use capacity and the
16 number of available future water connections.

17 I found another error that impacted the sewer AFPI
18 charge. The FPSC Staff erroneously used the
19 wastewater treatment plant capacity rated at 164,750
20 gallons per day. However, the Department of
21 Environmental Protection (DEP) had rated the plant
22 at 300,000 gallons per day. Using the correct
23 capacity of 300,000 GPD resulted in an
24 understatement of future use capacity and the number
25 of available future sewer connections. It was,

1 therefore, necessary to recalculate the AFPI charges
2 for both water and sewer.

3 Schedule A.2 page 1 is a summary of the recalculated
4 AFPI Water Charge.

5 Pages 2 through 5 of the schedule support the
6 calculation.

7 Schedule A.3, page 1 is a summary of the
8 recalculated AFPI Sewer Charges; again, pages 2
9 through 5 of the schedule support the calculation.

10 Schedule A.1, pages 1 through 16, show AFPI actually
11 collected as of December 31, 1999, for each
12 residential/multifamily developer. One page details
13 the water AFPI collected and next page the sewer
14 AFPI collected. Pages 17 and 18 show similar detail
15 for commercial developer/customers. Also shown on
16 Schedule A-1 are the balances calculated by reducing
17 the actual AFPI payments collected by the amounts
18 that would have been collected under the
19 recalculated AFPI charges applied at the date of
20 connection. These balances are the amounts that
21 would be subject to refund if the typical
22 calculation of AFPI charges is applied instead of
23 the actual amounts collected.

24 Schedule A is a summary schedule of the data
25 contained in Schedule A-1. It shows the balances

1 for each developer and a total of \$398,877 AFPI
2 subject to refund as of 12/31/99 and the amount of
3 \$6,738 collected through June 14, 2000.

4 Schedule B.1 shows the same information by
5 developer, as does Schedule A.1. The difference is
6 that the B schedules use the incorrect AFPI charge
7 as established in Docket No. PSC-96-1082-FOF-WS.
8 The balances reflected on pages 1 through 18 are
9 calculated using the actual AFPI payment amounts
10 reduced by the incorrect AFPI charge effective at
11 the date of connection.

12 Like Schedule A, Schedule B is a summary of the data
13 in Schedule B-1. It shows the balances for each
14 developer and a total of \$548,505 AFPI collected in
15 advance on 12/31/99 and the amount of \$6,738
16 collected through June 14, 2000.

17 Schedule C develops the future water plant capacity
18 (CIAC) charge. It details the annual Plant in
19 Service investment, net of depreciation, and the net
20 CIAC levels at system completion or build-out. As
21 can be seen on the first line of the schedule,
22 assuming the current CIAC charge of \$420 per ERC
23 remains in effect through the end of the year 2000,
24 and a plant capacity charge of \$454 per ERC made
25

1 effective in 2001, the company would achieve a CIAC
2 level of 75% of net plant at build-out.

3 Schedules C.1, C.2 and C.3 provide detailed support
4 for the calculations in Schedule C. Schedule C.1
5 shows the projected water customer growth and
6 reflects the Economic Research Associates' (ERA)
7 growth forecast. There is a minor deviation from
8 ERA's report, which only addresses single-family and
9 multi-family/time-share housing unit growth, in that
10 I moved one annual unit of single-family growth to
11 commercial unit growth. Schedule C.1 then assumes
12 ratable annual growth for the years 2001 through
13 2005 to reach 1,378 single-family plus 39 commercial
14 units, (1,417 total projected single-family units
15 per the ERA report) and 3,678 multi-family units by
16 year-end 2005.

17 Schedule C.1 also assumes ratable annual growth for
18 the period of 2006 through 2010 to reach the ERA
19 projections of 2,957 single-family/commercial units
20 and 8,326 multi-family units by the year-end 2010.
21 The rate of annual growth in 2010 is then projected
22 through system build-out at year-end 2012. The
23 water system will serve 13,759 units or 9,968 ERCs
24 when complete. Units of growth are converted to
25 ERCs of growth using one single-family unit equal to

1 one ERC, one commercial unit equal to four ERCs, and
2 one multi-family unit equal to .65 ERC (or 225
3 gallons per day average demand).

4 Q. I show you a document previously marked Exhibit PLP-
5 2. Are you familiar with it?

6 A. Yes. It is the growth projection study for
7 Southlake's service area prepared by Economic
8 Research Associates. It is the source document
9 which provided the growth numbers used in preparing
10 our report.

11 Q. Please continue.

12 A. Schedule C.2 details the projected water plant in
13 service costs by primary accounts. The projected
14 plant expansion costs within this schedule tie to
15 the CPH Engineering cost estimates. Meter, mains,
16 hydrant and service costs are added to reflect
17 customer growth. The per book land costs have been
18 adjusted to reflect the value established by Mr.
19 Irwin's recent land appraisal. The office equipment
20 account has been adjusted to reflect FPSC staff's
21 audit adjustment removing the cost of a copy
22 machine. We also adjusted mains, services and
23 hydrants to reflect the cost of those items
24 installed by outside developers, but not booked by
25 the Company. These adjustments contain the cost to

1 construct plus a 20% overhead cost for inspection
2 and administrative expenses.

3 Schedule C.2 also details projected water CIAC. The
4 CIAC Plant line reflects the cumulative balance by
5 adding ERCs of growth at the effective plant
6 capacity charge per ERC to the prior year amount.
7 The line for CIAC Meters assumes those plant
8 additions to be 100% contributed. The line for CIAC
9 mains (including mains, hydrants and services)
10 assumes the construction cost to be 100% contributed
11 plus a 20% overhead cost invested by the utility.
12 CIAC levels have also been adjusted to reflect the
13 construction cost of mains, services and hydrants
14 installed by outside developers, but not booked by
15 the Company.

16 Q. I show you two documents labeled GCW-2 and GCW-3.
17 Would you identify them?

18 A. Yes. Exhibit GCW-2 is a chart I prepared which
19 itemizes the cost components of Southlake's land
20 account. Exhibit GCW-3 is a breakdown of
21 capitalized costs which appear on Exhibit GCW-2 as
22 "Overheads." This chart shows the Company's 1998
23 allocation of overhead costs to land and other
24 capital projects.

25

1 Q. Are the land costs reflected on Exhibit GCW-2 used
2 in the preparation of the JFG Report?

3 A. Yes. The water land cost of \$156,108 is the cost
4 used in the preparation of Schedule C.2 and the
5 wastewater land cost of \$507,861 was used in the
6 preparation of Schedule D.2.

7 Q. Please continue by turning to Schedule C.3.

8 A. Schedule C.3 shows the annual depreciation and
9 accumulated depreciation of water plant by primary
10 plant account. The depreciation is calculated by
11 multiplying the average plant balance by the
12 depreciation rate. The schedule also reflects the
13 annual amortization and accumulated amortization of
14 CIAC. The CIAC plant amortization rate is a
15 composite rate of pumping, treatment, and
16 transmission and distribution plant less mains,
17 services, hydrants and meters. This rate is then
18 applied only to the "active" CIAC amounts, in other
19 words to plant capacity less prepaid amounts. The
20 contributed mains (including services and hydrants)
21 and meters are amortized at the rate of annual
22 depreciation rate for all mains and meters.

23 Q. I show you a document marked Exhibit GCW-4, please
24 identify it.

25

1 A. Exhibit GCW-4 is a schedule of Southlake's net
2 investment in water plant for the year ended
3 12/31/98. It shows the net investment of \$160,256
4 developed in the JFG Report compared to the net
5 investment stated in Docket No. 981609-FOF-WS, on
6 Schedule No. 2. Exhibit GCW-4 provides an
7 explanation of the calculations and a reconciliation
8 of the component of water plant net investment.
9 Exhibit GCW-4 ties to the 1998 column of Schedule C.

10 Q. Briefly describe the differences which appear on
11 Exhibit GCW-4.

12 A. First, the utility plant in service differs because
13 we have adjusted the balances to reflect the cost of
14 the plant installed by outside developers, which the
15 Company had not yet booked. Also, there is a
16 difference in the land value used. This difference
17 can be tracked to three items. The FPSC uses
18 \$75,900 for the 2.53 water use acres, which is based
19 on their "find(ing) that a \$30,000 per acre
20 valuation of the leased land is fair and
21 reasonable." Our report uses a subsequently
22 prepared professional land appraisal value of
23 \$126,500. The FPSC uses \$20,000 for the 5-acre well
24 site and our report uses \$22,821 of land cost and
25 improvements which were on the Company's books.

1 Lastly, the FPSC ignored the capitalized costs
2 booked to the land account and we included those
3 costs in our report.

4 The next item is the difference in accumulated
5 depreciation. The foremost difference is due to the
6 plant adjustments reflecting facilities installed by
7 outside developers. Also the FPSC used the total
8 depreciation as stated on the Annual Reports and
9 reclassified \$9,554 from water to sewer. I found
10 that not all of the formulas within the depreciation
11 schedule in the FPSC's Annual Report program
12 calculated depreciation properly, and therefore set
13 up Schedule C.3 which calculates the depreciation
14 used in our report.

15 Next, the CIAC balances differ for several reasons:
16 A large part of the difference is due to the
17 adjustment to reflect facilities installed and
18 contributed by outside developers. There is also a
19 discrepancy in the amount of prepaid CIAC and the
20 JFG Report corrects the handling of the Southlake
21 Community Foundation Refund by reclassifying it from
22 CIAC to equity (Paid in Capital). The prepaid CIAC
23 amounts used in the JFG Report are calculated by
24 multiplying the actual number of year-end ERCs by
25 the plant capacity charge per ERC. The difference

1 between this amount and the booked amount would
2 represent prepaid CIAC. The last item of
3 difference, amortization of CIAC, is calculated
4 independent of the Annual Report balances. This
5 calculation can be found on Schedule C.3 of the JFG
6 Report.

7 Q. Please continue with Schedule D.

8 A. Schedule D develops the future sewer plant capacity
9 (CIAC) charge. It details the annual net plant in
10 service investment and the net CIAC levels at system
11 build-out. Assuming the current CIAC charge of \$775
12 per ERC through the end of the year 2000 and a
13 future plant capacity charge of \$1,023 per ERC, the
14 schedule shows a 75% CIAC level at build-out.

15 Again, like the C schedules, Schedules D.1, D.2 and
16 D.3 support the information and calculations
17 reflected on Schedule D. The projected sewer growth
18 per unit and ERC on Schedule D.1 are the same as
19 those projected for water growth. The sewer plant
20 expansion costs used on Schedule D.2 reflect the
21 cost estimates provided by R.H. Wilson & Associates,
22 Engineers. The sewer land cost has also been
23 adjusted to reflect the appraised value. The plant
24 in service and CIAC levels reflected on Schedule D.2
25 have been adjusted to include the cost of facilities

1 installed and contributed by outside developers, but
2 not previously booked by the Company. The
3 depreciation and amortization calculation
4 methodologies used on Schedule D.3 are consistent
5 with those of Schedule C.3.

6 Q. I show you a document marked Exhibit GCW-5, please
7 identify it.

8 A. Exhibit GCW-5 is a schedule of Southlake's net
9 investment in sewer plant for the year ended
10 12/31/98. It shows the net investment of \$859,384
11 developed in the JFG Report compared to the net
12 investment as stated on Schedule No. 3 of Docket No.
13 981609-FOF-WS.

14 The explanation of calculations and the
15 reconciliation of the differences are basically the
16 same as those on Exhibit GCW-4. Exhibit GCW-5 ties
17 to the 1998 column on Schedule D.

18 Q. Please continue with your explanation of schedules
19 within the JFG Report.

20 A. Schedule E is a chronological listing of water and
21 sewer connections and the ERCs of capacity committed
22 to each of those connections. This schedule shows
23 the cumulative committed capacity at any point in
24 time through the present.

25

1 Q. From the findings of your report, what are the
2 appropriate plant capacity charges for Southlake?

3 A. Schedule C shows that maintaining the current water
4 plant capacity charge of \$420 per ERC for all
5 connections through the end of the year 2000 and
6 revising the charge to \$454 per ERC connected
7 thereafter, would result in a 75% level of CIAC in
8 relation to net investment at system completion.

9 Likewise, Schedule D demonstrates that by
10 maintaining the current \$775 sewer capacity charge
11 per ERC for all connections through the end of the
12 year 2000 and charging \$1,023 per ERC connected
13 thereafter would produce the 75% maximum level of
14 CIAC at system completion.

15 The total current plant capacity charge for water
16 and sewer is \$1,195 per ERC.

17 The future water and sewer capacity charge would be
18 \$1,477 per ERC.

19 Q. What is the amount of plant capacity charges to be
20 refunded?

21 A. Zero. In order for the net CIAC levels to reach 75%
22 of the projected net plant in service costs at
23 build-out of the utility system, the current water
24 and sewer plant capacity charges would not only have
25 to remain in effect, they would require a future

1 increase in order to achieve the target level of
2 contributions when the service area is built-out to
3 completion. Taking a "snapshot", which produces
4 negative net investment at any point before system
5 completion, does not necessarily indicate excessive
6 plant capacity charges and is not consistent with
7 the FPSC Rules regarding service availability
8 charges.

9 Q. What is the amount of AFPI subject to refund?

10 A. The maximum amount of AFPI subject to refund is
11 \$403,615 as indicated on Schedule A of the JFG
12 Report. However, the question of whether or not
13 there should actually be refunds is addressed by Mr.
14 Guastella.

15 Q. Does this conclude your testimony at this time?

16 A. Yes.

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PROFESSIONAL QUALIFICATIONS AND EXPERIENCE
of
GARY C. WHITE

B.S., Business Administration, Accounting, Valparaiso
University, 1972

Member, American Water Works Association

Over his professional career, Mr. White has been involved in various aspects of business management, accounting and finance. Since 1984, his experience has been in the area of utility management and rate regulation for water and wastewater systems. During this period he was responsible for the rate regulation department of the largest privately-owned water and wastewater utility in Florida, managed an investor-owned utility in upstate New York, and has been employed as a utility consultant.

Mr. White has extensive experience in utility ratemaking. He has prepared numerous rate studies providing cost of service and revenue requirement analyses for water and wastewater systems. He has performed cost allocation and bulk service analyses, revenue requirement forecasts, population growth and system capacity projections, and various plant operation and resource management evaluations. He has had experience with privately-owned and municipal utility systems. He also served as an instructor at a seminar for developer related water and sewer utilities, conducted by Florida State University.

Mr. White has presented testimony in Connecticut, New Jersey, New York and Florida. He has qualified as an expert witness before the New York Public Service Commission, Department of Public Utilities Control (CT), Board of Public Utilities (NJ) and several regulatory agencies in the state of Florida. He has appeared at both regulatory and municipal hearings representing investor-owned utilities on matters of ratemaking, regulation, rate design, finance, and utility management. Mr. White has also been active as a speaker on these subjects for community organizations and civic organizations.

Southlakes Utilities, Inc.
 Land Account Analysis

| Acres | Total | Water | Sewer |
|---|----------------------------|----------------------------|----------------------------|
| | 12.53 | 2.53 | 10.00 |
| Land (5 acre well-site) at 11/30/98 | \$22,821.49 | \$22,821.49 | \$0.00 |
| Capital Lease @ Appraised Value for 12.53 acres | 566,500.00 | 126,500.00 | 440,000.00 |
| Bargain Purchase Option | 0.00 | 0.00 | 0.00 |
| Legal Services | | | |
| Deas | 18,934.19 | 3,825.23 | 15,108.96 |
| Daniels | 6,327.49 | 1,278.33 | 5,049.16 |
| Daniels | 1,386.48 | 280.11 | 1,106.37 |
| Overheads - Officers Salaries | 26,083.99 | 836.46 | 25,247.53 |
| - Benefits | 4,538.90 | 125.21 | 4,413.69 |
| - Transportation | 3,920.41 | 108.17 | 3,812.24 |
| - Insurance | 5,258.61 | 191.66 | 5,066.94 |
| - Miscellaneous | 8,196.76 | 140.89 | 8,055.88 |
| Land Account @ 12/31/98-Per Appraisal | <u><u>\$663,968.32</u></u> | <u><u>\$156,107.55</u></u> | <u><u>\$507,860.77</u></u> |

Southlakes Utilities, Inc.
Annual Expenses Applied to Capital Land Project

| | 1998 Total Amount | Amount Capitalized | Capital Projects | |
|-----------------------------|----------------------|-----------------------|------------------|-----------------|
| | | | Land | Others |
| Officers Salaries | \$84,166 | \$71,663 | \$26,084 | \$45,579 |
| Employee Pension & Benefits | 13,668 | 11,615 | 4,539 | 7,076 |
| Transportation Expense | 11,816 | 10,033 | 3,920 | 6,113 |
| Insurance Expense | 18,320 | 15,416 | 5,259 | 10,157 |
| Miscellaneous Expense | 20,178 | 17,390 | 8,197 | 9,193 |
| Total | <u>\$148,148</u> | <u>\$126,116</u> | <u>\$47,999</u> | <u>\$78,117</u> |
| Percent of Total Cost | | 85.1% | 32.4% | 52.7% |

Southlakes Utilities, Inc.
 Water Plant, Net Investment
 For Year Ended 12/31/98

| | 981609-WS Sch. 2 | JFG Report Sch. C | | Difference |
|--------------------------|---------------------|----------------------|-----|--------------|
| Utility Plant in Service | \$430,458 | \$1,002,058 | (a) | \$571,600 |
| Land & Land Rights | 95,900 | 156,108 | (b) | 60,208 |
| | <u>\$26,358</u> | <u>1,158,165</u> | | |
| Accumulated Depreciation | (37,585) | (79,665) | (c) | (42,080) |
| CIAC | (783,534) | (982,389) | (d) | (198,855) |
| Amortization of CIAC | <u>60,593</u> | <u>64,145</u> | (e) | <u>3,552</u> |
| Net Investment | (\$234,168) | \$160,256 | | \$394,424 |

Item (a) : Includes the cost of Mains, Services and Hydrants constructed by outside developer, but not booked by the utility -

| | |
|----------|-----------|
| Mains | \$402,806 |
| Hydrants | 110,662 |
| Services | 58,132 |

Item (b) : FPSC Calculation -

| | | |
|------------------------------|---------------|----------|
| 2.53 acres @ \$30,000 / acre | \$75,900 | |
| 5 acre well site | <u>20,000</u> | |
| | | \$95,900 |

JFG Calculation -

| | | |
|--------------------------------|--------------|-----------|
| 2.53 acres @ appraised value | \$126,500 | |
| 5 acre well site @ booked cost | 22,821 | |
| Capitalized cost | <u>6,786</u> | |
| | | \$156,108 |

Item (c) : JFG Calculation - Spreadsheet (Schedule C.3) calculates depreciation by multiplying the annual rate by the average primary plant account adjusted balances. The Company's depreciation is incorrect due to error existing in the PSC Annual Report program used by the Company to calculate their annual depreciation.

Item (d) : FPSC Calculation -

| | | |
|--------------------------------|------------------|-----------|
| Total Collected CIAC per Books | \$966,162 | |
| Prepaid CIAC (Unknown Calc.) | <u>(182,628)</u> | |
| | | \$783,534 |

JFG Calculation -

| | |
|--------------------------------------|-----------------|
| Total Collected CIAC per Books | \$966,161 |
| Less : Southlake Refund Amt. | (173,746) |
| Plant = 871.55 ERCs (Sch. E) @ \$420 | (366,051) |
| Mains | (75,072) |
| Meters | <u>(64,933)</u> |
| Prepaid CIAC | 286,359 |

| | |
|--|------------------|
| Corrected CIAC (966,166-173,746) | 792,415 |
| CIAC adjustment for Item (a) additions | 476,333 |
| Prepaid CIAC | <u>(286,359)</u> |

\$982,389

Item (e) : JFG Calculation - Spreadsheet (Schedule C.3) calculates CIAC amortization by multiplying the annual rate by the average CIAC account adjusted balances.

Southlakes Utilities, Inc.
 Sewer Plant, Net Investment
 For Year Ended 12/31/98

| | 981609-WS Sch. 3 | JFG Report Sch. D | | Difference |
|--------------------------|---------------------|----------------------|-----|------------|
| Utility Plant in Service | \$1,103,895 | \$1,834,269 | (a) | \$730,574 |
| Land & Land Rights | 300,000 | 507,861 | (b) | 207,861 |
| | <u>1,403,895</u> | <u>2,342,130</u> | | |
| Accumulated Depreciation | (282,972) | (280,376) | (c) | (17,404) |
| CIAC | (1,155,296) | (1,290,841) | (d) | (135,545) |
| Amortization of CIAC | 165,949 | 88,435 | (e) | (77,514) |
| Net Investment | \$151,376 | \$859,348 | | \$707,972 |

Item (a) : Includes the cost of Collection Mains, Services and Lift Stations constructed by outside developers, but not booked by the utility -

| | |
|---------------|----------|
| Force Mains | \$55,626 |
| Manholes | 211,680 |
| Gravity Mains | 305,400 |
| Services | 52,898 |
| Lift Stations | 104,970 |

Item (b) : FPSC Calculation -

10.00 acres @ \$30,000 / acre \$300,000

JFG Calculation -

| | |
|-------------------------------|---------------|
| 10.00 acres @ appraised value | \$440,000 |
| Capitalized cost | <u>67,861</u> |
| | \$507,861 |

Item (c) : JFG Calculation - Spreadsheet (Schedule D.3) calculates depreciation by multiplying the annual rate by the average primary plant account adjusted balances. The Company's depreciation is incorrect due to error existing in the PSC Annual Report program used by the Company to calculate their annual depreciation.

Item (d) : FPSC Calculation -

| | |
|--------------------------------|------------------|
| Total Collected CIAC per Books | \$1,548,826 |
| Prepaid CIAC (Unknown Calc.) | <u>(393,530)</u> |
| | \$1,155,296 |

JFG Calculation -

| | |
|--------------------------------------|-----------------|
| Total Collected CIAC per Books | \$1,548,826 |
| Less : Southlake Refund Amt. | (229,914) |
| Plant = 816.04 ERCs (Sch. E) @ \$775 | (632,431) |
| Mains | <u>(49,598)</u> |
| Prepaid CIAC | 636,883 |

| | |
|--|------------------|
| Corrected CIAC (1,548,826-229,914) | 1,318,912 |
| CIAC adjustment for Item (a) additions | 608,812 |
| Prepaid CIAC | <u>(636,883)</u> |
| | \$1,290,841 |

Item (e) : JFG Calculation - Spreadsheet (Schedule D.3) calculates CIAC amortization by multiplying the annual rate by the average CIAC account adjusted balances.