

Diamond Williams

From: Matherne, Angela [amatherne@ngn-tally.com]
Sent: Wednesday, March 16, 2011 1:40 PM
To: Filings@psc.state.fl.us
Cc: Anna Williams; Martha Brown; fself@lawfla.com; mwilliam@aglresources.com; spierce@aglresources.com
Subject: Docket No. 090539-GU

Attachments: Motion to Strike Rebuttal Testimony_Heinz.pdf; Request for Oral Argument.pdf

Below is the required information for the attached e-filing with the Florida Public Service Commission:

- a. The full name, address, telephone number, and e-mail address of the person responsible for the electronic filing:

R. A. CUEVAS, JR.
 MIAMI-DADE COUNTY ATTORNEY

By: s/ Henry N. Gillman

Henry N. Gillman
 Assistant County Attorney
 Florida Bar No. 793647
 Miami-Dade County
 Stephen P. Clark Center
 111 N.W. 1st Street, Suite 2810
 Miami, Florida 33128
 Telephone: 305-375-5151
 Fax: 305-375-5611
 Email: hgill@miamidade.gov

- b. The docket number and title if filed in an existing docket:

Title:

In re: Petition for approval of Special Gas Transportation Service Agreement with Florida City Gas by Miami-Dade County through Miami-Dade Water and Sewer Department
Docket No. 090539-GU

- c. The name of the party on whose behalf the document is filed:

Miami-Dade County Water and Sewer Department

- d. The total number of pages in each attached document:

1. Motion to Strike Rebuttal Testimony of David A. Heintz – 34 pages
2. Miami-Dade County's Request for Oral Argument – 3 pages

- e. A brief but complete description of each attached document:

The attached is a motion to strike the rebuttal testimony of Florida City Gas Company witness David A. Heintz and for such other relief as requested and a request for oral argument before the Commission to provide a more complete presentation of the relevant facts and authorities.

Angela Matherne (on behalf of Henry N. Gillman, Esq., Assistant County Attorney)
 1500 Mahan Drive, Suite 200

DOCUMENT NUMBER-DATE

01738 MAR 16 =

3/16/2011

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of Special Gas
Transportation Service Agreement with Florida
City Gas by Miami-Dade County through
Miami-Dade Water and Sewer Department.

DOCKET NO. 090539-GU

DATED: March 16, 2011

MOTION TO STRIKE REBUTTAL TESTIMONY OF DAVID A. HEINTZ

MIAMI-DADE COUNTY ("Miami-Dade"), by and through its undersigned attorneys, respectfully moves for the Commission to strike the rebuttal testimony of Florida City Gas Company witness David A. Heintz, except for the section "Discussion of Mr. Saffer's Direct Testimony" contained on page 6, line 14 through page 9, line 18, and for such other relief as requested below and in support thereof states as follows:

1. Basic principles of procedure require a party to litigation to present information necessary to establish its case-in-chief through direct testimony and evidence. Laurent v. Uniroyal, Inc., 515 So. 2d 1050, 1051 (Fla. 3d DCA 1987). This Commission has refused to accept testimony and evidence presented in a party's rebuttal presentation where the testimony and evidence should have been presented as part of a litigant's case-in-chief. Application for Increase in Wastewater Rates by Aloha Utilities, Inc., Docket No. 991643, Order No. 01-0961 (issued April 18, 2001). In that Order, the Commission clearly articulated this principle, stating that the utility's rebuttal testimony "should not have consisted of testimony which should have properly been submitted in its case-in-chief." Aloha Order at 22 (citing Driscoll v. Morris, 114 So. 2d 314, 315 (Fla. 3d CA 1959)). The Commission then elaborated on its holding, explaining that the Commission agreed with the contention of the Office of Public Counsel "that it would have been prejudicial to allow a party to 'lay in wait until rebuttal' to 'pounce and attempt to prop up prior testimony,' when it 'could have propounded pages and pages of direct testimony on this

issue." Aloha Order at 23. The following facts require a similar action by the Commission in this proceeding.

2. Issue 2 of the Order Determining Issues For Hearing states as follows, "What are FCG's incremental costs to serve MDWASD's gas transportation requirements for the Alexander Orr, Hialeah-Preston, and South Dade Wastewater Treatment plants, respectively?" This Commission long has recognized the principle that "rebuttal should be limited in its response to issues brought out by the opposing party's direct case" In re Joint Petition of TDS Telecom, et al., Docket No. 050119-TP, Order No. 06-0261. The incremental cost issue is the critical issue in this proceeding and was not "*brought out*" by Miami-Dade, but instead is clearly set forth in the Commission's Order Determining Issues for Hearing and always has been the critical issue contested by the parties for the 2 1/2 years that this dispute has existed.

Procedural Posture:

3. On August 28, 2008, Miami-Dade and Florida City Gas Company ("FCG") entered a Special Gas Service Transportation Agreement (the "2008 Agreement").

4. FCG submitted the 2008 Agreement to the Florida Public Service Commission ("Commission") for approval on November 13, 2008.

5. In its original petition seeking Commission approval of the 2008 Agreement, FCG stated that the 2008 Agreement benefitted FCG's customers and provided for rates and revenue which covered FCG's incremental cost to serve Miami-Dade.

6. Commission Staff made some inquiries to FCG concerning the rates and revenues set forth in the 2008 Agreement.

7. Thereafter, FCG decided, unilaterally, to withdraw the 2008 Agreement from Commission consideration. FCG filed a Motion of Withdrawal of the 2008 Agreement on February 16, 2009.

8. FCG contacted Miami-Dade after withdrawing the 2008 Agreement from Commission consideration and informed Miami-Dade that Miami-Dade must agree to pay FCG higher rates than those previously agreed to in the 2008 Agreement. FCG alleged that the Commission would not approve the rates in the Agreement since FCG suggested that the rates would not produce revenue sufficient to cover FCG's incremental cost of serving Miami-Dade. FCG further provided Miami-Dade with a single sheet of information which allegedly identified FCG's current incremental cost to serve Miami-Dade. The sheet is identified as Exhibit ___ (CB-1), and a copy is attached hereto as Appendix A.

9. Miami-Dade refused to agree to pay higher rates to FCG than the rates which FCG had agreed to in the 2008 Agreement unless and until the Commission first had been given the opportunity to consider the terms of the 2008 Agreement.

10. Miami-Dade questioned the accuracy of the alleged incremental costs reflected in the sheet which FCG provided. For instance, the costs indicated that FCG's incremental cost to operate the facilities serving Miami-Dade had increased from \$3,500 to \$87,671, more than 2500% between 1998 and 2008. The costs indicated on the sheet also suggested that FCG's annual depreciation cost had increased from \$11,230 to \$45,503, more than 400% during such ten (10)-year period (*See* Miami-Dade direct testimony of witness Brian P. Armstrong, page 8, line 14 through page 10, line 6).

11. FCG never offered any explanation for these alleged cost increases, not even in either its pre-filed direct or rebuttal testimony, nor has FCG ever provided any support for them from FCG's books and records.

12. FCG subsequently notified Miami-Dade that FCG would charge Miami-Dade the rate set forth in a tariff schedule which FCG alleges would apply to the transportation service FCG is rendering on Miami-Dade's behalf in lieu of the rates agreed to by the parties in the 2008 Agreement.

13. On December 14, 2009, Miami-Dade filed the 2008 Agreement with the Commission for Commission consideration.

14. FCG subsequently petitioned to intervene in this proceeding, which intervention was approved by the Commission.

15. Since intervening in this proceeding, FCG has advocated that the Commission reject the 2008 Agreement, and seeks authority to charge Miami-Dade a tariff rate which would cost Miami-Dade approximately eight (8) times more than the rates set forth in Article VII of the 2008 Agreement.

16. Miami-Dade long ago requested that FCG produce documents to support its alleged original investment in the incremental facilities serving Miami-Dade as well as FCG's alleged incremental cost of operating and maintaining such facilities as well as providing billing and customer service for Miami-Dade. To date, FCG has failed to produce a single document to support its alleged cost of serving Miami-Dade. In fact, on March 1, 2011 FCG objected to Miami-Dade's most recent requests for cost information to corroborate FCG's alleged incremental costs stating that the effort required for FCG to provide the information would be

"expensive," "excessively time consuming," "excessive," and "unnecessary." See FCG responses to Miami-Dade Document Requests Nos. 20, 21 and 22, attached hereto as Appendix B.

17. During an informal meeting among Commission Staff and representatives of Miami-Dade and FCG held on March 11, 2011, FCG admitted for the first time that it had not located any continuing property records nor any other records supporting FCG's original incremental capital investment in facilities serving Miami-Dade.¹

18. Miami-Dade and FCG have appeared before the Commission, the Commission Pre-Hearing Officer and attended several informal meetings with Commission Staff and representatives of FCG for nearly 2 1/2 years concerning matters related to the 2008 Agreement. During this time, Miami-Dade has unfailingly stated that FCG had not presented a single document or a single notation from its records which corroborates FCG's alleged incremental costs to serve Miami-Dade, the sole costs upon which this entire dispute arose.

19. Despite Miami-Dade requests and, more recently, Commission Staff requests for documents corroborating FCG's alleged incremental costs, FCG failed to admit that it was unable to locate such documents until last week.

Portions of the Rebuttal Testimony of David A. Heintz Are Improper Rebuttal:

20. FCG and Miami-Dade have completed the filing of direct and rebuttal testimony in this proceeding. Recognizing that FCG's incremental cost of service: (a) is the critical issue to be decided in this proceeding; (b) is listed as Issue 2 in the Order Determining Issues for

¹FCG representatives suggested that FCG had located documentary support for its incremental investment in the facilities serving one of Miami-Dade's three locations, the South Dade Wastewater Treatment Plant located at the Black Point facility. *However, Miami-Dade contributed the funds to FCG to construct those facilities so FCG has no investment in them. Moreover, FCG's response states to see Attachment 20 which presumably has some documents that it retrieved. However, the response does not have an Attachment 20.*

Hearing (Order 10-0730 issued December 13, 2010); and (c) is the source of all conflict after 2 1/2 years of dispute, Miami-Dade retained and paid for the services of a cost of service expert and presented his direct testimony in the manner and time established in the Commission's Order Establishing Procedure issued on December 7, 2010 (Order No. 10-0714) (the "Procedural Order").

21. In FCG's response to Miami-Dade Interrogatory No. 11 served on September 8, 2010, and again in her rebuttal testimony filed on January 28, 2011, FCG witness Bermudez admits that FCG never performed an incremental cost of service study to determine the actual incremental costs incurred to serve Miami-Dade.

22. Thus, FCG did not provide any incremental cost of service study in its direct testimony. In fact, the sole document presented by FCG in either direct or rebuttal testimony which allegedly identifies "the actual investment of FCG" in the incremental facilities serving Miami-Dade is a substantially redacted memorandum provided in Exhibit ____ (CB-6) dated February 22, 1997. FCG witness Carolyn Bermudez describes this memorandum as evidence of FCG's investment in the facilities serving Miami-Dade's Alexander Orr and Hialeah-Preston water treatment plants is \$387,250 and \$833,239, respectively.²

23. FCG waited until the filing of rebuttal testimony to present the Commission and Miami-Dade, for the first time, with an alleged incremental cost of service analysis conducted by a cost of service expert.

24. FCG always has known that FCG's incremental cost of serving Miami-Dade was the most significant issue in this proceeding. The issue is clearly identified as Issue 2 in

²Miami-Dade is aware of no Commission or other state regulatory authority which would rely on a redacted memorandum of this nature as competent evidence to establish facts critical to the litigation at issue, namely, a utility's original investment in utility assets.

Attachment 1 to the Commission's Order Determining Issues for Hearing issued on December 13, 2010. FCG's incremental costs of providing service to Miami-Dade was the significant focal point of Commission Staff's investigation after FCG originally filed its petition for approval of the 2008 Agreement in November, 2008. However, FCG failed to present any evidence from a cost of service expert until rebuttal testimony. *Moreover, the new cost of service analysis differs markedly from the analysis which FCG has steadfastly adhered to and all that FCG has produced for the Commission or Miami-Dade throughout the 2 1/2 years of this dispute.*

25. Longstanding principles of due process establish that rebuttal testimony should not consist of testimony which should have properly been submitted by FCG in its case-in-chief. This proceeding offers a perfect demonstration of why this principle exists. Throughout this dispute Miami-Dade has protested that FCG's alleged incremental cost analysis was defective. FCG stood steadfastly behind its defective *system-wide allocation analysis* to the point of presenting only this defective allocation analysis in its case-in-chief (direct testimony). Only after Miami-Dade was forced to retain and pay for a qualified cost of service expert did FCG elect to retain a cost of service witness to conduct an incremental cost of service study of its own.

26. By doing so, FCG deprived Miami-Dade of the ability to seek appropriate discovery of such witness which could have been used by Miami-Dade in its own rebuttal. For instance, Miami-Dade could have demonstrated through its witnesses on rebuttal that FCG's cost of service expert used flawed and incomplete information including, but not limited to: (a) alleged original capital investments based upon a memorandum which identifies FCG engineer estimates of 1997 bypass costs, not FCG's original investment in the facilities serving Miami-Dade, (b) an inaccurate assumption that the facilities serving Miami-Dade were in place for only ten (10) years (the term of the agreement preceding the 2008 Agreement) rather than the actual in

service length of FCG's facilities of twenty-five (25) years or more; and (c) the use of operating cost data apparently derived from allocations of suspect costs using questionable allocation methods from an eight (8) year old rate case.

27. FCG witness Heintz states at page 11 of his rebuttal testimony that "the goal when designing a special contract rate is to recover, at a minimum, the **CUSTOMER'S SPECIFIC COSTS . . .**" (emphasis supplied). Heintz' entire analysis does not incorporate a single customer specific capital cost, operating cost, customer service cost, billing cost or other cost. Therefore, Heintz alleged incremental costs and "Incremental Rate" are not "based on a customer specific cost of service analysis," as Heintz testifies, and the basis for Heintz incremental cost of service study and "Incremental Rate" is flawed, and does not meet his own self-described goal.

28. In summary, FCG is attempting to introduce in rebuttal testimony, rather than its case-in-chief, the testimony and evidence of a cost of service expert who presents the results of his own limited, incomplete and inaccurate cost of service study. Miami-Dade has been deprived of the ability to present pre-filed rebuttal to such witness' testimony.

29. FCG's rebuttal witness Heintz relies completely upon flawed information supplied to him by FCG to conduct his cost of service study, and specifically Exhibit ___ (CB-6), to establish FCG's original investment in the facilities serving Miami-Dade. Miami-Dade's interrogatory no. 22 requested that FCG "please provide all documents received by witness Heintz establishing FCG's investment in the two miles of incremental pipe serving Miami-Dade." FCG responded as follows: "Other than the information contained in Exhibit ___ (CB-6), already in MDWASD's possession, there are no other responsive documents."

30. Miami-Dade requested that FCG provide a complete, unredacted copy of the 1997 memorandum in Exhibit ___ (CB-6). FCG only recently provided Miami-Dade with an

unredacted copy of the memorandum in response to Miami-Dade's formal discovery requesting a copy of the complete memorandum.

31. Upon review of the unredacted memorandum, it is immediately clear that FCG has misrepresented its contents. *The text of the first two (2) pages, which was redacted by FCG, clearly states that it does not present FCG's original cost or investment in the incremental facilities serving Miami-Dade. Instead, the memorandum presents estimates made in 1997 by FCG engineers of the cost to bypass FCG's facilities in service since as early as 1985.* Copies of both the redacted memorandum presented as Exhibit ____ (CB-6) and the unredacted memorandum are attached hereto as Appendix C.

32. The redacted memorandum is the sole evidence presented by FCG to establish its alleged original capital investment in the incremental facilities serving Miami-Dade. It is the sole document upon which FCG's cost of service witness Heintz relied in presenting his incremental cost of service analysis.

33. The foundation upon which the cost of service analysis provided by FCG's rebuttal witness Heintz is irrefutably flawed, and thus, the analysis is similarly flawed.

34. To summarize, the rebuttal testimony of FCG cost of service witness Heintz should be stricken for the following reasons:

A. The dispute regarding FCG's actual incremental cost to serve Miami-Dade is the sole reason this proceeding exists;

B. The Commission's Order Determining Issues for Hearing listed the incremental cost of service issue as the second issue to be decided;

C. FCG failed to present its cost of service witness in FCG's case-in-chief;

D. The cost of service analysis performed by FCG's cost of service witness is premised entirely upon inaccurate facts;

E. The rebuttal testimony of FCG witness Heintz presents for the first time a new and completely different analysis by FCG of its alleged incremental cost to serve Miami-Dade;

F. The portion of the rebuttal testimony of FCG witness Heintz addressed in this Motion seeks to bolster the direct testimony of FCG witness Bermudez, and not rebut the testimony of Miami-Dade witnesses;

G. By laying in wait to produce any incremental cost of service analysis until the filing of its rebuttal testimony, FCG deprived Miami-Dade of the ability to provide pre-filed rebuttal testimony wherein Miami-Dade could identify the numerous flaws in such testimony including, but not limited to, those identified in this Motion; and

H. The Commission struck rebuttal testimony offered by the utility in the Aloha proceeding identified earlier in this Motion and the reasons for striking portions of the rebuttal testimony of FCG witness Heintz are even more compelling than the facts presented to the Commission in the instant case.

THEREFORE, FOR THE FOREGOING REASONS, Miami-Dade requests that the Commission: (1) strike the rebuttal testimony offered by FCG witness Heintz, except for the section "Discussion of Mr. Saffer's Direct Testimony" contained on page 6, line 14 through page 9, line 18; (2) order FCG to reimburse Miami-Dade for the attorney's fees and costs of preparing and filing this Motion; and (3) provide to Miami-Dade such other relief as the Commission may deem just and proper.

Respectfully submitted,

R. A. CUEVAS, JR.
MIAMI-DADE COUNTY ATTORNEY

By: s/ Henry N. Gillman

Henry N. Gillman
Assistant County Attorney
Florida Bar No. 793647
Miami-Dade County
Stephen P. Clark Center
111 N.W. 1st Street, Suite 2810
Miami, Florida 33128
Telephone: 305-375-5151
Fax: 305-375-5611
Email: hgill@miamidade.gov

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that true and correct copies of the foregoing have been furnished
by electronic mail this 16th day of March, 2011 to the following:

Anna Williams, Esq.
Martha Brown, Esq.
Office of General Counsel
2540 Shumard Oak Boulevard
Tallahassee, FL 32399
Anwillia@PSC.State.FL.US
MBrown@PSC.State.FL.US
(Florida Public Service Commission)

Floyd R. Self, Esq.
Messer, Caparello & Self, P.A.
2618 Centennial Place
Tallahassee, FL 32308
Fself@lawfla.com
(Florida FCG)

Mr. Melvin Williams
933 East 25th Street
Hialeah, FL 33013
Mwilliam@aglresources.com
(Florida FCG)

Shannon O. Pierce, Esq.
Ten Peachtree Place, 15th floor
Atlanta, GA 30309
Spierce@aglresources.com
(AGL Resources, Inc.)

s/Henry N. Gillman
Henry N. Gillman

APPENDIX A

**THE SHEET
(EXHIBIT __ (CB-1))**

Responses Attachment 1
Miami Dade Water Plant - Rate Design Comparison

	Per 1999 Rate Design	Per Nov'08 Surveillance Report
Miami Dade Water and Sewer Water Plant - Alexander Orr Cost of Service and Rate Design		
Description	Total	Total
O&M Expenses	\$3,500	\$87,671
Depreciation	\$11,230	\$45,503
Taxes Other Than Income	\$10,302	\$12,094
State Tax @ 5.5%	\$2,943	\$2,535
Federal Tax @ 34.00%	\$15,674	\$14,367
Sub-total	\$43,649	\$162,171
Required Return on Investment (Rate base x ROR)	\$30,399	\$28,502
Total Incremental Cost of Service	\$74,048	\$190,672
Estimated Average Annual Volume (therms)	4,243,010	3,500,000
Incremental Cost Rate	\$0.01745	\$0.05448
Miami Dade Water and Sewer Water Plant - Hialeah Water Plant and South District Cost of Service and Rate Design		
Description	Total	Total
O&M Expenses	\$6,500	\$87,671
Depreciation	\$24,164	\$45,503
Taxes Other Than Income	\$10,649	\$12,094
State Tax @ 5.5%	\$6,331	\$2,535
Federal Tax @ 34.00%	\$33,726	\$14,367
Sub-total	\$81,370	\$162,171
Required Return on Investment (Rate base x ROR)	\$65,409	\$61,326
Total Incremental Cost of Service	\$146,779	\$223,497
Estimated Average Annual Volume (therms)	3,159,440	2,400,000
Incremental Cost Rate	\$0.04646	\$0.09312

Approved Rate of Return

7.85%

36%

APPENDIX B

**FCG RESPONSE TO MIAMI-DADE DOCUMENT
REQUEST NOS. 20, 21 AND 22**

REQUESTS

20. If FCG's answer to Interrogatory No. 45 is yes, please provide any and all continuing property records relating to the incremental pipe serving Miami-Dade's facilities.

Response: FCG objects to this request as overly broad, unduly burdensome, expensive, oppressive, and excessively time consuming as written. The original work order and job tickets associated with the plant serving the MDWASD facilities covers the last 15 years and such records are intermingled with all of the other original work order and job tickets for the company. Such paper records are regularly inventoried and stored off site. In order to ensure presentation of all such records associated with service to MDWASD would require a review of every such document for nearly 15 years. Similarly, while the Company's accounting records are today automated and stored in electronic format, the original paper records are likewise voluminous and in off-site storage. Production of these original records is excessive and unnecessary. Notwithstanding but subject to this objection, FCG states: FCG has undertaken an effort to try to retrieve those continuing property records that relate to FCG's service to MDWASD. FCG does not represent that the documents it has located to date are complete. FCG will provide MDWASD with a copy of those records retrieved and identified to date. See Attachment No. 20 to this production request.

21. Please provide any and all documents such as invoices, contracts, requisitions, purchase orders, or any similar documents that establish or corroborate FCG's investment in the incremental two miles of pipe serving Miami-Dade.

Response: See the objection and response to POD No. 21 above.

22. Please provide all documents received by witness Heintz establishing FCG's investment in the two miles of incremental pipe serving Miami-Dade.

Response: Other than the information contained in Ms. Bermudez's Exhibit __ (CB-6), already in MDWASD's possession, there are no other responsive documents.

APPENDIX C

EXHIBIT ___ (CB-6) AND THE UNREDACTED MEMORANDUM

REDACTED MEMORANDUM

MEMORANDUM

To: Ray DeMoine
From: Carl Palermo
Date: February 20, 1997
Re: WJASA - Alexander Orr and Hialeah Water Plant Rate Design

Incremental Cost of Service Study

02/20/97
page 3 of 6

WASA - Alexander Orr Water Plant

Rate Base

Description	Amount
Cost of Plant:	
Incremental Capital Cost: High Pressure Main	\$387,250
Service Line and Meter Set	\$0
KSC Allocation of HP Main	\$0
AVD Provision:	
KSC Allocation of HP Main	\$0
Service Line and Meter Set	\$0
	<u>\$0</u>
Net Plant	\$387,250
Working Capital	\$0
Accumulated Deferred Income Taxes	\$0
Deferred Investment Tax Credit	\$0
Rate Base	<u>\$387,250</u>

Incremental Cost of Service Study

02/20/97
page 3 of 6

WASA - Hialeah Water Plant

Rate Base

Description	Amount
Cost of Plant:	
Incremental Capital Cost: High Pressure Main	\$833,239
Service Line and Meter Set	\$0
KSC Allocation of HP Main	\$0
A/D Provision:	
KSC Allocation of HP Main	\$0
Service Line and Meter Set	\$0
	\$0
Net Plant	\$833,239
Working Capital	\$0
Accumulated Deferred Income Taxes	\$0
Deferred Investment Tax Credit	\$0
Rate Base	<u>\$833,239</u>

UNREDACTED MEMORANDUM

KV
DRAFT.

MEMORANDUM

To: Ray DeMoine
From: Carl Palermo
Date: February 20, 1997
Re: WASA - Alexander Orr and Hialeah Water Plant Rate Design

In response to the request to develop a transportation rate for WASA: Alexander Orr Water Plant and Hialeah Water Plant, I have prepared an initial draft of a transportation rate on both an incremental and a modified embedded cost basis. At present, this customer would qualify for customer class tariff CI-LVT, however, since we are proposing to charge a rate other than a Florida Public Service Commission (FPSC) approved tariff transportation rate, the rate will have to be approved by the FPSC.

WASA presently qualifies for CI-LVT service classification. At the present rate of 8,252 cents per therm, expected annual margins equal about \$611,000 based on volumes of 7,402,000 therms.

I have developed an incremental rate of 1.76 cents per therm for Alexander Orr producing annual margins of about \$75,000 based on 4,243,010 therms; and an incremental rate of 4.85 cents per therm for Hialeah Water Plant, which would produce annual margins of about \$150,000 based on 3,159,440 therms. Combined, they total \$225,000 resulting in a margin loss of \$386,000.

I have also developed an embedded cost rate of 4.854 cents per therm based on volumes of 7,402,000 therms, yielding margins of about \$360,000 resulting in a potential loss of \$251,000.

The following is a description of my approach for both the incremental and embedded cost studies used to design the rates.

Incremental Cost Rate

These rates were developed by obtaining an estimated cost, both capital and operating for possible bypass at both locations. Our central engineering group prepared these estimates. In developing the incremental rate for WASA, I looked at the two locations individually. At the Alexander Orr location, it was found that the FGT line runs through the property and is close to the location's metering

station. If FGT built and operated the gate station and WASA installed and operated the gas piping, this bypass would be very feasible. This bypass is estimated at \$388,000 resulting in an incremental rate of 1.75 cents per therm, plus any applicable taxes.

The Hialeah Water Plant cost estimates were much higher, due to the FGT line being about 2 miles from the metering station. Additionally, the plant or FGT would have to purchase land for a new gate station. The cost of this bypass is a conservative estimate of about \$835,000 resulting in an incremental rate of 4.65 cents per therm, plus any applicable taxes.

Appendix A and B, pages 1 through 6, details the incremental cost study for each location. Page 1 is a summary. Page 2 is a calculation of revenue requirement based on incremental cost, with the components further detailed on subsequent pages. Page 3 is the detail of the rate base. Page 4 is a detail of incremental operating expenses and expenses associated with the gross up of the revenue deficiency on page 2. Page 5 is the overall incremental cost of service and rate design. Page 6 is the calculation of the overall rate of return.

Embedded Cost Rate

The rate was developed by using the FPSC Staff's cost-of-service methodology. I isolated the total estimated cost of serving WASA (both locations combined) from our rate base and operating income. Due to the size of this customer, a new service classification was developed.

Rate base costs which the FPSC classifies as customer and capacity costs were allocated based on staff methodology with no adjustments or modification. The capacity costs were directly assigned. The embedded cost rate is 4.854 cents per therm plus a customer charge of \$500.00 per month plus any applicable taxes.

Incremental Cost of Service Study

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WASA - Alexander Orr Water Plant

Revenue Requirement

Rate Base	\$387,250
Cost of Capital	7.85%
Required Return	\$30,399
NOI (current incremental Cost)	(\$15,343)
NOI difference	\$48,742
Gross-Up for Taxes	1,613
Total Revenue Requirement	<u>\$73,785</u>

Incremental Cost of Service Study

02/20/97
page 3 of 8

WASA - Alexander Orr Water Plant:

Rate Base

Description	Amount
Cost of Plant:	
Incremental Capital Cost: High Pressure Main	\$387,250
Service Line and Meter Set	\$0
KSC Allocation of HP Main	\$0
A/D Provision:	
KSC Allocation of HP Main	\$0
Service Line and Meter Set	\$0
Net Plant	\$387,250
Working Capital	\$0
Accumulated Deferred Income Taxes	\$0
Deferred Investment Tax Credit	\$0
Rate Base	\$387,250

Incremental Cost of Service Study

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WASA - Alexander Orr Water Plant

Operating Expenses

	<u>Incremental</u>	<u>Total Expenses</u> *
O&M Expenses	\$3,500	\$3,500
Depreciation	\$11,230	\$11,230
Taxes Other Than Income	\$10,000	\$10,302
State Tax @ 8.00%	(\$1,484)	\$2,943
Federal Tax @ 34.00%	(\$7,904)	\$15,674
Total Incremental Operating Expenses	<u>\$15,342</u>	<u>\$43,649</u>

* Total Expenses after revenue deficiency grossed up for taxes and revenue related expenses, assuming a required return on investment of 7.85%.

WASA - Alexander Orr Water Plant

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Cost of Service & Rate Design

<u>Description</u>		<u>Total</u>
O&M Expenses		\$3,500
Depreciation		\$11,230
Taxes Other Than Income		\$10,302
State Tax @	5.50%	\$2,843
Federal Tax @	34.00%	\$15,674
	Sub-total	\$43,649
Required Return on Investment (Rate Base x Rate of Return)		\$30,399
Total Incremental Cost of Service		\$74,048
Annual Volume (therms)		4,243,010
Incremental Cost Rate		<u>\$0.0175</u> *

* Plus applicable taxes.

WASA - Alexander Orr Water Plant

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Capitalization in Docket No. 960502-GU

	Percent of Capital Structure	Cost	Weighted Cost
Common Equity	34.55%	11.30%	3.90%
Preferred Stock	0.00%	0.00%	0.00%
Long-Term Debt	41.83%	7.50%	3.12%
Short-term Debt	7.83%	6.00%	0.47%
Customer deposits	5.95%	6.00%	0.36%
Tax Credits	1.47%	0.00%	0.00%
Deferred Taxes	8.57%	0.00%	0.00%
Total	100.00%		7.85%

Incremental Cost of Service Study

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WASA - Hialeah Water Plant

Summary

Rate Base (page 3)	\$833,239
Cost of Capital (page 6)	7.85%
Operating Expenses: (page 4)	
O&M	\$6,500
Depreciation	\$24,164
Other Taxes	\$10,648
Income Taxes	<u>\$40,057</u>
Sub-total	\$81,370
Required Return (page 2)	\$65,409
Total Incremental Cost of Service (Revenue Requirement) (page 2)	\$146,779
Annual Throughput (therms)	3,159,440
Proposed Rate (page 5)	<u>\$0.0465</u> *

* Plus Applicable Taxes, which we currently believe to be 2.5%.

Incremental Cost of Service Study

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WASA - Hialeah Water Plant

Revenue Requirement

Rate Base	\$833,239
Cost of Capital	7.66%
Required Return	\$65,409
NOI (current incremental Cost)	(\$25,228)
NOI difference	\$90,637
Gross-Up for Taxes	1.6133
Total Revenue Requirement	<u>\$146,225</u>

Incremental Cost of Service Study

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WASA - Hialeah Water Plant

Rate Base

Description	Amount
Cost of Plant: Incremental Capital Cost: High Pressure Main	\$833,239
Service Line and Meter Set	\$0
KSC Allocation of HP Main	\$0
A/D Provision: KSC Allocation of HP Main	\$0
Service Line and Meter Set	\$0
Net Plant	\$833,239
Working Capital	\$0
Accumulated Deferred Income Taxes	\$0
Deferred Investment Tax Credit	\$0
Rate Base	<u>\$833,239</u>

Incremental Cost of Service Study

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WASA - Hialeah Water Plant

Operating Expenses

		Incremental	Total Expenses *
O&M Expenses		\$6,500	\$6,500
Depreciation		\$24,164	\$24,164
Taxes Other Than Income		\$10,000	\$10,848
State Tax @	6.00%	(\$2,440)	\$8,331
Federal Tax @	34.00%	(\$12,998)	\$33,726
Total Incremental Operating Expenses		\$25,228	\$81,370

* Total Expenses after revenue deficiency grossed up for taxes and revenue related expenses, assuming a required return on investment of 7.85%.

WASA - Hialeah Water Plant

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Cost of Service & Rate Design

<u>Description</u>	Total
O&M Expenses	\$6,500
Depreciation	\$24,164
Taxes Other Than Income	\$10,649
State Tax @ 5.50%	\$6,331
Federal Tax @ 34.00%	\$33,726
Sub-total	\$81,370
Required Return on Investment (Rate Base x Rate of Return)	\$85,409
Total incremental Cost of Service	\$146,779
Annual Volume (therms)	3,169,440
Incremental Cost Rate	\$0.0465 *

* Plus applicable taxes.

WASA - Hialeah Water Plant

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Capitalization in Docket No. 960502-GU

	<u>Percent of Capital Structure</u>	<u>Cost</u>	<u>Weighted Cost</u>
<i>Common Equity</i>	34.55%	11.30%	3.90%
<i>Preferred Stock</i>	0.00%	0.00%	0.00%
<i>Long-Term Debt</i>	41.83%	7.50%	3.12%
<i>Short-term Debt</i>	7.83%	6.00%	0.47%
<i>Customer deposits</i>	5.85%	6.00%	0.35%
<i>Tax Credits</i>	1.47%	0.00%	0.00%
<i>Deferred Taxes</i>	8.57%	0.00%	0.00%
Total	100.00%		7.85%