BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY OF

H. JAY SKELTON

ON BEHALF OF

NOCATEE UTILITY CORPORATION

DOCKET NO. 990696-WS

February 11, 2000

Q. Please state your name and business address.

A. My name is H. Jay Skelton. My business address is 4310 Pablo Oaks Drive, Jacksonville, Florida 32224.

Q. By whom are you employed and in what capacity?

A. I am President of DDI, Inc. I am also President of DDI's wholly-owned subsidiary, Nocatee Utility Corporation.

Q. Please summarize your background and experience.

A. In 1963, I was awarded a B.S. in Accounting from Central Missouri State University. I began my professional career with Peat Marwick Mitchell & Co. in Kansas City, Missouri in December 1962. I was transferred to Peat Marwick's Jacksonville, Florida office in January 1971 to head up the firm's tax department and I became a partner in the firm in June 1971. In 1978, I became Managing Partner for the Jacksonville office, a position I held until my early retirement in 1988. In that year I joined DDI, where I have served as President and Chief Executive Officer.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support Nocatee Utility Corporation's application for original multi-county water and wastewater certificates to serve the Nocatee development in Duval and St. Johns County. My testimony demonstrates the need for service in the proposed territory; summarizes the reasons that Nocatee Utility Corporation is the preferred utility provider; provides information on the financial capability of Nocatee Utility Corporation and its parent company; and outlines our plan for providing utility service.

Other witnesses will provide more detail in these and other areas. Mr. Miller will discuss the engineering and technical aspects of Nocatee Utility Corporation's plan for service, including the details of our arrangement with JEA. Ms. Swain will provide support for the utility's proposed rates and charges.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring Nocatee's certificate application which was filed with the Commission on June 1, 1999. I am also sponsoring the supplement and amendment to that application which was filed with the Commission on February 11, 2000. I am specifically responsible for

Exhibits H, I, J, and Late-Filed Exhibits M and N. The details of the application as amended and supplemented, including the remaining exhibits, will be addressed by other witnesses.

Q. What is the basis for your familiarity with the application and the exhibits you are sponsoring?

A. The application was prepared at Nocatee Utility Corporation's direction by our consultants. I reviewed the Application and executed it on behalf of the applicant. Exhibit I is the audited financial statement of DDI, of which I am President. Exhibit H is the Master Service Agreement between DDI and NUC which I executed on behalf of DDI.

Q. What is DDI?

A. DDI is a closely-held corporation owned directly or indirectly by members of the Davis family. It is a holding company with a major investment in Winn-Dixie, significant investments in land, a significant stock portfolio, and ownership of an oil and gas company.

Q. What is DDI's relationship to this certificate application case?

A. Among other assets, DDI owns through its affiliate SONOC Company, LLC, approximately 15,000 acres in St. Johns and Duval Counties that will be developed by The PARC Group over the next 25 years as a multi-use development known as "Nocatee." DDI created Nocatee Utility Corporation, the certificate applicant in this case, as a wholly-owned subsidiary to provide water, wastewater and reuse service to the Nocatee development. DDI is therefore both the owner of all of the land included in the water and wastewater certificate applications in this case and the owner of the utility company.

Q. Do DDI or other Davis family interests own other adjacent land in Duval and St. Johns County?

A. Yes. However only the property within the boundaries of the Nocatee project is slated for development. The certificate application is limited to the Nocatee project, since there is no foreseeable need for service to any of the other Davis family land holdings in the area.

Q. Is there a need for service in the territory that Nocatee Utility Corporation has applied to serve?

A. Yes. There is a need for service in the proposed territory beginning in 2001. The utility is expected to continue to grow to serve needs in the territory over a development period of approximately 25 years.

Q. How did you determine the estimated date that service will first be required?

A. Because of the magnitude of the Nocatee development, the project is subject to review under Chapter 380, Florida Statutes, as a Development of Regional Impact (DRI). The Application for Development Approval (ADA) required by that process has just been submitted to the appropriate state and local government agencies. We anticipate that final development approval will be forthcoming in the late-2000 time frame and that on-site development activities will begin almost immediately. There will be a need for construction water and reuse for irrigation at that time, and a need for central water, wastewater and reuse service for the first retail customers in Nocatee in late 2001.

Q. Why did DDI organize Nocatee Utility Corporation to be the retail utility service provider to the Nocatee development?

A. There are several reasons:

First, we believe that utility planning for a large-scale development such as Nocatee should be integrated with all other aspects of planning for the project. As the landowner, we are in the best position to see that this is done effectively and efficiently. We are committed to ensuring that Nocatee is developed in an environmentally sensitive manner, and control over the provision of utility services helps us to meet that goal.

Second, we know that DDI has the financial resources to ensure that utility service is available when and where it's needed to support the overall development effort. With any outside party, you will always have questions about their willingness and capability to meet those needs, particularly over a development horizon that spans 25 years.

Third, as Mr. Miller will testify in more detail, we have been able to structure a bulk service arrangement with JEA that will let us meet the need for utility service in a timely manner and in a way that is cost effective for the ultimate consumers within Nocatee.

Finally, we have the potential to create additional value for our shareholders by investing in and operating the utility system.

Q. Does Nocatee Utility Corporation have the financial ability to provide service to the requested territory?

A. Yes. As shown by the DDI financial statements included as Exhibit I-1 to the certificate application, DDI had assets of over $164 million and a net worth of over $29 million at November 30, 1998. For ease of reference, I have attached another copy of these financial statements as Exhibit ___ (HJS-1). Because these financial statements are prepared in accordance with

GAAP, they value assets at original cost. At fair market value, DDI currently has a net worth in excess of $1 billion.

To ensure funding for the utility, DDI and Nocatee Utility Corporation entered into a "Master Service Agreement," which was included as Exhibit H-1 to the application. Again for ease of reference, I have attached a copy to this testimony as Exhibit ___ (HJS-2). Under this Agreement, DDI is obligated to provide initial funding for utility construction and operations until the utility becomes self-sufficient. Given the integral role that utility service plays in the Nocatee community, DDI is firmly committed to providing Nocatee Utility Corporation the required financial resources.

Q. What is Nocatee Utility Corporation's overall plan for serving the requested service territory?

A. Nocatee Utility Corporation plans to enter into a bulk service arrangement with JEA under which Nocatee will purchase bulk water and reuse service from JEA at the property boundary, and will deliver bulk wastewater to JEA at the property boundary for treatment in existing JEA facilities. Nocatee Utility Corporation will own the on-site water and reuse transmission and distribution system, and the on-site wastewater collection system, and will provide retail service to customers within its territory.

Q. What is the status of the bulk service arrangement with JEA?

A. We have entered into a letter of intent for bulk utility service. Mr. Miller, who participated directly in the negotiations with JEA, can discuss the details of that arrangement.

Q. How does Nocatee plan to operate the utility on a day-to-day basis?

A. Because of the bulk service arrangement with JEA, Nocatee is anticipated to own only limited treatment facilities. Nocatee Utility Corporation intends to contract with a third-party to provide line maintenance, meter reading, billing, customer service and other services. Under our letter agreement with JEA, NUC has the option to obtain such services from JEA.

Q. In your opinion, does Nocatee Utility Corporation have the technical ability to operate the proposed utility system?

A. Absolutely. DDI has a history of using third-party contractors to handle day-to-day operations of our various business ventures. For example, the overall development of the Nocatee project is being managed for us by The PARC Group, which in turn has a number of subcontractors and consultants with expertise in all the areas that are required to plan and implement a large-scale development.

Mr. Miller has advised me that there is no shortage of potential contract utility operators in the Duval/St. Johns County area and that both JEA and United Water are interested in providing these services to NUC. Together with our utility consultants, Nocatee Utility Corporation has the expertise to select a qualified operator, negotiate a cost-effective management contract, and supervise the contract services. This is no different from what DDI does every day in other aspects of its business.

Q. **In your opinion, is the certification of NUC to provide utility service to the proposed territory in the public interest?**

A. Yes. As an affiliate of the landowner of a major development project, NUC is uniquely positioned to provide service in a way that is consistent with the overall plans and needs of the development. By partnering with JEA, NUC will be able to provide timely, reliable, cost-effective service that will benefit the ultimate residents and businesses that locate in Nocatee.

Q. **Does that conclude your testimony?**

A. Yes.

KPMG

D.D.I., INC.

Consolidated Financial Statements
and Schedule - Income Tax Basis

November 30, 1998 and 1997

(With Independent Auditors' Report Thereon)

KPMG

Suite 2700, Independent Square
One Independent Drive
P.O. Box 190
Jacksonville, FL 32201-0190

Independent Auditors' Report

The Board of Directors
D.D.I., Inc.:

We have audited the accompanying consolidated statements of assets, liabilities and stockholders' equity - income tax basis of D.D.I., Inc. as of November 30, 1998 and 1997, and the related consolidated statements of income and expense - income tax basis and stockholders' equity - income tax basis for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in note 2, these consolidated financial statements were prepared on the basis of accounting the Company uses for income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the assets, liabilities and stockholders' equity of D.D.I., Inc. at November 30, 1998 and 1997, and its income and expense and changes in stockholders' equity for the years then ended, on the basis of accounting described in note 2.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements - income tax basis taken as a whole. The supplementary information included in schedule 1 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly presented in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

April 21, 1999

D.D.I., INC.

Statements of Assets, Liabilities and Stockholders' Equity - Income Tax Basis

November 30, 1998 and 1997

		1998	1997
Assets			
Current assets:			
Cash and cash equivalents	$	343,193	2,452,139
Receivables:			
Trade accounts		552,272	16,346,806
Interest		143,609	163,114
Refundable income taxes		1,025,124	116,773
Notes (note 9)		8,359,455	8,930,244
Total receivables		10,080,460	25,556,937
Inventory		—	2,272,333
Prepaid expenses		195,158	155,979
Total current assets		10,618,811	30,437,388
Investment securities, at cost (note 3):			
Foreign securities, quoted market of $1,731,772 in 1998 and $12,328,400 in 1997		1,558,280	11,818,934
Securities of nonaffiliates, quoted market of $27,503,988 in 1998 and $10,096,411 in 1997		26,806,029	6,934,145
Securities of affiliates, quoted market of $147,196,707 in 1998 and $146,482,045 in 1997		5,823,933	5,823,933
Total investment securities		34,188,242	24,577,012
Investment in private entities, at equity, quoted market of underlying securities portfolio of $1,831,140,159 in 1998 and $1,759,961,108 in 1997 (note 3)		36,480,179	37,097,333
Oil and gas investments:			
Oil and gas partnership, at equity (note 4)		32,098,027	39,219,144
Interest in oil and gas properties, net of accumulated depletion and depreciation of $483,972 for 1998 and $349,295 for 1997, respectively		1,197,163	1,459,862
Net oil and gas investments		33,295,190	40,679,006

(Continued)

Exhibit I-1, page 3

D.D.I., INC.

Statements of Assets, Liabilities and Stockholders' Equity - Income Tax Basis, Continued

November 30, 1998 and 1997

		1998	1997
Land, timber and improvements, at cost:			
Land and improvements	$	26,522,648	27,022,885
Timber		4,740,376	4,659,136
Buildings		46,164	46,164
Total land, timber and improvements		31,309,188	31,728,185
Less accumulated depreciation		380,407	349,402
Net land, timber and improvements		30,928,781	31,378,783
Other investments, at equity		10,360,762	7,061,421
Cash surrender value of life insurance		5,493,896	5,046,178
Other assets		3,202,907	3,278,444
	$	164,568,768	179,555,565
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable	$	471,683	19,459,687
Accrued expenses		1,099,835	1,807,478
Advances from affiliates (notes 6 and 9)		31,805,533	39,733,727
Notes payable - current portion (notes 5 and 9)		51,929,636	12,952,820
Other current liabilities		765,740	948,537
Total current liabilities		86,072,427	74,902,249
Notes payable, net of current portion (notes 5 and 9)		49,124,928	69,124,929
Total liabilities		135,197,355	144,027,178
Stockholders' equity (note 1):			
Common stock of $1 par value, 7,500,000 shares authorized and 4,288,181 shares issued and outstanding		4,288,181	4,288,181
Additional paid-in capital		1,579,386	1,579,386
Retained earnings		23,503,846	29,660,820
Total stockholders' equity		29,371,413	35,528,387
Commitments and contingencies (notes 8, 11 and 12)			
	$	164,568,768	179,555,565

See accompanying notes to consolidated financial statements.

Exhibit I-1, page 4

D.D.I., INC.

Statements of Income and Expense - Income Tax Basis

Years ended November 30, 1998 and 1997

		1998	1997
Income from oil and gas operations (notes 9 and 10):			
Oil and gas sales	$	103,459,223	282,111,361
Oil and gas expenses		(103,493,557)	(280,470,301)
Income (loss) from oil and gas operations		(34,334)	1,641,060
Income (loss) from oil and gas partnership (note 4)		(6,574,398)	5,289,073
Income from investment securities:			
Dividends		48,407,693	46,186,682
Interest		700,056	136,705
Gain on sale of investment securities, net		5,578,557	7,074,163
Total income from investment securities		54,686,306	53,397,550
Income (expense) from timber operations, net		(338,212)	1,149,785
Total income		47,739,362	61,477,468
Administrative and general expenses		(8,997,600)	(8,101,791)
Earnings from operations		38,741,762	53,375,677
Other income (expense):			
Gain on sale of other assets		3,292,147	1,182,745
Interest income		674,392	1,422,968
Interest expense		(7,277,334)	(6,841,014)
Miscellaneous (note 4)		5,392,147	4,159,226
Total other income, net		2,081,352	(76,075)
Excess of income over expenses before income tax expense		40,823,114	53,299,602
Income tax expense (note 8)		(1,079,267)	(5,861,963)
Excess of income over expenses	$	39,743,847	47,437,639

See accompanying notes to consolidated financial statements.

Exhibit I-1, page 5

D.D.I., INC.

Consolidated Statements of Stockholders' Equity - Income tax Basis

Years ended November 30, 1998 and 1997

		Common stock	Additional paid-in capital	Retained earnings	Total stockholders' equity
Balance at November 30, 1996	$	4,288,181	1,579,386	22,317,672	28,185,239
Excess of income over expenses		—	—	47,437,639	47,437,639
Cash dividends paid of $9.35 per share		—	—	(40,094,491)	(40,094,491)
Balance at November 30, 1997		4,288,181	1,579,386	29,660,820	35,528,387
Excess of income over expenses		—	—	39,743,847	39,743,847
Cash dividends paid of $10.70 per share		—	—	(45,900,821)	(45,900,821)
Balance at November 30, 1998	$	4,288,181	1,579,386	23,503,846	29,371,413

See accompanying notes to financial statements.

Exhibit I-1, page 6

(1) Company Ownership

The outstanding common capital stock of D.D.I., Inc. (the Company) is owned by trusts established for the benefit of the Davis family, by family members individually and by partnerships and corporations owned by the family.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Company follows the policy of preparing its consolidated financial statements on the accounting basis used for income tax purposes. This basis of presentation differs from generally accepted accounting principles due to the differences in the timing of recognition of certain revenues, expenses, assets and liabilities. These consolidated financial statements are not intended to be presented in conformity with generally accepted accounting principles.

For the year ended November 30, 1997, the consolidated financial statements include D.D.I., Inc. and its wholly-owned subsidiaries, JN Oil and Gas, Inc. (JNO&G) and JN Petroleum Marketing, Inc. (JNPM). JNPM was owned 95 percent by D.D.I., Inc. and 5 percent by JNO&G. On July 31, 1998, JNPM entered into an asset purchase agreement with a third party. The agreement transferred ownership of substantially all assets of JNPM. The purchase price of the assets was approximately $4,300,000 and the company recognized a gain of approximately $2,100,000. On August 1, 1998, JNPM ceased operations and retired all capital stock. JNPM was recapitalized on December 1, 1998 (note 13).

For the year ended November 30, 1998, the consolidated financial statements include D.D.I., Inc. JNO&G and JNPM (through July 31, 1998).

(b) Securities

The shares of Winn-Dixie Stores, Inc. common stock are stated at cost to the Company's transferor stockholders or to the Company. All other investment securities are stated at cost to the Company. Realized gains and losses are based on identified costs.

The Company enters into derivative financial instruments, principally covered call options, for trading purposes. The Company records the proceeds from the sale of derivatives as deposits held, until which time the derivatives are exercised or expire. As of November 30, 1998 and 1997, deposits held totaling $765,740 and $948,537, respectively, were included in other current liabilities.

(c) *Investment in Private Entities*

The investment in private entities is recorded at cost adjusted by tax basis income allocated to the Company. Income from the private entities is classified in the statement of income and expense based upon the type of income, principally dividends.

(d) *Investment in Oil and Gas Partnership*

The investment in oil and gas partnership is recorded at cost adjusted by tax basis income and expenses allocated to the Company (note 13).

(e) *Depletion and Depreciation*

Cost depletion of oil and gas property leasehold costs and depreciation of oil and gas well equipment acquired prior to 1981 are provided for principally by the unit-of-production method. The Accelerated Cost Recovery System method is used for post-1980 additions to equipment. The Company recognizes the greater of cost or statutory depletion for eligible leaseholds. For income tax basis financial reporting purposes, depletion is provided to the extent of cost of the property.

(f) *Intangible Drilling and Development Costs*

The Company follows the practice of expensing intangible drilling and development costs as incurred.

(g) *Timber*

Timber is recorded at cost and is depleted using the unit-of-production method.

(h) *Inventories*

Inventories are valued at the lower of weighted average cost or market. Inventory consists primarily of crude oil which the Company is required to maintain by pipeline carriers and crude oil purchased and committed for resale.

(i) *Reclassifications*

Certain prior year balances have been reclassified to conform with the 1998 presentation..

(3) Investment in Securities and Private Entities

On November 27, 1995, the Company exchanged securities with a cost basis of $4,916,105 and a $9,900,000 note payable for interests in private entities. On November 11, 1996, the Company exchanged securities with a cost basis of $31,472,315 and a $2,970,000 note payable for additional interests in private entities. On May 30, 1996 and January 1, 1997, the Company's notes payable were reduced $4,950,000 and $7,920,000, respectively, as a result of distributions from certain private entities.

At November 30, 1998 and 1997, investment securities and the Company's interests in the underlying portfolios of private entities consist of the following:

		1998		1997	
		Cost	Quoted Market Value	Cost	Quoted Market Value
Investment securities:					
Winn-Dixie Stores, Inc. common stock (3,482,709 shares in 1998 and 1997)	$	823,933	140,396,707	823,933	140,832,045
American Heritage Life Investment Co. feline prides (100,000 units in 1998 and 1997)		5,000,000	6,800,000	5,000,000	5,650,000
Other securities		28,364,309	29,235,760	18,753,079	22,424,811
Total investment securities	$	34,188,242	176,432,467	24,577,012	168,906,856

Exhibit I-1, page 9

(Continued)

	1998		1997	
	Cost	Quoted Market Value	Cost	Quoted Market Value
Underlying securities portfolio of private entities:				
Winn-Dixie Stores, Inc. common stock, 37,304,623 shares in 1998 and 1997	$ 9,491.011	1,503,842,614	9,491,011	1,508,505,693
American Heritage Life Investment Corporation common stock, 8,378,526 shares in 1998 and 1997 (a)	13,378,560	205,797,545	13,378,560	153,955,415
First Union Corporation common stock, 2,000,000 shares in 1998 and 1997	13,518.849	121.500,000	13.518,849	97,500.000
Total underlying securities portfolio of private entities	36,388.420	1.831,140,159	36,388,420	1,759.961.108
Total securities	$ 70,576.662	2,007,572,626	60,965,432	1,928,867,964

(a) Adjusted for two-for-one stock split on March 4, 1998.

The quoted market values set forth above may or may not reflect the actual realizable value upon sale due to the high percentage of the total shares held.

At November 30, 1998 and 1997, investment securities held by the Company and pledged as collateral for notes payable had an aggregate quoted market value of approximately $158,000,000 and $131,000,000, respectively. In addition, at November 30, 1998 and 1997, a private entity in which the Company has a 77.68 percent limited partnership interest, held securities with an aggregate quoted market value of approximately $296,000,000 and $297,000,000, respectively, which were pledged as collateral for notes payable of the Company and notes payable of certain affiliates.

(4) Investment in Oil and Gas Partnership

Through the exchange of interests in oil and gas properties on December 1, 1988 and 1991, and subsequent cash purchases, the Company holds a 63 percent limited partnership interest in JN Exploration and Production Limited Partnership (JNE&P) and 100 percent of JNO&G, which is the sole general partner (5 percent interest) in JNE&P. JNO&G receives a management fee for managing the affairs of the partnership and the oil and gas properties of JNE&P. The management fee, which is included in miscellaneous income in the accompanying financial statements, amounted to approximately $5,365,000 and $4,063,000 during 1998 and 1997, respectively. The operations of the partnership are allocated based upon each partner's ownership percentage, except for depreciation and depletion and gains or losses on contributed assets which are specially allocated to the partners based upon pre-contribution tax attributes.

(5) Notes Payable

The following is a summary of notes payable at November 30, 1998 and 1997:

Due Date	Interest Rate		Amount 1998	Amount 1997
Notes payable to banks:				
Demand	30 day LIBOR plus .40% not to exceed 1.10% below prime	$	29,389,000	11,932,000
August 31, 1999	.25% over 30 day LIBOR not to exceed .75% below prime		10,000,000	10,000,000

D.D.I., INC.

Notes to Consolidated Financial Statements

November 30, 1998 and 1997

Due Date	Interest Rate		Amount 1998	Amount 1997
November 30, 1999	.25% over 30 day LIBOR not to exceed .75% below prime	$	10,000,000	10,000,000
April 1, 2000	30 day LIBOR plus .35% not to exceed .75% below prime		15,000,000	15,000,000
Total notes payable to banks			64,389,000	46,932,000
Notes payable to affiliates (note 9):				
Demand	.50% above 90 day Treasury Bill rate		2,540,636	1,020,820
October 31, 2044	7.26% per annum		13,035,878	13,035,879
March 15, 2044	5.72% per annum		21,089,050	21,089,050
Total notes payable to banks and affiliates			101,054,564	82,077,749
Less current portion of notes payable			51,929,636	12,952,820
Total long-term notes payable		$	49,124,928	69,124,929

Annual maturities of notes payable during the next five years are as follows:

1999	$	51,929,636
2000		15,000,000
2001		—
2002		—
2003		—
Thereafter		34,124,928
	$	101,054,564

For years ended November 30, 1998 and 1997, demand notes payable to banks includes $29,389,000 and $11,932,000, respectively, drawn on $60,000,000 and $50,000,000 revolving lines of credit from a bank in 1998 and 1997, respectively. The line of credit is secured by investment securities (note 3).

(6) Advances from Affiliates

The Company routinely receives advances from its affiliates for investment purposes. The advances are due on demand and bear interest at .50% above the 90 day Treasury Bill rate. The advances amounted to $31,805,533 and $39,733,727 at November 30, 1998 and 1997, respectively.

(7) Profit Sharing Program

The Company has a noncontributory profit sharing program for eligible employees which may be amended or terminated at any time. The plan provides for an annual contribution in an amount to be determined by the Board of Directors, but such contribution may not exceed 15 percent of the total compensation paid or accrued during the year to all participants. During the years ended November 30, 1998 and 1997, the expense recognized under the plan amounted to approximately $627,000 and $493,000, respectively.

Pursuant to an elective salary reduction arrangement under 401(k) of the Internal Revenue Code, participants may make 401(k) contributions of up to 8 percent of compensation. The Company does not match the participants' contribution.

(8) Income Taxes

Income tax expense consisted of $910,736 Federal and $168,531 state income taxes for 1998 and $5,441,071 Federal and $420,892 state income taxes for 1997.

Taxable income reported for Federal income tax purposes for 1998 and 1997 differs from the excess of income over expenses in the accompanying consolidated financial statements as follows:

		1998	1997
Excess of income over expenses before income tax expense	$	40,823,114	53,299,602
Dividend received deduction		(32,203,193)	(36,330,245)
Officers' life insurance premiums		(184,107)	(163,275)
Percentage depletion in excess of basis		(180,866)	(208,002)
State income tax		(168,531)	(420,892)
Intangible drilling costs		(273,902)	(384,176)
Other		238,283	247,619
Estimated taxable income	$	8,050,798	16,040,631

The Company's Federal income tax returns for the taxable years November 30, 1994 through November 30, 1998 are subject to examination by the Internal Revenue Service. Because many types of transactions are susceptible to varying interpretation under Federal and state income tax laws and regulations, the amounts reported in the accompanying consolidated financial statements may be subject to change at a later date upon final determination by the respective taxing authorities.

(9) Related Party Transactions

At November 30, 1998 and 1997, the Company had an outstanding balance of $68,471,098 and $74,879,476, respectively, on notes and advances borrowed from related parties. Of amounts outstanding at November 30, 1998 and 1997, respectively, $34,346,169 and $40,754,547 are payable on demand. Remaining balance matures in 2044.

At November 30, 1997, the Company had outstanding notes receivable of $8,930,244, for amounts due from related parties. These notes require quarterly interest payments with the principal balance due in full during 1999, 2000 or on demand.

JNPM purchased crude oil from JNE&P and others for resale to petroleum refineries. JNPM purchased approximately $17,097,000 of crude oil from JNE&P during the year ended November 30, 1997. Included in accounts payable at November 30, 1998 and 1997 are approximately $5,000 and $1,211,000, respectively, due to JNE&P. Included in accounts receivable at November 30, 1998 and 1997 are approximately $192,000 and $196,000, respectively, due from JNE&P.

(10) Major Customers - Oil Sales

For the eight months ended July 31, 1998, JNPM had oil sales to three major customers of $35,338,907. During the year ended November 30, 1997 JNPM had oil sales to four major customers of $139,144,712.

(11) Contingencies

At November 30, 1998, the Company was contingently liable as a guarantor for three bank term loans and a $30,000,000 line of credit of JNE&P and its subsidiary. Principal and accrued interest on the term loans at November 30, 1998 amounted to approximately $28,000,000. There is approximately $21,000,000 outstanding on the line of credit at November 30, 1998. The term loans and the line of credit are collateralized by securities owned by a private entity in which the Company has an interest (note 3). The Company is jointly and severally liable for the loans.

JNE&P is subject to laws and regulations relating to the protection of the environment. While it is not possible to quantify the potential impact of actions regarding environmental matters, particularly any future remediation and other compliance efforts, in the opinion of management, compliance with the present environmental protection laws will not have a material adverse effect on the financial condition of the Company's investment in JNE&P.

(12) Interest Rate Swap

Effective October 6, 1998, the Company entered into an interest rate swap with a financial institution. The notional amount of the transaction is $50,000,000 and expiration is October 1, 2008.

Under this transaction, the Company is the fixed rate payer at a rate of 5.18%. The financial institution is the floating rate payer with the floating rate equal to LIBOR.

(13) Subsequent Event

Effective December 1, 1998, JNPM redeemed the common stock held by the Company. Additionally, the ownership of JNE&P was restructured. The Company and the other limited partner exchanged their partnership interests for common stock of JNPM. As a result, the Company received 68% of the outstanding common stock of JNPM. JNPM has a limited partnership interest of 95% in JNE&P and wholly owes JNO&G. JNO&G remains the sole general partner of JNE&P.

Schedule 1

D.D.I., INC.

Oil and Gas, Administrative and General Expenses - Income Tax Basis

Year ended November 30, 1998 and 1997

		1998	1997
Oil and gas expenses:			
Cost of oil and gas sales	$	103,243,371	280,331,813
Lease operating		53,994	71,032
Depreciation and depletion		187,659	50,389
Production and property taxes		8,533	17,067
Total oil and gas expenses		103,493,557	280,470,301
Administrative and general expenses:			
Casualty and group insurance	$	70,630	67,218
Depreciation		419,500	412,221
Life insurance		(175,332)	(160,703)
Miscellaneous		1,075,156	1,171,609
Professional services		650,970	779,242
Profit sharing plan		586,998	492,623
Rent		335,540	290,337
Repairs		242,855	155,672
Salaries and wages		5,327,228	4,379,376
Sundry taxes		822,200	844,106
Supplies		127,555	138,140
Travel and entertainment		102,900	97,198
		9,586,200	8,667,039
Less allocations to affiliated companies		(588,600)	(565,248)
Total administrative and general expenses	$	8,997,600	8,101,791

Exhibit I-1, page 16

MASTER SERVICE AGREEMENT

This Agreement is made this 14th day of May, 1999 between Nocatee Utility Corporation, a Florida corporation (Utility) and DDI, Inc., a Florida corporation (DDI).

WHEREAS, DDI is the owner of certain land in Duval County and St. Johns County, Florida, which DDI intends to develop as a multi-use project known as Nocatee; and

WHEREAS, central water, wastewater, and reuse water services are essential for the development of Nocatee; and

WHEREAS, DDI is developing an overall water supply plan and water resources plan for Nocatee which will take into account both potable water supply and reuse alternatives;

WHEREAS, DDI has entered into a Letter Agreement with JEA under which JEA is expected to become the wholesale provider of water and wastewater utility service, including reuse water, to Nocatee pursuant to the terms of a definitive Service Agreement to be negotiated (Service Agreement);

WHEREAS, Utility is a wholly-owned subsidiary of DDI and DDI desires that Utility provide retail water, wastewater, and reuse service to Nocatee; and

WHEREAS, DDI and Utility contemplate that the required water and wastewater treatment facilities, and the off-site portions of the water transmission, wastewater collection, and reuse facilities (Wholesale Facilities) will be owned by JEA pursuant to the Service Agreement; and

WHEREAS, DDI and Utility contemplate that the on-site portion of the water transmission and distribution, wastewater collection, and reuse transmission and distribution facilities (Retail Facilities) will be owned by Utility; and

WHEREAS, Utility intends to file an application with the Florida Public Service Commission (FPSC) for original certificates for water and wastewater for Nocatee (FPSC Certification); and

WHEREAS, at this time Utility does not have the financial capability to design and construct the Retail Facilities.

NOW, THEREFORE, in consideration of Ten Dollars ($10.00) and other good and valuable consideration, and of the mutual covenants and agreements hereinafter set forth, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Obligations of DDI. DDI agrees to:

   a. Design and construct, or cause to be designed and constructed, the Retail Facilities in accordance with plans and specifications meeting the approval of Utility and the governmental agencies having jurisdiction, and convey the same to Utility in accordance with service, extension and other agreements entered into between the parties hereto from time to time.

b. In the event any treatment facilities are to be owned by Utility, grant Utility the right to use the land on which such treatment facilities are located by conveying title to Utility, or by an alternate method that complies with Rule 25-30.433(10), Florida Administrative Code.

c. Finance the Phase I operations of Utility through capital contributions, loans, guaranteed revenues, or as otherwise mutually agreed until Utility's operating revenues are adequate to cover its operating costs.

d. Support Utility's application for FPSC certification.

2. Obligations of Utility. Utility agrees to:

a. Apply for the FPSC Certification.

b. Provide water, wastewater and reuse service to Nocatee, conditioned upon the granting of the FPSC Certification.

c. Operate and maintain the Retail Facilities in accordance with applicable permits, rules and regulations.

d. Apply for rate relief from time to time in order to maintain fair and reasonable rates which will enable the Utility to become financially self-sufficient as soon as practicable.

3. Term. This Agreement shall have a term of ten years; provided, however, that it shall terminate earlier on the occurrence of either of the following events: (1) Utility abandons its application for FPSC Certification; or (2) the FPSC Certification is denied and the order of denial has become final and non-appealable.

4. Effect of Agreement. This Agreement shall be binding on and shall inure to the benefit of the parties hereto, and their respective successors and assigns, and constitutes the entire agreement between the parties related to the matters referred to herein. No provision of this Agreement may be waived unless such waiver is set forth in writing and signed by the party to be charged; and this Agreement can be amended or modified only by a written instrument executed by the parties with the same formality as this Agreement.

5. Notices. Any notices under this Agreement shall be addressed as follows:

TO UTILITY:

Nocatee Utility Corporation
4310 Pablo Oaks Court
Jacksonville, FL 32224
Attention: Harry D. Francis

TO DDI:

DDI, Inc.
4310 Pablo Oaks Court
Jacksonville, FL 32224
Attention: H. Jay Skelton

6. Assignment. Neither party can assign its rights or obligations under this Agreement without the written consent of the other party; provided, however, that in the event DDI transfers the real property comprising Nocatee to an affiliate for development purposes, DDI's obligations under Paragraph 1.b can be assigned to, and assumed by, that affiliate.

7. Interpretation. This Agreement will be interpreted in accordance with the laws of the State of Florida. All captions and headings appearing are for convenience only and shall not be considered in construing the provisions hereof.

8. No Third Party Beneficiaries. The Agreement is solely between the parties hereto and is not intended, nor shall it be construed, to create any rights or remedies as to third parties.

9. Recitals. The recitals are incorporated herein by reference, and shall be deemed part of this Agreement for all purposes as if set forth at length herein.

10. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be an original and all of which shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned parties have caused this Agreement to be executed in their respective names as of the day and year first above written.

DDI, INC.

By: ______________________
H. Jay Skelton
President

NOCATEE UTILITY CORPORATION

By: ______________________
Harry D. Francis
Vice President