

BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

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In the Matter of : DOCKET NO. 960329-WS  
: :  
Application for increase :  
in rates and service :  
availability charges in :  
Lee County by Gulf :  
Utility Company :  
-----  
Investigation of rates : DOCKET NO. 960234-WS  
of Gulf Utility Company :  
in Lee County for :  
possible overearnings :  
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FIRST DAY - MORNING SESSION

VOLUME 1

Pages 1 through 203

PROCEEDINGS: HEARING

BEFORE: COMMISSIONER J. TERRY DEASON  
COMMISSIONER SUSAN F. CLARK

DATE: Wednesday, March 5, 1997

TIME: Commenced at 10:00 a.m.

PLACE: Elks Club of Bonita Springs  
3231 Coconut Road  
Bonita Springs, Florida

REPORTED BY: ROWENA NASH  
H. RUTH POTAMI, CSR, RPR  
Official Commission Reporters

DOCUMENT NUMBER-DATE

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FLORIDA PUBLIC SERVICE COMMISSION

FPSC-RECORDS/REPORTING

1 **APPEARANCES:**

2           **B. KENNETH GATLIN**, Gatlin, Schiefelbein and  
3 Cowdery, The Mahan Station, 1709-D Mahan Drive,  
4 Tallahassee, Florida 32308, appearing on behalf of  
5 Gulf Utility Company.

6           **STEVEN C. REILLY**, Office of Public Counsel,  
7 c/o The Florida Legislature, 111 West Madison Street,  
8 Room 812, Tallahassee, Florida 32399-1400, appearing  
9 on behalf of the Citizens of the State of Florida.

10           **MAGGI O'SULLIVAN**, Florida Public Service  
11 Commission, Division of Legal Services, 2540 Shumard  
12 Oak Boulevard, Tallahassee, Florida 32399-0870,  
13 appearing on behalf of the Commission Staff.

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## 1 P R O C E E D I N G S

2 (Hearing convened at 10:00 a.m.)

3 COMMISSIONER DEASON: Call the hearing to  
4 order. Can we have the notice read, please?5 MS. O'SULLIVAN: Thank you, Commissioner.  
6 Pursuant to notice, this time and place has been set  
7 for hearing in Docket No. 960329-WS, application for  
8 increase in rates and service availability charges;  
9 and Docket No. 960234-WS, investigation into  
10 overearnings regarding Gulf Utility Company in Lee  
11 County.12 COMMISSIONER DEASON: Thank you. Take  
13 appearances.14 MR. GATLIN: My name is B. Kenneth Gatlin  
15 with the law firm of Gatlin, Schiefelbein & Cowdery,  
16 1709-D Mahan Drive, Tallahassee, Florida 32308,  
17 appearing on behalf of Gulf Utility Company.18 MR. REILLY: Steve Reilly with the Office of  
19 Public Counsel at 111 West Madison Street,  
20 Tallahassee, Florida, appearing on behalf of the  
21 ratepayers.22 MS. O'SULLIVAN: Margaret O'Sullivan  
23 appearing on behalf of the Commission Staff.

24 COMMISSIONER DEASON: Thank you.

25 Ms. O'Sullivan, do we have any preliminary

1 matters we need to address before we proceed into  
2 customer testimony?

3           **MS. O'SULLIVAN:** Yes, Commissioner Deason,  
4 just a few. First, on February 24th, the Office of  
5 Public Counsel filed a motion to expedite a discovery  
6 response upon the Utility. I believe that the Utility  
7 has indeed responded within the requested time. The  
8 motion can be granted or the motion can be withdrawn  
9 as moot.

10           **COMMISSIONER DEASON:** What's your pleasure?

11           **MR. REILLY:** I believe it's moot.

12           **COMMISSIONER DEASON:** Very well. It will be  
13 so withdrawn -- recognized.

14           **MS. O'SULLIVAN:** The second matter is Gulf  
15 Utility filed a request to allow filing one day late  
16 of its rebuttal testimony, additional rebuttal  
17 testimony. They advised Staff on the 25th of February  
18 that they would be filing one day late. We've  
19 received no objections to their request.

20           **COMMISSIONER DEASON:** That being the case,  
21 that motion is granted.

22           **MS. O'SULLIVAN:** The third matter is Staff  
23 will request official recognition of several  
24 Commission orders. A set of documents and lists has  
25 been distributed to the parties and is available for

1 the hearing today. I have a set for the Commissioners  
2 if they'd like.

3 COMMISSIONER DEASON: I think I have a set.  
4 I think you have already provided that to me. The  
5 parties have that complete set of documents?

6 MR. GATLIN: Yes, we do.

7 MR. REILLY: We do.

8 COMMISSIONER DEASON: There's no objection?

9 MR. GATLIN: No objection.

10 COMMISSIONER DEASON: The Commission will  
11 take recognition of those documents.

12 Ms. O'Sullivan, you have a list attached to  
13 these documents; is that correct?

14 MS. O'SULLIVAN: That's correct, the top  
15 page.

16 COMMISSIONER DEASON: Do you wish to have  
17 this list identified as an exhibit?

18 MS. O'SULLIVAN: That would be Exhibit  
19 No. 1.

20 COMMISSIONER DEASON: The memo, February 17,  
21 1997, to all of parties of record, containing the list  
22 of documents for which official recognition is being  
23 granted will be identified as Exhibit No. 1.

24 (Exhibit 1 marked for identification.)

25 MS. O'SULLIVAN: Thank you.

1           **COMMISSIONER DEASON:** Any other preliminary  
2 matters?

3           **MS. O'SULLIVAN:** None that Staff has.

4           **COMMISSIONER DEASON:** Do the parties have  
5 any preliminary matters?

6           **MR. GATLIN:** We have none.

7           **COMMISSIONER DEASON:** Mr. Reilly, do you  
8 have any preliminary matters?

9           **MR. REILLY:** No preliminary matters.

10           **COMMISSIONER DEASON:** Let me take this  
11 opportunity to welcome all of the customers out to  
12 this service hearing this morning. We are going to  
13 initiate the hearing with receiving customer  
14 testimony. At the conclusion of customer testimony,  
15 we will proceed then into what we refer to as the  
16 technical phase of the hearing. At this phase of the  
17 hearing we will be taking expert witnesses in a number  
18 of different fields concerning the matter that is  
19 pending before the Commission. When we proceed to  
20 that phase of the hearing, you are certainly welcome  
21 and, in fact, are invited to continue to attend and to  
22 be here for that phase as well.

23           First of all, let me introduce myself. My  
24 name is Terry Deason. I will be chairing the panel  
25 that will be hearing this case. Here with me today

1 and sitting to my left is Commissioner Susan Clark.

2 We want to welcome you.

3 We want you to take an opportunity to  
4 address the Commission if you are so inclined. Let me  
5 take an opportunity to describe to you the procedure  
6 that we are going to follow.

7 This is an official hearing of the  
8 Commission. If you make a statement before the  
9 Commission, it will become part of the record and will  
10 become evidence upon which the Commission can rely  
11 upon making its decision in this case. This hearing  
12 is being recorded by an official court reporter.

13 Since your statement will become part of the  
14 official record, it is necessary that we swear you in.  
15 This is a formality. It is not intended to intimidate  
16 you in any way, but it is a necessary procedure. So  
17 in just a moment, all those witnesses who wish to  
18 testify, I am going to ask to stand and to be sworn  
19 in.

20 When you come forward, if you will come to  
21 the table to my right, to your left, and speak  
22 directly into the microphone and begin by giving us  
23 your name and your address. And then if you think it  
24 would be helpful to the court reporter, you may wish  
25 to spell your name, and then proceed with your

1 statement. At the conclusion of your statement, wait  
2 for just a moment, there may be some questions  
3 concerning your statement. And with that, I think  
4 that we are ready to proceed to customer testimony.

5 I'm going to ask all members of the public,  
6 as well as all of the technical witnesses that are  
7 here at this time, to please stand and raise your  
8 right hand.

9 (Witnesses collectively sworn)

10 COMMISSIONER DEASON: Mr. Reilly, before you  
11 call your first witness, let me -- for those of you  
12 who perhaps did not hear when we were taking  
13 appearances, the table directly in front of me, to my  
14 left and your right, are representatives of the  
15 Utility Company.

16 To my right and your left is Mr. Reilly who  
17 is a representative from the Public Counsel's office.

18 And to the table to my left are members of  
19 the Staff of the Public Service Commission. And also  
20 seated to my left are other members. I want to ask  
21 all members of the Staff to please raise your hand.

22 If any members of the public have any  
23 questions that you wish to have resolved, any of the  
24 Staff members would be more than glad to assist you.  
25 So please avail yourself of that, if you are so

1 inclined. So with that, we will proceed with the  
2 customer testimony.

3 Mr. Reilly, you may call your first witness.

4 MR. REILLY: Okay. There are a few  
5 representatives from the golf courses that desire to  
6 speak first today. And the first of those speakers is  
7 a Joseph Adams who is an attorney for San Carlos Golf  
8 Club.

9 - - - - -  
10 BILL BUTLER  
PAUL ZILE

11 were called as witnesses on behalf of the Citizens of  
12 the State of Florida and, having been duly sworn,  
13 testified as follows:

14 MR. ADAMS: Good morning, Commissioner  
15 Deason, Commissioner Clark. For the record, my  
16 name --

17 COMMISSIONER DEASON: If you'll get just a  
18 little bit closer to that microphone, please.

19 MR. ADAMS: Is that better?

20 COMMISSIONER DEASON: That's better, thank  
21 you.

22 MR. ADAMS: For the record, my name is  
23 Joseph Adams. I'm an attorney with the law firm of  
24 Becker & Poliakoff, address 13515 Bell Tower Drive,  
25 Suite 101, Fort Myers, Florida 33907.

1 I represent the San Carlos Golf Club. It is  
2 a member-owned club consisting of 301 members. To my  
3 left is Bill Butler, who is the president of the club.  
4 Also in the audience with us is Ted Osborne, who is  
5 the head pro and general manager of the club; and Paul  
6 Zile who is the greens and golf course superintendent.

7 This golf course was purchased by a group of  
8 folks who put together this membership organization in  
9 1981. We have, as part of the records of the club, an  
10 agreement that was entered into between San Carlos  
11 Utilities, Inc., which we are of the understanding is  
12 the predecessor to Gulf Utility and San Carlos Golf  
13 Club. It is my understanding from Ms. O'Sullivan that  
14 I can introduce these documents into the record of  
15 this hearing, so I would ask the Chairman, if you have  
16 any specific procedure in which you would like me to  
17 attempt to do that. If you want me to hand them to  
18 someone? Mark them? Whatever.

19 COMMISSIONER DEASON: Mr. Reilly.

20 MR. REILLY: Just generally, we put in the  
21 correspondence side of the file exhibits submitted,  
22 generally speaking, from the customer testimony.

23 COMMISSIONER DEASON: I have no objection if  
24 that's your desire, sir.

25 MR. REILLY: I think this same agreement is

1 going to be in the record anyway; is that correct?

2 MR. GATLIN: That's right.

3 MR. REILLY: And so, it will be covered in  
4 both respects.

5 MS. O'SULLIVAN: I think we do typically put  
6 exhibits from customers on the exhibit list, as the  
7 other exhibits are, I believe; not in the  
8 correspondence file.

9 MR. REILLY: It's a moot point, we don't  
10 have any objection to doing it either way.

11 COMMISSIONER DEASON: I understand that this  
12 particular agreement is going to be entered --

13 MR. REILLY: By stipulation, I believe.

14 COMMISSIONER DEASON: Mr. Reilly indicates  
15 that this matter is going to be entered in as an  
16 exhibit. So if that is sufficient for your purposes,  
17 we'll just -- when that time comes, we will let Mr.  
18 Reilly introduce it.

19 MR. ADAMS: That's fine, thank you. The  
20 agreement is dated April 2, 1982, and it requires the  
21 golf course to accept the minimum of 75,000 gallons of  
22 effluent per day. The Utility Company agrees to  
23 furnish the effluent at no cost to the golf course.  
24 The agreement is said to be binding upon the parties,  
25 their successors and assigns, and was recorded in the

1 Lee County Public Records September 8th of 1982.

2           By way of historical reference, it is my  
3 understanding that Gulf Utility Company was required  
4 to renew its operating permit in 1994. At that time  
5 the Utility Company contacted the golf course and  
6 advised the golf course that the ponds that were  
7 utilized for the purpose of holding effluent were no  
8 longer up to the standards that existed or the new  
9 standards of the Department of Environmental  
10 Protection relative to effluent holding ponds.  
11 Specifically, it's my understanding that there was  
12 some potential for fresh water within the canal system  
13 and effluent water to mix.

14           At the time discussions ensued with Gulf  
15 Utility. And the Utility's position was that if they  
16 could not discharge their effluent into the holding  
17 pond at San Carlos Golf Club that it would be  
18 necessary for the Utility to make other arrangements  
19 to dispose of its effluent.

20           I have here correspondence from Gulf Utility  
21 which basically acknowledges the existence of the  
22 agreement. I would like to introduce those into the  
23 record if that's acceptable.

24           MR. REILLY: We have never seen any copies  
25 of this document, and I really don't know whether I

1 could interpose any kind of objection having no  
2 awareness of the contents of what he proposes to enter  
3 into the record.

4           **COMMISSIONER DEASON:** Do you have copies of  
5 this, or do you have just the one?

6           **MR. ADAMS:** I have just the one. I have an  
7 original in my file. Basically, the purpose of the  
8 documents is that Gulf Utility acknowledges that we  
9 have this agreement. I don't believe they have  
10 repudiated that position, so I don't think it's  
11 necessarily critical to admit the document.

12           It was my understanding from speaking to  
13 Ms. O'Sullivan that formal rules of evidence do not  
14 apply to authenticate the documents. I don't know  
15 that it's really something that we need to get too  
16 concerned about. In any event, the parties did reach  
17 an agreement whereby the golf club would upgrade the  
18 effluent holding ponds in order to enable Gulf Utility  
19 to continue to discharge its effluent into the ponds  
20 of the San Carlos Golf Club.

21           I have a copy of the contract if you would  
22 like to see it for the work that's been performed.  
23 And also, the contract was between the golf club and  
24 the contractor, which was Combanner Construction, Inc,  
25 at a cost of \$158,325. The actual construction costs

1 after various savings were \$140,000. So, basically,  
2 my client, the members of this golf course, spent  
3 \$140,000 in 1994 in reliance on the agreement it had  
4 with Gulf Utility that Gulf Utility would provide the  
5 golf course with effluent at no charge. Obviously,  
6 had the golf course been aware that this was perhaps  
7 not going to continue to be the case, they may have  
8 looked at other alternatives.

9           Basically, what we are here today to say,  
10 and I believe this is also consistent with the  
11 position of the Utility Company, is that the golf  
12 course does not believe that it is fair or reasonable  
13 for the Utility rate structure to include the  
14 tariffing -- if that's the correct word -- of effluent  
15 as part of the rate structure of Gulf Utility. We  
16 sort of view this as a win-win situation. We are able  
17 to avoid drawing from the aquifers to irrigate our  
18 golf course, which here in Southwest Florida we  
19 believe is a very important and good civic thing to  
20 do. Our aquifers are very overstressed by the  
21 development. And this has been an agreement that  
22 we've had in place with a good relationship with Gulf  
23 Utility for 15 years now.

24           And, basically, that's all that we are here  
25 to say, is that we have a contract that says that we

1 receive it at no cost. Obviously, it's the  
2 prerogative of this Commission to set and determine  
3 rate structures if, in fact, it does consider the  
4 effluent purchasers to be part of the rate structure.  
5 We're not really sure where that will leave us with  
6 the Utility Company. And, frankly, that's not  
7 something that we want to have to find out.

8           So, in summary, we believe it is not  
9 equitable under the circumstances, at least for my  
10 clients' golf course, for them to be charged for  
11 effluent. And, basically, it's our position and our  
12 request of the Commission in determining the rate  
13 structure for this Utility that it not touch the  
14 current situation with effluent, which we understand  
15 does not involve it being part of the tariffs. Thank  
16 you.

17           **COMMISSIONER DEASON:** Okay. Thank you.

18 Questions, Mr. Gatlin?

19           **MR. GATLIN:** No questions.

20           **COMMISSIONER DEASON:** Staff.

21           **MS. O'SULLIVAN:** Yes, I'd like to ask -- I'm  
22 not sure if your client has been sworn in.

23           **MR. ADAMS:** Yes.

24           **MS. O'SULLIVAN:** I'd like to ask some  
25 questions of your client.



1 table; he may be able to answer that maybe. I doubt  
2 Mr. Butler can. Is it acceptable to have Mr. Zile  
3 answer from his seat, or would you like me to --

4 **COMMISSIONER DEASON:** He cannot answer from  
5 the audience. If it's necessary, he'll have to come  
6 forward and actually identify himself for the record  
7 and then speak into a microphone.

8 Is there any objection? Mr. Gatlin?  
9 Mr. Reilly?

10 **MR. REILLY:** No objection.

11 **COMMISSIONER DEASON:** Very well. Sir, if  
12 you'll come to a microphone and first identify  
13 yourself and give us your name, your address, and your  
14 position, and then you may respond to questions.

15 **WITNESS ZILE:** My name is Paul Zile. My  
16 address is 17424 Lee Road in Fort Myers 33912. My  
17 position is golf course superintendent at San Carlos  
18 Golf Club.

19 **COMMISSIONER DEASON:** And, sir, you have  
20 been sworn; is that correct?

21 **WITNESS ZILE:** Yes, sir.

22 **Q** (By Ms. O'Sullivan) I'll repeat the  
23 question for you. What approximate percentage of the  
24 golf course's irrigation is drawn from the wells, and  
25 what percentage is drawn from the reuse and reclaimed

1 water?

2           A       (Witness Zile) Our permit from South Florida  
3 Water Management is for 690,000 gallons, not to exceed  
4 690,000 gallons per day. On an average day, we run  
5 probably 600,000 gallons. And on an average day we  
6 get approximately 150,000 gallons of effluent water.

7           Q       So the 600,000 gallons is from your wells?

8           A       Yes, ma'am. Well, probably 470,000 gallons  
9 is from the wells.

10          Q       Totaling 600,000 when you include the  
11 reuse --

12          A       Yes, ma'am.

13          Q       Do you know when your permit is up for  
14 renewal with the water management district?

15          A       I believe in August of this year.

16          Q       Has there been any discussion with the  
17 district regarding the renewal or amount of gallons  
18 continuing to be that amount or decreasing?

19          A       Actually, the last time I talked to them, we  
20 wanted to modify our permit to get a little more water  
21 from the aquifer so that we can do a new irrigation  
22 system. And that's been delayed another year, so we  
23 haven't done anything with it at this time.

24          Q       Have you done any analysis of the cost to  
25 the golf course of using -- of ceasing to use the

1 reuse and reclaimed water and using exclusively well  
2 water? Would that increase your costs at all?

3 A I wouldn't think so, no.

4 Q If you were to cease using reclaimed water,  
5 would you have to increase your permitted amounts?

6 A Yes, ma'am.

7 Q Have you discussed with the water management  
8 district ceasing to use reuse or reclaimed water at  
9 all?

10 A Yes, we have. And they've told us if we  
11 have it available, we have to use it; or we could  
12 possibly lose our fresh water permit.

13 Q I have a copy of the contract for --  
14 prepared by Bean Whitaker Lutz & Barns. The cover  
15 page is dated February 26, 1997. The contract was  
16 prepared in May of 1994. Can you tell us whether  
17 these improvements have been made?

18 A Yes, ma'am.

19 Q And the approximate cost was \$140,000?

20 A Yes, ma'am.

21 MS. O'SULLIVAN: Staff has no further  
22 questions. We'd like to have this exhibit placed in  
23 the record. We'd be happy to pass it to the other  
24 parties and make copies of it.

25 COMMISSIONER DEASON: Well, first of all,

1 let's just identify it.

2 MS. O'SULLIVAN: Certainly. It's a letter  
3 dated February 26, 1997, from Mr. Butler, president,  
4 and the Board of Directors of San Carlos Golf Club.  
5 Attached is a copy of the contract to construct the  
6 pond.

7 COMMISSIONER DEASON: Okay. That letter  
8 with the attached contract will be identified as  
9 Exhibit No. 2. If you can provide that to the parties  
10 and then at a subsequent time we'll determine if there  
11 are any objections. And if there are, we'll entertain  
12 those objections.

13 (Exhibit 2 marked for identification.)

14 MS. O'SULLIVAN: I will.

15 Staff has no further questions.

16 COMMISSIONER DEASON: Mr. Reilly, redirect?

17 MR. REILLY: I just have very few.

18 EXAMINATION

19 BY MR. REILLY:

20 Q You indicated that you are contemplating a  
21 redesign of your irrigation system and that this would  
22 cause a need to withdraw additional water from the  
23 aquifer possibly?

24 A (Witness Zile) Yes, sir.

25 Q Did you quantify that amount that you

1 anticipate that you would like to request?

2           A     No, sir, we haven't done what we call a dry  
3 run on the new system yet to exactly know the amounts  
4 of it. So, no, I don't know that yet.

5           Q     But may I assume this redesign causes more  
6 points of delivering water to the golf course?

7           A     Yes, sir.

8           MR. REILLY: No further questions.

9           COMMISSIONER DEASON: Thank you. Appreciate  
10 your coming and attending the hearing and presenting  
11 your statement.

12           Mr. Reilly, you may call your next witness.

13           MR. REILLY: We have Kevin Scott, who I  
14 believe is with the Vines Country Club. And also Joe  
15 Heffernan, who is also apparently with the same golf  
16 course, and they'll have a panel.

17           COMMISSIONER DEASON: And this is which golf  
18 course, Mr. Reilly?

19           MR. REILLY: This is Vines Country Club.

20           COMMISSIONER DEASON: Gentlemen, if you  
21 could begin with giving us your name and your address  
22 for the record, please?

23

24

25

1                   **KEVIN SCOTT**  
2                   **JOE HEFFERNAN**

3 were called as witnesses on behalf of the Citizens of  
4 the State of Florida and, having been duly sworn,  
5 testified as follows:

6                   **DIRECT STATEMENT**

7                   **WITNESS SCOTT:** My name is Kevin Scott. I'm  
8 the golf course superintendent at the Vines Country  
9 Club. My address is 19501 Vintage Trace Circle, Fort  
10 Myers, Florida 33912.

11                   **WITNESS HEFFERNAN:** My name is Joe  
12 Heffernan. I'm the president of the Vines Country  
13 Club. The Same address, 19501 Vintage Trace Circle,  
14 Fort Myers, Florida 33912.

15                   **COMMISSIONER DEASON:** Sir, could you spell  
16 your last name for us, please?

17                   **WITNESS HEFFERNAN:** Heffernan is  
18 H-E-F-F-E-R-N-A-N.

19                   **COMMISSIONER DEASON:** Okay. You may  
20 proceed.

21                   **WITNESS HEFFERNAN:** I'd like to speak first.  
22 As president of the club, I also represent the  
23 development entity of the Vines, which is called the  
24 PHH Corporation. Just a short history. The PHH  
25 bought the Vines out of foreclosure in 1989. There

1 were some existing agreements with the prior developer  
2 that were assigned to PHH as the subsequent developer.

3           Without going into a lot of detail, the  
4 agreements are very similar to the agreements with the  
5 San Carlos Golf Club regarding the provisions for  
6 effluent to be sent to the Vines. The one difference  
7 in those agreements -- and I don't have it with me --  
8 is that for the Vines, we have -- the original  
9 developer had to pay for some off-site work from the  
10 Gulf Utility's plant to the Vines' effluent pond. And  
11 I don't know that exact number. I know it was in the  
12 hundreds of thousands of dollars that was spent to  
13 create that facility, that function.

14           We have two brief prepared statements that  
15 we'll read through, and we have a copy of these if  
16 you'd like them for the record. This is our opinion  
17 regarding the proposal to charge for effluent flow.

18           There was a substantial investment made to  
19 create the wastewater fee from the Gulf Utility's  
20 plant to the effluent pond at the Vines. The return  
21 on that investment has not come in dollars, but has  
22 been realized through having an alternative supply of  
23 water for irrigation of the golf course. The charge  
24 for effluent would make it economically infeasible to  
25 accept wastewater. Consideration should be made for

1 developments or communities that invested in off-site  
2 improvements in order to receive wastewater.

3           It would make sense to protect the initial  
4 investment that was ultimately paid for by the  
5 residents of the Vines community by not charging the  
6 Vines for effluent flow. The Vines anticipated a  
7 trend and was willing to accept wastewater before it  
8 was an acceptable practice. If this is not possible,  
9 the Vines should receive compensation for the value of  
10 the off-site improvements that were installed prior.  
11 The Vines has received effluent from the Gulf Utility  
12 for the past 10 years. The relationship with Gulf  
13 Utility has been mutually acceptable and very  
14 cooperative during that time.

15           **COMMISSIONER DEASON:** Does that conclude  
16 your statement?

17           **WITNESS HEPPERMAN:** Yes.

18           **COMMISSIONER DEASON:** Mr. Scott, do you have  
19 a statement?

20           **WITNESS SCOTT:** Yes. The Vines currently  
21 receives an average of about 200,000 gallons of  
22 treated effluent from Gulf Utility per day. This  
23 represents about 40% of the Vines' water use for  
24 irrigation to the golf course and common areas. At  
25 times the Vines has been requested to take water even



1 require you to accept effluent at a certain level?

2 A No, it doesn't.

3 Q You indicated that approximately 40% of your  
4 usage comes from effluent.

5 A That's correct.

6 Q I assume the other 60% then is from wells?

7 A Surface water, lakes.

8 Q Do you have a permit with the water  
9 management district?

10 A Yes, we do.

11 Q How many hundred thousand gallons does that  
12 permit permit per day?

13 A We're allowed 89 million gallons of fresh  
14 water per year. I don't have that figure offhand.

15 Q That's all right. If the Country Club  
16 ceased to receive effluent, would they have to expand  
17 their number of wells or expand their surface  
18 collection in this case?

19 A We currently have one four-inch recharge  
20 well that really I haven't used in some time. Due to  
21 the wastewater that we've received, I don't think that  
22 we'd really have to expand or try and search for other  
23 sources of irrigation water over the course of the  
24 year.

25 Q When is your permit up for renewal?

1           A     Should be late '97, early '98, I'm not  
2 exactly sure.

3           Q     Have you had any discussions with the  
4 district regarding terminating your reuse?

5           A     No, I have not.

6           Q     I have a few questions for Mr. Heffernan.

7                     You mentioned some improvements that were  
8 made by the predecessor in the golf course. Could you  
9 explain what those improvements were?

10          A     (Witness Heffernan) Sure. Initially, of  
11 course, we had to install a backflow and water system  
12 at the Vines for the provision of water and the  
13 removal of waste, in addition, though, to receive the  
14 effluent at the effluent pond for the golf courses, so  
15 a pipe had to be run from Gulf Utility, along public  
16 right of ways, back to the Vines and to that pond. So  
17 that's the off-site improvements that I'm referring to  
18 that were paid for by the original developer.

19          Q     Does the current golf course owner maintain  
20 those lines?

21          A     No. I think those lines have been deeded  
22 or -- how do you say that?

23          Q     Donated.

24          A     Yeah, back to the Utility who maintains  
25 them.

1           **Q**     I'm not sure if you are aware of the record  
2 in this case, that the office of Public Counsel has  
3 proposed a charge of 25 cents per 1,000 gallons for  
4 reuse. Would you agree, subject to check, that given  
5 the consumption of reuse for your Country Club for  
6 last year that would equate to approximately \$27,000  
7 over the course of a year? What would be your  
8 reaction to having this charge implemented?

9           **A**     As I stated in the statement, eventually the  
10 Vines would -- I didn't mention this -- the Vines will  
11 eventually be turned over to member control. I think  
12 the members would access does that number fit into our  
13 budget or not. If it didn't, if they have the choice,  
14 they would simply turn off the valve and choose not to  
15 pay for it.

16                   **MS. O'SULLIVAN:** We have nothing further.  
17 Thank you very much.

18                   **COMMISSIONER DEASON:** Mr. Reilly.

19                                   **EXAMINATION**

20 **B/ MR. REILLY:**

21           **Q**     Just a few very brief questions to  
22 understand your current well capacity. Now, you said  
23 you had one well currently in place but really not  
24 operational?

25           **A**     That's correct.

1           Q     And that you are supplementing the reuse  
2 water with rain water that is collected in the lakes  
3 that are around the golf course?

4           A     That's correct.

5           Q     And you've done no study to determine if you  
6 no longer, for whatever reason, did not receive the  
7 reuse water, what expenses and changes you would have  
8 to undergo to attempt to meet all of your needs  
9 through withdrawals of water in the aquifer if even  
10 the water management district would allow you to do  
11 that?

12          A     No, I have not assessed that.

13           MR. REILLY: Thank you.

14           COMMISSIONER DEASON: Thank you.

15           Mr. Reilly, you may call your next witness.

16           MR. REILLY: We have Bruce Lawson with the  
17 Country Creek Golf & Country Club.

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1 **BRUCE LAWSON**

2 was called as a witness on behalf of the Citizens of  
3 the State of Florida and, having been duly sworn,  
4 testified as follows:

5 **DIRECT STATEMENT**

6 **WITNESS LAWSON:** Good morning. For the  
7 record, I'm Bruce Lawson. I'm with U.S. Home  
8 Corporation, and we are developing in Country Creek  
9 Golf & Country Club. And to give you a background,  
10 the Country Club was originally developed by Weaner  
11 Corporation. And in lieu of foreclosure, they turned  
12 that back over to CS Townhome Corporation. And our  
13 contract is with CS Townhome Corporation to purchase  
14 and develop in the community.

15 And regards to reuse, there's actually two  
16 issues I'd like to bring to the Commission. Day One  
17 is specifically on reuse, and the other is on the rate  
18 structure as it relates to retirement-type residential  
19 units and ERC counts of what retirement-type units  
20 have as far as base population and needs and,  
21 specifically, for a different type of rate structure  
22 because there are fewer people than what would  
23 generally be considered under the 10D-6 standards,  
24 which apparently is what Gulf Utility and some of  
25 their rate studies indicate. Because much of their

1 rate area is in a single family, typical family-type  
2 community, and specifically, we now have  
3 retirement-type communities with different population  
4 bases, and the PSC should consider different rate  
5 structures for those type communities.

6           So on the first issue that I'd like to bring  
7 today is reuse. The original developer expended  
8 significant cost in being able to have reuse brought  
9 to the community and that included the installation of  
10 a 12-inch reuse line that was brought down to the  
11 community and extended back to the effluent plant.  
12 And that was basically to provide capacity, and that  
13 line was dedicated to the Utility upon its  
14 construction and was paid for by the previous  
15 developer. And when you buy a project, you basically  
16 pay for the infrastructure that has been put in place  
17 by others.

18           In addition to that, when we came into the  
19 community there are two lakes within the community  
20 that currently receive effluent water, and there's two  
21 components of the effluent water that we receive. The  
22 first component is daily operational storage. There's  
23 also a component which our contract with Gulf Utility  
24 includes that they can discharge up to a certain  
25 amount as allowed by the Department of Environmental

1 Protection and that amount includes a wet weather  
2 storage amount.

3           So we've actually designed ponds and, in the  
4 course of our redesign of the community, expanded  
5 ponds, included things to benefit the environment  
6 because within the groundwater aquifer around Country  
7 Creek -- it's adjacent to the Estero River, and the  
8 transmissivity of the aquifer system is such that  
9 quite a bit of water was being lost out of the ponds.  
10 So in order for us to save that water -- because we  
11 didn't want to be losing it, we were getting it in for  
12 irrigation, we were pumping groundwater in addition to  
13 receiving effluent -- we lined the ponds at a  
14 significant expense to the community. And so we have  
15 we have gone to great extremes to make sure that we  
16 can maintain the water that we get in, both from  
17 irrigation and from reuse.

18           And with the thought of having to now go in  
19 and additionally start paying for that, because it's  
20 going to be passed on to the homeowners within the  
21 community; Country Creek is an equity golf course  
22 community so that every homeowner in there is going to  
23 have equal shares of the golf course and will be  
24 paying those fees.

25           So, you know, there was great expense that

1 was put in and knowing that the possibility that we  
2 would, in addition to having those expenses, now be  
3 charged for that, decisions would have been made  
4 probably not to bring the lines down because that was  
5 an expense, and also not to the take reuse. And in  
6 addition, definitely not to take reuse in the wet  
7 season storage because why pay for water that you  
8 don't need during the rainy season?

9           And from a utility point of the view, if  
10 someone is not taking that water, under DEP rules they  
11 have to institute alternate sources of discharge. And  
12 I believe that they are currently permitted as an  
13 alternate source of a deep well injection at somewhere  
14 around a \$2.5 million price tag.

15           Communities such as ours who are taking the  
16 reuse when we don't need it, storing it in our ponds,  
17 designing ponds that have greater capacity, have taken  
18 into account and actually served the public interest  
19 by providing something that is going to make it so the  
20 Utility can continue to operate without having to have  
21 these extra costs because, obviously, although the  
22 district would have permitting and says that we have  
23 to take reuse, the district permitting doesn't require  
24 us to take reuse during wet weather. Their permitting  
25 says we have a maximum allocation on a per day basis

1 and a maximum allocation per year. So if we don't  
2 take the water, we're not in trouble with the  
3 district.

4           And our recommendation would be to go out in  
5 the summertime and shut the tap off because it rains  
6 every day, we get enough water from the groundwater,  
7 and we get enough water from our on site wells to meet  
8 the allocation amounts allowed under our permits. And  
9 so practically for six months -- four or five months a  
10 year, we'd shut off the reuse, they would need a  
11 separate allocation or location to distribute that  
12 reuse water because we wouldn't be wanting to pay for  
13 it, and we wouldn't need it because the water would be  
14 easily available from the rainwater that falls every  
15 day in Southwest Florida.

16           So that's our position regarding a charge  
17 for reuse is that the -- it's not in the public  
18 interest to make a charge because it's going cost the  
19 Utility and then the ratepayers to institute other  
20 sources to discharge this water because our community  
21 and our residents wouldn't be willing to take it,  
22 especially if we're having to pay for it during the  
23 wet season when we don't need it.

24           On the second issue that I'd like to bring  
25 to the Commission today is relating to the

1 retirement-type community such that we build within  
2 Country Creek. One of the uniquenesses in this  
3 particular community is that we have a separate  
4 irrigation system that we do in our communities now so  
5 that all irrigation water is through a secondary  
6 system. So when you look at the water use rates that  
7 generally are studied, most homes don't pull separate  
8 irrigation meters and separate water use meters. And  
9 so when you're looking at general studies of the area  
10 in question, you are picking up irrigation usage  
11 within the average use that the capacity has been  
12 generated so that the Utility has capacity to serve  
13 the number of units that are in a community.

14           In Country Creek, since we have the separate  
15 system, our residents are banned from having any type  
16 of irrigation system that's not connected through the  
17 homeowners association documents. They can only  
18 connect to the internal system. That particular  
19 system is provided entirely by well water. The reason  
20 for that is under DEP rules, we can't mix storm water  
21 and reuse water, and we didn't have capacity within  
22 the ponds, or the ability to expand the ponds to add  
23 the capacity to take additional reuse water.

24           And if you really want to get on a different  
25 subject, I would appreciate if you would talk to DEP

1 about changing their rules on mixing storm water and  
2 reuse water so that more communities have the ability  
3 to retrofit themselves to take reuse and take that  
4 capacity because the wet season storage could be taken  
5 care of that way. But DEP rules actually prohibited  
6 it making, you know, other extensively, costly  
7 alternatives such as deep water injections really the  
8 only alternative many utilities have for wet season  
9 discharge.

10           But when we look at the population base of a  
11 retirement-type community, it's generally below --  
12 somewhere just under two persons per unit. I believe  
13 statistically overall in Lee County, we are at 2.3  
14 persons per unit. And within, I believe, the San  
15 Carlos area, which primarily Gulf Utility serves, you  
16 would probably find a statistically higher amount than  
17 that because San Carlos is typically a bedroom-working  
18 community and there's lots of kids. And so, you would  
19 probably see something more along the national average  
20 of around -- I would guess around three or higher  
21 persons per unit in that area. And as we all know,  
22 wastewater and water are both generated by people  
23 using it; and so the number of people in homes is  
24 directly related to how much reuse is used which  
25 relates to the number of ERCs or connections that are



1 into the withdrawn to irrigate that system under DEP  
2 rules. And for the golf course we use a mixed, both  
3 reuse water and subsurface irrigation through wells  
4 that we supply the ponds for the reuse water

5 Q All right. You've discussed having a  
6 separate rate structure for the residents in this  
7 community. Are you considering requesting a separate  
8 base facility charge or a separate -- a lower  
9 gallonage charge?

10 A I think what we are requesting is a  
11 separate, of course, base facility charge and also the  
12 charges for the connections to the actual wastewater  
13 treatment system, because the base -- I guess  
14 equivalent I'm charged for an ERC is based on capacity  
15 that you are using up or potential capacity that you  
16 expect the residents to use. And so, since the  
17 residents in these communities typically use less  
18 capacity, then there needs to be a lower charge for  
19 that. And there also needs to be a lower charge for  
20 multifamily units because statistically under, even  
21 ten state standards, multifamily has -- under ten  
22 state standards it's 350 gallons per day for a single  
23 family and 250 gallons a day for a multifamily. And  
24 we need to have rate structures that reflect the lower  
25 usages by different types of units.

1           And also, I believe it's time that we got  
2 into different types of communities. You know, where  
3 there's typically fewer people in a  
4 retirement-directed community.

5           Q     So you're contemplating requesting -- I'm  
6 sorry. Your request contemplates both a separate  
7 charge for hooking up to the Utility and a separate  
8 charge on an ongoing basis each month, both which  
9 would acknowledge the irrigation and --

10          A     The lower irrigation and the lower use of  
11 the capacity of facilities, yes.

12          Q     Okay. I take it the country club has a  
13 permit with the Water Management District.

14          A     Yes.

15          Q     When does that permit expire?

16          A     Permits in Southwest Florida are currently  
17 being held due to the lower west coast water plan not  
18 being final adopted by the board. And so, generally,  
19 the district has been delaying on an annual basis  
20 since 1995, it's going to be next year, and then '96  
21 it's going to be next year, '97 it's going to be next  
22 year. Until the lower west coast water plan is  
23 resolved, I think all permits are just kind of in a  
24 continuance, is what I understand from the district.

25          Q     Okay. Do you know how many hundred thousand

1 gallons a day the Country Club is permitted to  
2 withdraw?

3       A     No. I don't have the -- I didn't bring that  
4 data with me today, the permit.

5       Q     Could you give us an approximate percentage  
6 of surface water that the Country Club uses compared  
7 to reuse water for irrigation purposes?

8       A     I believe that we receive about 180,000  
9 gallons per day for reuse water. And typically in a  
10 community this size, for the golf course, would  
11 average about 400,000 to 450,000 gallons a day for the  
12 golf course and probably another 450,000 gallons a day  
13 for the residential units. So it would be about  
14 two -- probably about two-ninths of the total would  
15 probably be reuse.

16           **COMMISSIONER CLARK:** I'm confused. How much  
17 is for irrigation of the golf course? How much --

18           **WITNESS LAWSON:** Probably about 400,000 to  
19 450,000 gallons per day is what's used on the golf  
20 course. And we only use reuse water on the golf  
21 course. So out of the total that's used, in the  
22 community about 900,000 gallons a day is my estimate.  
23 And we probably -- probably two-ninths of the total.

24       Q     (By Ms. O'Sullivan) If the Utility were  
25 required to implement a reuse charge to its effluent

1 disposal sites, would your golf course consider  
2 terminating accepting reuse?

3 A That would probably be a consideration, and  
4 we definitely would consider terminating taking any  
5 wet weather storage.

6 Q Have you discussed at all with the water  
7 manage district the potentiality for a rate being  
8 imposed and reuse no longer being accepted?

9 A No, we haven't. But understand the  
10 difference between taking reuse during dry season and  
11 wet weather storage because they're going to have a  
12 great cost to dispose of effluent if nobody is going  
13 to take it during the wet season and that's when they  
14 can't get rid of it.

15 Q With the wet weather storage, are you  
16 obligated to take that and store it pursuant to your  
17 contract?

18 A Pursuant to our contract we are also not  
19 charged for that, so that would be a change in the  
20 contract. It would be a negotiable point.

21 Q I understand. But are required by your  
22 contract to accept a certain amount of storage?

23 A Our contract does require us not to take a  
24 specific amount; it's to take an amount permitted into  
25 the community.

1 Q Okay. Going back to your point about the  
2 ERCs and the reduced usage. Do you have any data or  
3 statistics to show that the usage in the Country Creek  
4 area is lower than the other areas in Gulf's  
5 territory.

6 A I requested that Gulf provide that  
7 information. I believe they are currently researching  
8 their records. However, we have done studies in  
9 Sarasota County of these type of communities, and the  
10 usage is significantly lower than what the utilities  
11 in Sarasota County were estimating for these types of  
12 communities.

13 Q Approximately how many customers are in  
14 your --

15 A In Country Creek?

16 Q Right.

17 A Currently, there's probably about -- I  
18 believe current closings are around 350. The  
19 community is zoned for 985 units. But in Southwest  
20 Florida we have current communities of probably -- I  
21 think we are close to over 10,000 units that U.S. Home  
22 has built in Southwest Florida of these type  
23 communities.

24 Q Do you have any other communities that are  
25 within the Gulf territory besides Country Creek?



1 customers of Gulf Utility?

2 A Yes, sir.

3 MR. REILLY: Thank you.

4 COMMISSIONER DEASON: Thank you, sir.

5 Mr. Reilly, you may call your next witness.

6 MR. REILLY: Dale Heusing.

7 - - - - -

8 DALE HEUSING

9 was called as a witness on behalf of the Citizens of  
10 the State of Florida and, having been duly sworn,  
11 testified as follows:

12 DIRECT STATEMENT

13 WITNESS HEUSING: Good morning. My name is  
14 Dale Heusing. I live at 9363 Crocus Court, Fort  
15 Myers, Florida 33912, and I am a customer of Gulf  
16 Utility. I would just like to start off to say that I  
17 am not objectionable to any company making a profit.  
18 But some of the things that I have heard, some of the  
19 things that I've seen, I have a problem with.

20 I understand that the rate for water is to  
21 be lowered like one cent per thousand, \$2.16, I  
22 believe it is. And I have got to tell you that the  
23 quality of water that's received from Gulf Utility --  
24 when I went to a meeting about three months ago, I  
25 believe it was -- it meets EPA standards. It doesn't

1 exceed it, it meets.

2           Most of the people in our community have put  
3 additional water softeners in to soften the water,  
4 additional filtration so that the faucets, the  
5 fixtures, the appliances do not corrode. So I have a  
6 problem with the quality of water, you know, that they  
7 have. I do come from the north as most people. And  
8 the rates are competitive. But there is an extreme  
9 difference in the quality of the water.

10           You are taking something from the ground,  
11 you're putting it into a pipe, you're adding  
12 chlorination. If you come from the Corkscrew Plant,  
13 you have a membrane filtration. If you come from the  
14 San Carlos plant, I don't know what you have. But,  
15 you know, the water is not treated equal. So I think  
16 we need to address some things with respect to the  
17 quality of water that is being given, not just meets  
18 EPA standards.

19           The second, and probably the most  
20 frustrating, is the wastewater or sewage treatment.  
21 Based on 10,000 gallons, which I was informed at the  
22 meeting is set by the Public Service Commission as a  
23 lid, that, you know, whether you use it or not you are  
24 paying for it. I, as well as most people, have  
25 irrigation systems, and I use approximately 900 to

1 1,000 gallons per cycle, you know, to water my lawn.

2           And my consumption during the rainy season  
3 when that system is entirely off is 6,500 to 7,000  
4 gallons. So if we took the high figure of 7,000, I am  
5 paying an additional -- you know, for an additional  
6 3,000 gallons of sewage which is at, I feel, an  
7 astronomical rate anyway to process something that's  
8 not even being put into the system. Now, I don't mind  
9 paying for something that I'm using, but I have  
10 problem with paying for something that I'm not using.  
11 And, unfortunately, there are a lot of other customers  
12 in my neighborhood that feel the same, but they are  
13 not as fortunate as I am, they have to work.

14           So I think when you address a rate increase  
15 on the wastewater system, that you ask the Utility to  
16 come up with some way to measure the amount of usage.  
17 In the north the measurement was taken in the winter  
18 months when you were not watering the yard, the  
19 shrubbery or anything of that nature. My consumption,  
20 like I said, up there was, you know, 6,800 gallons  
21 average. My sewage cost was \$8.50 a month. And that  
22 was a metro sewer project, and they did have many more  
23 customers than what Gulf Utility does. But they  
24 amortize their bonds over a greater period, evidently.

25           Now since this is a private company, you

1 can't deal into the actual accounting procedures or  
2 the actual books of this Company. So, you know, we  
3 just have to take their word for it. I think you  
4 folks can.

5 So when you address some thing on a  
6 long-term basis or something of this nature that is a  
7 public utility, you have to look at how far, you know,  
8 out am I going to amortize my return on my investment.  
9 That's all that I really have to say.

10 COMMISSIONER DEASON: Mr. Gatlin.

11 MR. GATLIN: No questions.

12 COMMISSIONER DEASON: Staff.

13 MS. O'SULLIVAN: Just a couple of quick questions.

14 EXAMINATION

15 BY MS. O'SULLIVAN:

16 Q You've given us your address. What section  
17 of the service territory do you reside in? Is it San  
18 Carlos Park or --

19 A We actually live in the Three Oaks area.  
20 And I'm approximately a quarter of a mile from the  
21 treatment plant.

22 Q All right.

23 A And we do not have any alternative with  
24 respects to reclaimed water or recycled water.  
25 Supposedly, when that question was brought up, the

1 cost of piping that water, you know, into the  
2 neighborhood, would be cost prohibitive.

3 Q You mentioned that you received information  
4 about the 10,000-gallon gallonage cap from a meeting.  
5 Is that a meeting that the Utility presented to the  
6 customers?

7 A Any customer that has an irrigation system,  
8 they -- I'm sorry, I didn't hear you. I didn't  
9 quite -- I'm a little hard of hearing. But any  
10 customer that has an irrigation system, the Utility  
11 puts an 10,000-gallon cap, okay? So anything above  
12 that it goes back -- reverts back to the water rate,  
13 which would be 2.16 or 2.17 a thousand. Anything  
14 below that, you know -- like I said, my consumption --  
15 and I have a family of four, I have a swimming pool,  
16 occasionally I'll add a little water. But, you know,  
17 there is no way for them to measure the consumption  
18 beyond that point.

19 Q Is that your understanding of what a  
20 gallonage cap is, is that you are charged over 10,000  
21 gallons at the water rate?

22 A Anything over 10,000 gallons is brought in  
23 at the water rate which, I believe, is like 2.16 or  
24 2.17 a thousand. I think it's 2.17 a thousand now.

25 Q Okay. Are you aware of the term "wastewater

1 gallonage cap" typically means that the customer isn't  
2 charged for usage over 10,000 gallons?

3           A       They're not charge for the sewage treatment  
4 over 10,000 gallons. The water they are charged for.

5                   And the sewage treatment is -- well, it's  
6 approximately -- I believe it's 2.56 a thousand, or  
7 something -- no, I'm sorry, 5.23 per thousand, which  
8 is what? They're about two and half or two and a  
9 quarter times what your water consumption is.

10                   So the quality of the water that comes in is  
11 not the greatest, you know, and being taxed or charged  
12 for the excess amount that goes out that you are not  
13 really using -- you know. Now, if you start taking  
14 that throughout the community, that becomes a very,  
15 you know, very polite figure.

16                   MS. O'SULLIVAN: Staff has nothing further.

17                   COMMISSIONER DEASON: Mr. Reilly.

18                   MR. REILLY: Just a comment as opposed to a  
19 question. I think you indicated that some of your  
20 neighbors could not attend because they work. You  
21 might tell those same neighbors that the Commission  
22 has set aside 6:30 p.m. on the second day of the  
23 hearing, on the 6th, to take testimony from people who  
24 could not attend this morning because of work  
25 requirements.

1           **WITNESS HEUSING:** Okay.

2           **COMMISSIONER DEASON:** Mr. Heusing, let me  
3 ask you a question. It's your understanding that your  
4 wastewater bill is calculated based upon your water  
5 consumption; is that correct?

6           **WITNESS HEUSING:** That is correct.

7           **COMMISSIONER DEASON:** Now what is your  
8 understanding of the function of the 10,000-gallon  
9 cap?

10           **WITNESS HEUSING:** Well, the 10,000-gallon  
11 cap, as I said, at a public forum that we had with  
12 Gulf Utility at the Three Oaks Middle School a few  
13 month ago, I brought that question out and they said  
14 that the 10,000 cap was set by the state.

15           Now, my problem -- and I said I can't  
16 believe that the state would set that, you know. But  
17 my problem is where do you draw the line?

18           Now, an average family of four, especially,  
19 you know, today, with most of the new construction  
20 that's going into this area, has all of the 1.6 gallon  
21 flushing, all of the features that are mandated by  
22 construction, you know, to prevent excess water usage.  
23 So I have all of these features installed in my house,  
24 and yet I have my irrigation system hooked up to the  
25 water which uses probably more in one cycle than I use

1 in a week.

2           **COMMISSIONER DEASON:** Well, let me ask a  
3 clarifying question. If 7,000 gallons of water go  
4 through your water meter and all that's the water that  
5 you consume --

6           **WITNESS HEUSING:** On a monthly --

7           **COMMISSIONER DEASON:** Yes. What is your  
8 understanding is the calculation of your wastewater?  
9 Is it based on 7,000 gallons?

10          **A** No. It's based on 7,000 gallons if that's  
11 all I use. But during the dry season when you turn  
12 the sprinkler system on, it automatically goes up. So  
13 then at that point there, which maybe six, possibly  
14 seven months out of year, depending on how it extends,  
15 you are paying an additional 3,000 to 3,500 gallons of  
16 waste or sewage that is actually going on the yard or  
17 in your pool or something of that nature.

18           **COMMISSIONER DEASON:** I thought you  
19 indicated you had your own separate irrigation system.

20           **WITNESS HEUSING:** I have my irrigation  
21 system, but it's hooked up to Gulf Utility water.

22           **COMMISSIONER DEASON:** Okay. Thank you, sir.

23           **WITNESS HEUSING:** I'm sorry if I didn't  
24 clarify that.

25           **COMMISSIONER DEASON:** Okay. Thank you.

1 Mr. Reilly, you may call your next witness.

2 MR. REILLY: Thank you.

3 WITNESS HEUSING: Thank you.

4 MR. REILLY: Bernhard Bogner.

5 BERNARD BOGNER

6 was called as a witness on behalf of the Citizens of  
7 the State of Florida and, having been duly sworn,  
8 testified as follows:

9 DIRECT STATEMENT

10 WITNESS B. BOGNER: My name is Bernhard  
11 Bogner. I live at 18246 Lowe Drive 33912.

12 COMMISSIONER DEASON: Could you spell your  
13 last name, please?

14 A B-O-G-N-E-R.

15 I have a similar problem to the gentleman  
16 who just spoke. I can't understand why the Commission  
17 has never come up with any system that they could  
18 allow people to sprinkle their flower beds, their  
19 yards, or whatever, wash their car, and they don't  
20 credit so that they have a certain amount in the water  
21 they can receive without paying duty on the wastewater  
22 system. This has been brought up a number of times,  
23 and I remember once before there was a question on the  
24 other item I have. I can't understand -- let me get  
25 this straight. I lost my thought. Old age.

1 (Laughter)

2 Oh. Well, I did lose it. Oh, now, I  
3 understand. Now, in past years, it seems like every  
4 time they extend out to get more customers, we get an  
5 increase in our costs. It appears that that system,  
6 they would be putting the impact fees on the old  
7 customers for the costs of extending. And a point was  
8 brought up once then before at one of the  
9 Commissioners, they even questioned in the meeting  
10 here, in the hearing, is it not maybe the reason that  
11 you extended out is the reason that you were asking  
12 for an increase. And I think something like that  
13 should be questioned.

14 The reason I'm questioning it is it appears  
15 to me there should be consideration -- given  
16 consideration on increase in cost because after they  
17 extend, years later, they get all these hookups put  
18 into there and to me it looks like that's gold in  
19 their pockets that is put on to the older customers,  
20 impact fee setup, for what they are going to profit on  
21 later on. And, therefore, there should be some  
22 consideration made as to holding the line and  
23 especially giving credit for the water they are using  
24 that is not being run through their service setup.  
25 That's the main two points I have.

1 COMMISSIONER DEASON: Okay. Mr. Gatlin.

2 WITNESS B. BOGNER: No questions?

3 COMMISSIONER DEASON: I think Mr. Gatlin may  
4 a have question.

5 WITNESS B. BOGNER: Okay.

6 EXAMINATION

7 BY MR. GATLIN:

8 Q You referred to a meeting at the last rate  
9 increase. When was that?

10 A When was the last hearing?

11 Q Yes. When was the -- the last increase in  
12 wastewater was in 1988 and the last increase in water  
13 was 1991. Did you realize that?

14 A I can't quite hear you.

15 Q Okay. I'll get a little closer.

16 A Okay, what was that?

17 Q Do you realize the last wastewater increase  
18 for Gulf was 1988 and the last water increase was  
19 1991?

20 A Yes.

21 Q Okay. Are those the meetings you are  
22 talking about?

23 A Yes.

24 MR. GATLIN: Okay. Thank you.

25 COMMISSIONER DEASON: Staff.

## EXAMINATION

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BY MS. O'SULLIVAN:

Q Just a couple of quick questions,  
Mr. Bogner. Approximately how many thousands gallons  
of water do you use each month?

A Well, when I came here in 1976, with a lot  
company, we used around 7,000 to 8,000 gallons a  
month, and it cost us roughly \$28. Now we use  
approximately 4,000 gallons of water, and we're paying  
around \$48 a month for our water bill.

Q So I take it you are requesting that the  
Commission lower the gallonage cap below 10,000  
gallons; is that correct?

A No. I'm requesting that we have a certain  
amount given by the Commission that we can use without  
a charge for the sewage, because it's not going to the  
sewage treatment; it's going out into the water --  
into the ground, where they wash the car, sprinkle the  
yard or water the flowers and bushes.

MS. O'SULLIVAN: All right. Thank you very  
much.

COMMISSIONER DEASON: Mr. Reilly.

MR. REILLY: Excuse me.

COMMISSIONER DEASON: Sir, sir.

MR. REILLY: Just one quick question, sir.

## EXAMINATION

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**BY MR. REILLY:**

**Q** Just one little -- I just wanted to make sure I understood your testimony.

**A** All right.

**Q** Did I understand you to basically recommend that you understood that the existing customers were paying for the growth and the expansion of the system and that you thought it was, what, more fair for growth to pay for growth?

**MR. GATLIN:** Mr. Chairman, I don't think he said anything like that at all. I object to that question.

**MR. REILLY:** Well, could you --

**COMMISSIONER DEASON:** Hold on, Mr. Reilly, hold on. We have an objection to the question.

Mr. Gatlin, restate your objection.

**WITNESS B. BOGNER:** You're trying to get my thought, is that it?

**MR. REILLY:** No. Let us hear his objection, then I'll respond, and then we'll see where we go from there.

**MR. GATLIN:** Mr. Reilly asked him about something that did not come out on direct. It's beyond the scope of the direct testimony.

1           **COMMISSIONER DEASON:** Okay. Mr. Reilly.

2           **MR. REILLY:** My question is I understood him  
3 to say that he thought existing customers were having  
4 to pay higher rates to pay for the growth and  
5 expansion of the system. Is that true or false?

6           **WITNESS B. BOGNER:** That's true.

7           **COMMISSIONER DEASON:** Mr. Gatlin, I did  
8 understand the witness to express a concern about  
9 growth and his perception of how growth is affecting  
10 their rates. I'm going to allow the question. You  
11 may proceed, Mr. Reilly.

12           **Q**       **(By Mr. Reilly)** Did you understand the  
13 question?

14           **A**       Well, I'll put what I said before. It  
15 appears that every time they extend their lines, there  
16 is an increase in the charge of sewage and that  
17 appears that an impact fee is being put on the older  
18 customers for their extension that later on they'll  
19 reap harvest.

20           **Q**       And I just wanted to understand your  
21 recommendation. Is it your feeling that the expansion  
22 and cost of expanding the system should be borne by  
23 who, then? Should it be borne by the new customers  
24 who are coming on line who are creating the growth, or  
25 what exactly is your recommendation?

1           A       Should be carried on by the expansion of the  
2 customers coming into the extension that they're  
3 putting in.

4                   MR. REILLY: No further questions.

5                   COMMISSIONER DEASON: Mr. Gatlin, you may --  
6 sir, I'm sorry, Mr. Gatlin has another question for  
7 you.

8   EXAMINATION

9 BY MR. GATLIN:

10           Q       When did you ever pay an impact fee to Gulf  
11 Utility Company?

12           A       Well, I use it in a round figure, I guess,  
13 to make it understood. They are putting the cost on  
14 the people who are already receiving service, and I  
15 consider that an impact fee because of their  
16 extensions that they are putting up.

17           Q       So your rates go up is what you think?

18           A       They what?

19           Q       You think your monthly rates go up when  
20 there are new customers involved?

21           A       When they extend out, yes.

22           Q       You think your rates go up at that time?

23           A       That has an effect on it.

24           Q       Yes.

25           A       When they apply it, I don't know.

1 Q Even thought the last approved rate case for  
2 wastewater was 1988?

3 A I didn't quite hear that.

4 Q Well, I'm trying to pin down when it is you  
5 think these costs are added to your bill. Does your  
6 bill go up ever now and then?

7 A Well, what I'm trying to show is what my  
8 cost was when I came down here and how it has  
9 increased every since then.

10 Q When did you come down?

11 A I came here in '76.

12 Q Has there been an increase in wastewater  
13 since 1988?

14 A I don't have those figures right before me.

15 Q Do you recall if there was one?

16 A Do I recall what?

17 Q You don't or you do?

18 A I don't recall the exact dates, no.

19 Q And how about water, was 1991, was the last  
20 increase. Did you know that?

21 A My wife is going to appear later on and she  
22 has better figures on that. She can clear that up.

23 MR. GATLIN: All right. Thank you.

24 MR. REILLY: Commissioner Deason, I did not  
25 object, nor do I object, to Mr. Gatlin testifying as

1 to these matters of when the rate increases. But if  
2 he could clarify his testimony as to whether this  
3 Utility has enacted any pass-throughs or index  
4 increases that could have been interpreted as  
5 increasing rates on the part of the customer.

6 COMMISSIONER DEASON: Mr. Reilly, to  
7 establish that you are going to have to ask the  
8 witness if he has any knowledge. Do you care to  
9 pursue any further questions?

10 MR. REILLY: I don't.

11 COMMISSIONER DEASON: Okay. Thank you, sir.  
12 I think that everyone has asked all of their  
13 questions. Thank you for your patience.

14 Mr. Reilly.

15 MR. REILLY: Thank you.

16 Rhea Bogner.

17 - - - - -

18 RHEA BOGNER

19 was called as a witness on behalf of the Citizens of  
20 the State of Florida and, having been duly sworn,  
21 testified as follows:

22 DIRECT STATEMENT

23 WITNESS R. BOGNER: I'm going to straighten  
24 this up.

25 MR. GATLIN: You're going to straighten us

1 out?

2 WITNESS R. BOGNER: I'm going to straighten  
3 you out, yes.

4 MR. REILLY: Thank you. That's what this  
5 customer testimony portion is all about, to straighten  
6 us out.

7 WITNESS R. BOGNER: I pay the bills, that's  
8 the reason he says I know everything.

9 Good morning. My name is Rhea Bogner. And  
10 I'm just here to state -- one thing I do want to  
11 straighten out, we do have a well, so that is the  
12 reason our rate of water is not as great as it should  
13 be or would be otherwise. But we only use about 5,000  
14 gallons a month. Otherwise, if we didn't have the  
15 well, it would be about 10,000.

16 But since this interim rate has gone up, my  
17 bills, wastewater alone, will increase \$4.65 a month.  
18 Which doesn't seem much, I know, to you high-powered  
19 people, but to a lonely homeowner like myself, who is  
20 retired -- and I hate this expression, fixed income  
21 but it's the truth -- it does mean a lot.

22 And if it goes up to the higher rate of that  
23 37.63, which they're asking for, it will go up \$7.80.  
24 And I'm going all on this on 5,000 gallons.

25 Of, course, when we have company the rate is

1 much higher; we use much more water. We do have a  
2 small swimming pool, and at times we do have to fill  
3 that. And so we always try to save water as much as  
4 we can. But, as I say, it's just impossible.

5           So my objection is I think, perhaps, they  
6 should get a rate increase, but I'm objecting to the  
7 cost, to the high cost that they are asking for. I  
8 think it should be much lower than that. After all  
9 we've been on this line; we've been one of the  
10 original water people using the water from 1976,  
11 before even Mr. Moore owned it.

12           And as I said, when we came down here, we  
13 were using a lot of water, and it was only like \$18.  
14 And this per year increase is a big thing in our  
15 budget. So I ask for your cooperation and your help  
16 to see that we get a fair shake on this. I don't  
17 object to an increase, because I do say they probably  
18 need it, but I do think what they are asking for is  
19 too much. Thank you very much.

20           **COMMISSIONER CLARK:** Ms. Bogner, can I ask  
21 you when you --

22           **WITNESS R. BOGNER:** Where are you?

23           **COMMISSIONER CLARK:** I'm right here. When  
24 you fill the pool, does it come from your well or from  
25 the --

1           **WITNESS R. BOGNER:** No, it comes from the  
2 city water.

3           **COMMISSIONER CLARK:** Okay.

4           **WITNESS R. BOGNER:** If I put the well water  
5 in, it would be green. Anything else?

6           **COMMISSIONER DEASON:** Mr. Gatlin, questions?

7           **MR. GATLIN:** No questions.

8           **COMMISSIONER DEASON:** Staff.

9           **MS. O'SULLIVAN:** No questions. Thank you.

10          **COMMISSIONER DEASON:** Mr. Reilly.

11          **MR. REILLY:** Just a brief question, if you  
12 don't mind.

13          **WITNESS R. BOGNER:** Okay.

14          **MR. REILLY:** I'm going to ask the witness to  
15 just take a look at Page 4 of the MFRs and see if she  
16 has any knowledge about the contents on that. This is  
17 basically where it delineates nine different indexes  
18 and pass-throughs from a period of 1982 to 1991. See  
19 if you are aware of it specifically.

20          **WITNESS R. BOGNER:** Page 4?

21          **MR. GATLIN:** Well, Mr. Chairman, this is  
22 going to be an exhibit very shortly, and I think there  
23 is no problem in the dates. The dates are listed  
24 correctly. The last wastewater increase was 1988 and  
25 that was a pass-through and an increase. And the last

1 increase to the water rates was Docket No. 900718, and  
2 that was an increase in water rates.

3 COMMISSIONER DEASON: Well, I understand  
4 that, but I'm going to allow Mr. Reilly to ask this  
5 witness as to how she perceives these increases to  
6 have affected her bill.

7 MR. REILLY: My face question basically was  
8 were these some of the increases that she and her  
9 husband were alluding to?

10 WITNESS R. BOGNER: Yes. Yes, it is.

11 MR. REILLY: That's all I have.

12 WITNESS R. BOGNER: At that time we also  
13 went before the Commission and fought the water  
14 increase and the sewer rate increases at the time,  
15 also.

16 MR. REILLY: Thank you.

17 WITNESS R. BOGNER: Pardon me? Thank you  
18 very much.

19 COMMISSIONER DEASON: Thank you, ma'am.

20 Mr. Reilly.

21 MR. REILLY: Okay. We have Johanna Weeks.  
22  
23  
24  
25



1           **COMMISSIONER DEASON:** Mr. Gatlin.

2           **MR. GATLIN:** No questions.

3           **COMMISSIONER DEASON:** Staff.

4           **MS. O'SULLIVAN:** No questions.

5           **COMMISSIONER DEASON:** Mr. Reilly.

6           **MR. REILLY:** We have no questions.

7           **COMMISSIONER DEASON:** Thank you, ma'am.

8           **MR. REILLY:** Now, that's all the sheets that  
9 we have signed. You might ask if there's anyone in  
10 the audience who wishes to speak at this time.

11           **COMMISSIONER DEASON:** I'll so inquire. Mr.  
12 Reilly has indicated that he has exhausted his list of  
13 witnesses who have signed up to testify. Let me ask  
14 if there is anyone in the audience who has not signed  
15 up, but who does wish to testify at this time. If you  
16 would please just so indicate, and we'll allow you to  
17 come forward.

18           **MR. REILLY:** If not, we did have one witness  
19 who previously testified who just wanted to get back  
20 up one last time to ask a couple of questions. Maybe  
21 it's to Staff or maybe to the Utility to clarify.  
22 Would this be the time to take care of that?

23           **COMMISSIONER DEASON:** The witness has  
24 questions?

25           **MR. REILLY:** That he wanted to pose.



1 they begin, I have a question. On Issue 23 and Issue  
2 25, are they still at issue?

3 Everybody says no.

4 **MS. O'SULLIVAN:** During the prehearing we  
5 had discussed whether we could stipulate to those and  
6 Commissioner Deason asked the parties to discuss it  
7 and let Staff know by a certain time, and I believe  
8 the Utility notified us that they could not stipulate  
9 to it. I'm not quite sure why.

10 **COMMISSIONER DEASON:** Mr. Gatlin, you may  
11 proceed.

12

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13

**JAMES W. MOORE**

14 was called as a witness on behalf of Gulf Utility  
15 Company and, having been duly sworn, testified as  
16 follows:

17

**DIRECT EXAMINATION**

18 **BY MR. GATLIN:**

19 **Q** Please state your name and address.

20 **A** My name is James W. Moore. My address is  
21 19910 South Tamiami Trail, Estero, Florida 33928.

22 **Q** Have you been sworn?

23 **A** Yes, I have.

24 **Q** Have you prepared testimony for presentation  
25 in this proceeding?

1           A     I have.

2           Q     Consisting of -- how many pages? Eleven  
3 pages?

4           A     I have.

5           MR. GATLIN: Mr. Chairman, I have a letter  
6 to the director of the division of records and  
7 reporting dated -- see September 27, 1996, and we  
8 filed at that time the exhibits which we had left out  
9 of this book. And then we filed a correction to  
10 Mr. Moore's testimony. And those are the exhibits he  
11 refers to in his testimony. And I would show you the  
12 corrections in his testimony if you would let me do  
13 that now.

14           COMMISSIONER DEASON: Now, this is his  
15 direct testimony?

16           MR. GATLIN: Yes, it is.

17           COMMISSIONER DEASON: Okay. Now, I also  
18 have some supplemental direct. That's an entirely  
19 different piece of testimony.

20           MR. GATLIN: That's the next piece.

21           COMMISSIONER DEASON: Okay.

22           MR. GATLIN: But as far as this testimony is  
23 concerned, he refers to Exhibits 1, 2, 3 and 4, and  
24 those are the ones that came in about a day after the  
25 testimony that were left out of the binder. That was

1 filed on September 27th.

2 At the same time we filed one sheet of  
3 testimony which is an insertion into his now prepared  
4 testimony on Page 10, just before Line 6 -- maybe Line  
5 5 -- there's one paragraph.

6 COMMISSIONER DEASON: I have that.

7 MR. GATLIN: Okay. That's the reason I was  
8 asking. It's a question and an answer, is what it is.

9 Now we have supplemental direct testimony,  
10 which you just spoke of, and it consists of four pages  
11 and then quite a lot of exhibit that goes with it.  
12 It's the contract with the university -- between Gulf  
13 and the university.

14 Q (By Mr. Gatlin) And you prepared this  
15 testimony, did you not, Mr. Moore?

16 A I did.

17 Q If you were asked the questions in that,  
18 would your answers be the same as set forth in that  
19 document?

20 A They would.

21 MR. GATLIN: Mr. Chairman, we ask that the  
22 direct testimony of Mr. Moore be inserted into the  
23 record as though read, including the addition and the  
24 supplemental testimony.

25 COMMISSIONER DEASON: Without objection, the

1 direct testimony with the addition thereto and the  
2 supplemental direct will be inserted into the record  
3 as though read.

4 MR. GATLIN: Mr. Moore is available for  
5 questioning.

6 COMMISSIONER DEASON: Before we proceed,  
7 Mr. Gatlin, do you wish to have the exhibits  
8 identified?

9 MR. GATLIN: Yes. The exhibit numbers on  
10 there now indicate 1, 2, 3, 4, and the last one with  
11 the university contract -- Mr. Moore, check me on  
12 this, is exhibit -- there are two more -- three more  
13 exhibits. It's Exhibit 9, which is attached to his  
14 supplemental testimony.

15 COMMISSIONER DEASON: Well, now, the  
16 prefiled direct attached to that are Exhibits JWM-1  
17 through 4?

18 MR. GATLIN: Yes.

19 COMMISSIONER DEASON: Those exhibits will be  
20 identified as Composite Exhibit No. 3.

21 (Exhibit 3 marked for identification.)

22 COMMISSIONER DEASON: Now, describe the  
23 exhibit which is attached to the supplemental direct  
24 testimony.

25 MR. GATLIN: There's a location map which is





1 In financial terms, the above program is this:

2 (1) an interim rate increase in wastewater of \$300,000  
3 and a permanent rate reduction in water of \$155,935, both  
4 effective as of the same date.

5 (2) a permanent rate increase in wastewater of  
6 \$366,340.

7 (3) an increase in wastewater capacity fees from \$550  
8 to \$800/ERC and a reduction in water capacity fees  
9 from \$800 to \$550/ERC.

10 In total this will add \$210,000 of revenue to the Company  
11 and will, in my opinion, provide the right balance  
12 between the level of rates and capacity fees that will  
13 put the Company on solid financial footing.

14 Q. Before getting into reason for the above program, would  
15 you briefly review Gulf's construction program started  
16 some six years ago and the status of the program today.

17 A. In Gulf's service area, growth has been 5-6-7% per year  
18 and we expect that level of growth in the near future.

19 To meet this growth, the Company constructed a second  
20 wastewater treatment plant in 1989 and expanded it in  
21 1991 and 1995 with a third expansion to be completed in  
22 1997. In the water operation it developed a second  
23 supply in 1990, expanded it in 1994 and again in 1996.

24 Coupled with this expansion was the building of a new and  
25 looping water transmission main and force main and lift

1           stations in the wastewater operation.  
2           Financing small utilities is difficult, but in 1988  
3           the Company was able to raise \$626,800 in equity  
4           capital and \$10 Million in IDRB's, with any surplus  
5           from the IDRB's temporarily invested in government  
6           securities. By the end of 1995, this source of  
7           funds was totally vested in utility plant and the  
8           Company will once again have to turn to outside  
9           sources for additional capital. The biggest uncertainty  
10          during this period was whether a \$2.5 million deep well  
11          would have to be constructed in conjunction with the 1996  
12          expansion of the water supply, in which case water rates  
13          would have to be increased instead of lowered. We  
14          petitioned and were granted in May 1996 by the  
15          F.D.E.P. an expanded permit to mix the water and  
16          wastewater effluent for spraying on golf courses,  
17          thus eliminating the need for the deep well at this  
18          time. As for the status of the construction program,  
19          we're about 60-70% completed with the balance to be  
20          completed in 1996 and 1997.

21    Q.    Your request to the Commission is that reduction in water  
22          rates be made concurrently with interim rate on  
23          wastewater. Please comment on this.

24    A.    The Company's net income was \$105,676 in 1995 and is  
25          estimated to be less in 1996. The \$353,492 rate

1 reduction set forth in Order No. PSC-96-0501-707-WS would  
2 throw the Company in the red. I believe our program is  
3 well balanced and permits the Company to continue to meet  
4 the needs of the area in the most economical and  
5 efficient manner.

6 Q. Why is it necessary to have interim rate relief for  
7 wastewater prior to or concurrent with any reduction in  
8 water rates?

9 A. It is not only necessary, it is critical. There are  
10 three reasons:  
11 First, we must maintain the cash flow necessary to fund  
12 our operations and a level of earnings that will support  
13 the financing of capital budgets. Referring to Exhibit  
14 JWM-1, our five year cash flow is currently projected to  
15 be inadequate to cover construction cost in 1997.  
16 Second, our business plan is to lower the cost of  
17 providing service by refunding the outstanding Industrial  
18 Development Revenue Bonds (IDRB's). Currently Gulf is  
19 negotiating just such transaction that, if successful,  
20 would reduce interest expense by almost 33% or \$300,000  
21 per year. It would also free for Gulf's use the  
22 approximately \$1,000,000 currently held as additional  
23 collateral in the General Debt Service Reserve Account  
24 for the bondholders. The key to this will be Gulf's  
24 ability to obtain insurance for the bonds.  
25 Third, bondholders and investors look at the entire

1           company's earnings when making their investment decisions  
2           and do not analyze water and sewer operations separately.  
3           Lowering water rates without raising wastewater rates at  
4           the same time will impair Gulf's ability to attract debt  
5           and/or equity that will be necessary in future periods to  
6           meet customer service requirements.

7       Q.    What is the major problem facing the Company?

8       A.    The biggest continuing problem faced by our Company is  
9           that we have failed to achieve consistent earnings. As  
10          shown in Exhibit JWM-2, we have had a negative return on  
11          equity over the last 13 years. Until we can achieve  
12          earnings that approximate our allowed rate of return, we  
13          will be unable to attract additional equity investment on  
14          any basis, or additional debt at a reasonable cost. Put  
15          another way, the cost of supporting growth has been at  
16          the expense of current shareholders, as revenues have  
17          been inadequate to offset the growing cost attendant to  
18          ever larger operations.

19      Q.    When were the existing rates and capacity charges  
20          approved by the Commission?

21      A.    The wastewater rates were approved on November 7, 1988  
22          (Docket No. 880308-SU). The water rates were reduced as  
23          of August 24, 1995, when the 1990 rate case costs were  
24          fully amortized, FPSC Order No. 24735. The last water  
25          rate case was completed in 1991.

1           The water capacity fees were approved on March 22, 1985  
2           (Docket No. 840336-WS) and the wastewater capacity fees  
3           on November 7, 1988 (Docket No. 880354-SU).

4       Q.    Would you describe the operations of Gulf Utility  
5           Company?

6       A.    Gulf Utility Company operates in Lee County, Florida and  
7           has its offices at 19910 S. Tamiami Trail, Estero,  
8           Florida. This office houses the administrative,  
9           accounting, customer service and collection functions.  
10          There are a total of 27 employees, with 8 on the  
11          administrative staff, 2 in field customer service, and  
12          17 operating and maintenance personnel.

13          Major construction work is performed by outside  
14          contractors with Company personnel installing services,  
15          performing small construction jobs, maintaining and  
16          repairing the distribution and collection system.  
17          We have two water plants, the San Carlos plant with a  
18          capacity of 2.415 mgd, and the Corkscrew plant with a  
19          capacity of 1.000 mgd. Future expansion will be at  
20          Corkscrew plant. The water system is fully  
21          interconnected.

22          The Company also has two wastewater plants. The San  
23          Carlos plant has capacity of .218 mgd, and the Three Oaks  
24          plant has capacity of 0.751 mgd. Future expansion will  
25          be at the Three Oaks plant. These plants serve two

1 separate areas, but the plans are to interconnect the two  
2 in 1997 when increased service demands in the northern  
3 part of Gulf's system will have to be met by the Three  
4 Oaks plant as it is not feasible to expand the San Carlos  
5 facility.

6 At December 31, 1995, the Company served 6,835 water  
7 customers and 2,299 wastewater customers.

8 Q. On Schedule B-7 and B-8 of the MFR's a summary of the  
9 changes in operating expenses from the prior rate cases.  
10 Would you review the operations that resulted in these  
11 changes in cost.

12 A. Schedule B-7 compares water O & M Expenses to our last  
13 test year which was 1991. Clearly we have achieved  
14 greater efficiencies in operations as expense per ERC  
15 declined by 13%. This is due to increasing economies of  
16 scale. These involve automating some operations, as well  
17 as lower cost per gallon of treatment for chemicals,  
18 payroll and power.

19 Schedule B-8 offers the same comparison for sewer since  
20 our last test year which was 1987. While there have been  
21 many changes in wastewater operations over this nine year  
22 period, the major changes in costs can be attributed to  
23 the capital related cost of expansion of facilities and  
24 the increased operating costs of regulatory compliance.  
25 In 1989 the initial construction of the Three Oaks WWTP

1           took place. This plant was expanded again in 1991 and a  
2           third expansion took place in 1995.

3           With these expansions there were corresponding increased  
4           requirements for power and chemicals. In 1987 with only  
5           the San Carlos Plant in operation we employed two  
6           operators. Today six are required to staff both plants.  
7           Changes in regulation coupled with the increased  
8           treatment requirements has caused us to haul sludge in  
9           greater quantities and more frequently. Regulatory  
10          change has also caused us to increase the number and  
11          frequency of lab tests required.

12        Q.    Would you briefly review the Company's construction  
13          program and capital budget?

14        A.    Capital expenditures from 1996 to 2000 are shown in the  
15          following table and will, in total, exceed \$9 million.

16	1996	\$3,823,722
17	1997	1,947,500
18	1998	518,000
19	1999	35,500
20	2000	<u>3,000,000</u>
21		\$9,324,722

22          A detail of these projected expenditures is shown in  
23          Exhibit JWM-3.

24          To meet the projected service demands in our certificated  
25          service area and attendant regulatory requirements,

1 construction has begun on a .800 mgd expansion of the  
2 Corkscrew WTP, which will be completed in December, 1996,  
3 and the expansion of the Three Oaks wastewater plant.

4 Completion dates and estimated cost are:

5	Corkscrew WTP	(12/96)	\$1,795,000
6	Three Oaks WWTP	(12/97)	1,875,000

7 Another major project will be the construction in 1996 of  
8 both water and wastewater lines to Florida Gulf Coast  
9 University (FGCU), the engineer's last cost estimate for  
10 which is \$1,143,000. This new university is now under  
11 construction and will be taking service in 1996, opening  
12 to students in August 1997. While this is a large  
13 expenditure, Gulf anticipates initial annual water and  
14 sewer revenues of \$100,000 based on FGCU's projected  
15 consumption.

16 In 1996 we will construct an effluent line to dispose of  
17 reject water from the Corkscrew WTP, a low pressure  
18 membrane treatment facility. This line will also be used  
19 to dispose of treated effluent from the Three Oaks  
20 Wastewater Treatment Plant. Currently the two effluent  
21 streams are mixed and spray irrigated on golf courses in  
22 Gulf's service area. We have had an application pending  
23 with F.D.E.P. to expand the quantities of effluent we are  
24 allowed to dispose of in this fashion. Our application  
25 was just recently approved, so we can move forward on

1           this basis. However, there is little doubt that an  
2           injection well will be required at some time in the  
3           future. This will be in all likelihood at the time the  
4           plant is next expanded. The cost of this deep injection  
5           well is estimated to be \$2,500,000 in 1996 dollars.

6       Q.    In 1994 it appears you overearned in water. At the same  
7           time it also appears you have been underearning in  
8           wastewater for several years. Why have you delayed in  
9           filing a sewer rate case until this time?

10     A.    There are several reasons. First, the uncertainty that  
11           exists even now as to when Gulf will have to construct a  
12           \$2,500,000 deep injection well. If we undertook and  
13           concluded a rate case and immediately thereafter found we  
14           had to invest an additional \$2,500,000, we would be faced  
15           with the necessity of filing yet again. Which brings me  
16           to the next point.

17           It is hard to exaggerate the cost in time and effort to  
18           a utility our size in undertaking a rate case. This in  
19           addition to the monetary cost. It is not a decision  
20           lightly made. As you can see in Exhibit JWM-1, our  
21           overall earnings have never been excessive. Absent a  
22           clear benefit attendant to the cost of filing a case, we  
23           were waiting until the facts and circumstances  
24           surrounding the need for the injection well became known.

25     Q.    Who will be presenting other aspects of your case?

- 1     A.    On the rate case, we have three witnesses, namely:
- 2            Carolyn Andrews            Company's chief financial officer
- 3            Robert F. Nixon            Income taxes & cost of capital
- 4            Keith Cardey            Other matters
- 5            On the changes in plant capacity charges, Mr. Cardey will
- 6            be the only witness on this matter.
- 7     Q.    Does that conclude your testimony?
- 8     A.    Yes it does.

## 1 GULF UTILITY COMPANY

## 2 SUPPLEMENTAL DIRECT TESTIMONY OF

3 JAMES W. MOORE

4 Q. Mr. Moore, are you familiar with the contract dated  
5 December 12, 1996 with Florida Gulf Coast University  
6 (FGCU)?

7 A. Yes, I am. I negotiated the contract with the  
8 University.

9 Q. And was it filed with the Commission?

10 A. Yes, it was, on December 17, 1996.

11 Q. Would you briefly describe FGCU.

12 A. FGCU is the 10th state university and is located on  
13 760 acres just east of Interstate 75 between Alico and  
14 Corkscrew Road. It will open on August 25, 1997 with  
15 a student body of 2500-3000, with a faculty of 400-500  
16 positions. Students from University of South  
17 Florida/Edison Community College, located on College  
18 Parkway in Ft. Myers, will transfer from that campus  
19 to FGCU.

20 A location map of FGCU within Gulf's service area is  
21 shown on Exhibit 4 (JWM-9), and a photo of the  
22 construction, as of late January is shown on  
23 Exhibit 4 (JWM-10).

24 Q. Will this be the Company's largest customer?

25 A. Yes, it will.

- 1 Q. When was the first contact between Gulf and the  
2 University?
- 3 A. The first meeting was held on January 12, 1994 at  
4 Gulf's office. Present at the meeting were myself,  
5 Kathy Babcock of Gulf, Tom Taylor and Ned Dewhurst of  
6 Hole, Montes and Associates (the university's  
7 engineers at that time) and Lewis Everline, of the  
8 State University System of Florida. Seven (7)  
9 meetings were held from January 1994 through August  
10 1995.
- 11 Q. Was this then an arms length contract between  
12 disinterested parties?
- 13 A. Yes, it was.
- 14 Q. Would you briefly summarize the contract.
- 15 A. First, it has the provisions of our standard service  
16 contracts, namely setting the point of delivery, size  
17 of facilities, and the responsibilities of the  
18 parties. The contract provides for Gulf to install  
19 the facilities to provide service to each of the  
20 buildings. The size and location of the mains were  
21 negotiated between the parties. FGCU initially  
22 considered requesting treatment as a bulk customer,  
23 with one meter for all service but from Gulf's point  
24 of view, each building is a point of delivery, metered  
25 separately and billed at the retail rate.

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1 Q. What are some of the factors Gulf took into  
2 consideration in entering into this contract with  
3 FGCU?

4 A. FGCU will make a major contribution to the improvement  
5 of the overall area. It will make higher education  
6 available to our local young people (this was the only  
7 area of the state without a 4 year state university)  
8 bring additional availability of arts and science to  
9 the area, and bring stable employment to the area.  
10 Unlike other developments that take years to generate  
11 significant revenue, the university will be our  
12 largest single source of revenue in its first year of  
13 operation.

14 To Gulf this means:

- 15 (a) with revenues of approximately \$100,000 and  
16 incremental expenses of \$17,800, this one  
17 customer will make an important contribution to  
18 the overall operations of the Company;
- 19 (b) FGCU will stabilize and improve the quality of  
20 revenues of the Company;
- 21 (c) with a customer of this size and stability, it  
22 will be important in future financing;
- 23 (d) the economy of scale has demonstrated that  
24 overall cost is stabilized forward, benefiting  
25 all customers.

- 1       The above were important factors in the contract  
2       identified as Exhibit 4(JWM-11). Overall, this is an  
3       important customer, making substantial contributions  
4       to the area and to the Company.
- 5       Q.    Was the Florida Public Service Commission aware this  
6       agreement was being negotiated?
- 7       A.    Yes, they were. According to the University's Vice  
8       President for Administration and the Director of  
9       Facilities Planning, Public Service Commission Staff  
10      met with them in Ft. Myers to discuss service from  
11      Gulf prior to the agreement being finalized and  
12      executed.
- 13      Q.    Does this conclude your testimony on this subject?
- 14      A.    Yes, it does.
- 15

1           **COMMISSIONER DEASON:** Okay. Mr. Moore is  
2 now available for questions?

3           **MR. GATLIN:** Yes, he is.

4           **COMMISSIONER DEASON:** All right.  
5 Mr. Reilly.

6           **MR. REILLY:** We have a couple of exhibits  
7 that we'd like to hand out and get identified,  
8 numbered for identification purposes. We have a  
9 series of questions to pose concerning those exhibits.  
10 The first is entitled "Response to OPC Document  
11 Request No. 17, Travel and Entertainment Vouchers."

12           **COMMISSIONER DEASON:** That will be  
13 identified as Exhibit No. 5.

14           (Exhibit 5 marked for identification.)

15           **MR. REILLY:** Okay. Thank you. And the  
16 second is titled, "Response to OPC's Interrogatory No.  
17 No. 41.

18           **COMMISSIONER DEASON:** That will be  
19 identified as Exhibit No. 6.

20           (Exhibit 6 marked for identification.)

21           **MR. REILLY:** Thank you.

22           **CROSS EXAMINATION**

23 **BY MR. REILLY:**

24           **Q** Mr. Moore, I've arranged to have these two  
25 exhibits handed to you. Would you please refer to the

1 first one, which has been marked as Exhibit No. 5?

2 A What I have marked, they are marked JWM-1  
3 and JWM-2.

4 Q Right, and then there's a little blank. You  
5 can go ahead if you have a pencil, you can write that  
6 in to help you keep up with the process.

7 A On which one?

8 Q The first one, JWM-1, which is titled,  
9 "Response to OPC Document Request No. 17, Travel."

10 A And you are calling that Exhibit 5?

11 Q That's correct. And while we're at it, you  
12 might go ahead and just mark a "6" on the blank space  
13 in the second exhibit.

14 A Okay.

15 Q Now as to this first exhibit, am I correct  
16 that this contains your travel and entertainment  
17 expense vouchers for part of 1994 and all of '95 and  
18 part of '96?

19 A It is my expense vouchers, yes.

20 Q Would you agree with me that if golf outings  
21 were included in the cost projected for the test year,  
22 that golf outings should be removed from the test year  
23 expenses?

24 A No.

25 Q Would you tell me why you feel that it is a

1 legitimate test year expense to have the ratepayers  
2 pay for your golf outings?

3       A     Well, golf outings, meals. My 32 years in  
4 business, if you have taken someone to a meal or done  
5 something with them and it has been in the pursuit of  
6 your business activities, every place I've ever been  
7 employed or worked has considered that a valid  
8 business expense in the pursuit of the Company's  
9 business.

10       Q     If business is discussed during the course  
11 of the golf game?

12       A     Absolutely.

13       Q     Am I correct that the 1996 budget is based  
14 upon 1995 actuals and then adjustments were made for  
15 known changes?

16       A     I think that's correct. I didn't prepare  
17 the MFRs, but I think that's right.

18       Q     If that's the philosophy that lies behind  
19 the budget?

20       A     Yeah.

21       Q     For purposes of following the questions I'm  
22 going to ask you, would you assume that the Commission  
23 in judging the reasonableness of your projections  
24 would look to expenses incurred in the past?

25       A     I think that's correct.

1 Q Would you please turn to Page 2 of this  
2 first exhibit?

3 A Marked with a circle 2 at the bottom?

4 Q That is correct.

5 A I am there.

6 Q We have circled and placed an asterisk next  
7 to several items that I would like to discuss with  
8 you.

9 A All right.

10 Q The first item is for golf and lunch with  
11 three persons. It appears to be a Chas Green, with  
12 Lee County Clerk of the Court, Dennis Bongers, and  
13 Chris Johns, Partners with Peat, Marwick & Company; is  
14 that correct?

15 A That's right.

16 Q Would you tell this Commission why  
17 ratepayers should pay for the lunch and playing golf  
18 with these particular people?

19 A Well, Peat Marwick provides Gulf Utility  
20 Company's annual audit. Dennis Bongers, at that time,  
21 was the national partner in charge of their utility  
22 practice. Chris Johns was the partner in charge of  
23 our audit. What we talked about was our audit, our  
24 financial condition, suggestions that they could make  
25 to help us in the future. I believe it to be

1 worthwhile.

2 Q And also, there's a Mr. Green with Lee  
3 County Clerk of the Court?

4 A Yeah, he filled out the group. He had no  
5 business.

6 Q No business purpose?

7 A No.

8 Q And who is Chas?

9 A That's Mr. Green's first name, Charles.

10 Q Okay. All right.

11 A He was just along.

12 Q May I assume that you compensate Peat  
13 Marwick & Company for the services they render the  
14 Company?

15 A We do.

16 Q And is it part of that compensation package  
17 to have these golf outings, or is that just incident  
18 to their service?

19 A I don't understand the question. Would you  
20 rephrase it for me?

21 Q Well, does this Company need or do you feel  
22 there's some business purpose for them to have golf  
23 outings with you in addition to the compensation they  
24 receive for providing the service?

25 A No, no.

1 Q If you'd look at the next three items I've  
2 marked, they all concern lunches, golf and dinner with  
3 Mr. Al Heston, I think.

4 A Right.

5 Q And is he the president of an insurance  
6 company?

7 A He is, that's correct, the agency that  
8 handles all our commercial insurance.

9 Q These three expense items took place over a  
10 matter of just two days; is that correct?

11 A I think that's correct, yes.

12 Q Could you tell me why you could not have  
13 discussed your insurance needs at your office or  
14 Mr. Heston's office?

15 A Well, also in the -- the answer, in short,  
16 is it could have been done. What the golf outing in  
17 this case did was bring together Mr. Heston and Craig  
18 Hunter, who is the senior vice president of William R.  
19 Hough and Company, our bond underwriters. And we are  
20 attempting to insure the upcoming bond issue, if we  
21 are fortunate enough to be able to issue them, to get  
22 a lower interest rate. It provided the forum to do  
23 that.

24 Q And in your judgment you could not have  
25 assembled these people to discuss these issues unless

1 they had the additional enticement of being able to  
2 play golf?

3 A Well, I mean, you could frame the question  
4 that way. I believe they could be assembled. I think  
5 it provided an appropriate forum and an atmosphere  
6 conducive to these discussions.

7 Q Could you now look at the fifth item I've  
8 circled for \$25.02. This is a lunch with Mr. and  
9 Mrs. Eddie Neese to prepare for your appearance on  
10 Ms. Neese's radio show; is that correct?

11 A Yes, it is.

12 Q Can you tell me what this radio show was  
13 about?

14 A Yeah. She had a show that related to the  
15 Lee County Regional Water Supply Authority, and I was  
16 her guest to discuss the Lee County Regional Water  
17 Supply Authority. And this was a meeting that was  
18 basically a preparatory meeting with Ms. Neese. And  
19 following your question, could this meeting have taken  
20 place elsewhere, sure.

21 Q Could you now refer to the item that's  
22 \$93.18. This is a dinner for Mr. and Mrs. Don  
23 Stillwell; is that right?

24 A Correct.

25 Q Are both Mr. and Mrs. Stillwell employed by

1 the county?

2 A No.

3 Q Could you tell the Commission why the  
4 ratepayers should pay for a dinner for Mrs. Stillwell?

5 A No.

6 Q May I assume --

7 A Other than it's, you know, customary to have  
8 one and the other together.

9 Q But the 93.18 represents the full cost of  
10 that particular lunch?

11 A Yes, it does.

12 Q This amounts to roughly \$31 per person; is  
13 that correct?

14 A Divided by three, yes, sir.

15 Q Okay. Do you know what the per diem on  
16 meals is for employees of the State of Florida?

17 A No, I don't.

18 Q Would you accept, subject to check, that  
19 it's \$3 for breakfast, \$6 for lunch and \$12 for  
20 dinner?

21 A I would take your word for it.

22 Q However, in your judgment the \$31 per person  
23 is not particularly extravagant to consider for lunch.

24 A My judgment is that the per diem is not high  
25 enough for the State of Florida employees.

1 Q If we established a test of reasonableness  
2 that did not -- that was not based on what the State  
3 of Florida pays its employees, but a test of  
4 reasonableness that would be twice what the State of  
5 Florida pays its employees, would you believe that  
6 that would constitute at least a benchmark or a  
7 reasonable test --

8 A I certainly believe in a test of  
9 reasonableness.

10 Q And could twice the amount paid to state  
11 employees be a possible reasonable barometer of  
12 whether a cost of a particular lunch or dinner was  
13 somewhat more extravagant?

14 A It could be. Absolutely it could be, as  
15 could some other number.

16 Q If could you look at the last item that's  
17 been marked. This is a dinner with Mr. and Mrs. R.  
18 Smith; is that right?

19 A That's correct.

20 Q Are both Mr. and Mrs. Smith employed by  
21 United Telephone?

22 A No, they are not. Mr. Smith, at the time,  
23 was the regional vice president for United Telephone.

24 Q And again, that's just one of those  
25 situations where you felt it was appropriate to ask he

1 and his wife to dinner?

2 A I did. That's correct.

3 Q And this is 85.91, which equates out to  
4 about \$29 per meal; is that correct?

5 A I'll trust your arithmetic.

6 Q Can you tell me why this business could not  
7 have been conducted at your office or the office of  
8 United Telephone?

9 A It could have been.

10 Q Could I have you turn to Page 3 of this  
11 exhibit and direct your attention to the item marked  
12 \$230?

13 A Right.

14 Q Can you tell me what this is for?

15 A It's just what it says. At Christmas of  
16 that year we sent gift baskets to a number of vendors  
17 to the Utility Company in recognition for services  
18 provided.

19 Q Can you tell me why the Commission should  
20 have the ratepayers bear this cost?

21 A Other than the fact that I think we get  
22 extraordinarily good value from the services provided,  
23 that's the basis for having done this. We didn't send  
24 it to every vendor, obviously.

25 Q Could I have you turn to Page 4 of the

1 exhibit and direct your attention to the item that  
2 starred, \$33.75?

3 A Sure.

4 Q Could you tell me what this is for?

5 A This was a, I guess -- well, I'm reading.  
6 It was drinks at the Holiday Inn, it looks like it's  
7 on that line, for the board members when we had a  
8 board meeting here prior to dinner.

9 Q Do you believe this is an appropriate cost  
10 that the ratepayers should bear in their charges to  
11 have drinks with the man that's writing insurance for  
12 the Company?

13 A I'm sorry?

14 Q For the board of directors?

15 A Well, let me put it this way, I don't think  
16 it's inappropriate. I mean, If the strict discipline  
17 that you want to apply is that a business meal is  
18 never appropriate in the conduct of the Utility's  
19 affairs, then you could apply that logic to, you know,  
20 the expenses that you are talking about.

21 Q This next item, 62.27.

22 A Yes.

23 Q This is a dinner for Mr. Al Heston again, is  
24 that right?

25 A Correct.

1 Q What type of insurance does he supply to the  
2 Company?

3 A All our commercial insurance -- his agency  
4 supplies all our commercial insurance, except our  
5 health insurance.

6 Q And again, if the math is correct, this  
7 would be about \$31 per person for your dinner; is that  
8 correct?

9 A Yes, sir.

10 Q Could you turn to Page 5 of this exhibit and  
11 look at the first item that I have circled?

12 A Why.

13 COMMISSIONER CLARK: Mr. Reilly, can I  
14 interrupt you a minute?

15 COMMISSIONER CLARK: Mr. Reilly, could I  
16 interrupt you for a minute?

17 MR. REILLY: Yes.

18 COMMISSIONER CLARK: Did any of these people  
19 ever take you to lunch or dinner to discuss business?

20 WITNESS MOORE: Yes, ma'am.

21 COMMISSIONER CLARK: And they pay for it?

22 WITNESS MOORE: Yes.

23 COMMISSIONER CLARK: I guess it just strikes  
24 me as they are the ones who are trying to get you to  
25 do business with them. And I guess it would strike me

1 that at least the insurance company would be the one  
2 paying for it because they want your business, you  
3 could go elsewhere.

4           **WITNESS MOORE:** Well, it's true we can go  
5 elsewhere. A lot of the coverages we get and the  
6 prices we get and some of the things we're asking them  
7 to do are very favorable. But, yes, it is a two-way  
8 street. I think, you know, there's a side of this  
9 that's not seen.

10           **COMMISSIONER CLARK:** Okay.

11           **WITNESS MOORE:** I believe that, you know, as  
12 a business practice, I have found that it's very cost  
13 efficient to have meals with people where they don't  
14 bill you for their services at \$100 or \$200 an hour  
15 and take them to dinner or lunch or to drinks, that's  
16 very productive for us and cost effective because you  
17 are not being billed when you are picking their  
18 brains.

19           **COMMISSIONER CLARK:** So it's your position  
20 that had you had the meetings and asked them to come,  
21 they would be billing you?

22           **WITNESS MOORE:** No, not in every case. I  
23 don't want to make you misunderstand. In the case,  
24 for example, of Mr. Heston, no, there wouldn't have  
25 been a charge. Nor do I believe in the case of Peat

1 Marwick. You know, in some of these instances what  
2 you are trying to do is solicit cooperation among the  
3 parties to accomplish a goal. And if you can bring  
4 them together in, you know, an atmosphere that is  
5 positive, maybe that will be helpful. It's a  
6 judgment.

7 COMMISSIONER CLARK: Okay.

8 Q (By Mr. Reilly) Okay. On Page 5 here, if  
9 you could turn to that. On 5, there is an item of --  
10 let's see. There is an item we can't read. It's a  
11 \$40 item. Could you explain what that represents,  
12 that cost?

13 A Yes. That's cryptic. That is lunch for  
14 myself and Kathy Babcock who is an employee of Gulf  
15 Utility Company at the annual monthly meeting of the  
16 Lee County Regional Water Supply -- Lee County  
17 Regional Water Producers Association, which is a  
18 meeting held monthly there of all the nongovernmental  
19 utilities in Lee County.

20 Q Okay. If I could direct your attention to  
21 the next item, \$30.55?

22 A Yes.

23 Q Could you tell us why you were meeting with  
24 J. McCaughn and K. Staley to discuss lease terms for  
25 the office building?

1           A     Yes. We were trying to determine at that  
2 time whether it was feasible for Gulf Utility Company  
3 to own the office building that it does not own that  
4 it currently occupies. McCaughn is president of a  
5 mortgage banking company. Staley is the executive  
6 vice president and senior lender for the Sun Bank  
7 here. The Sun Bank would have done the short term  
8 financing, the mortgage company would have placed the  
9 long-term mortgage.

10           Q     And this is when you were trying to develop  
11 the financing to construct --

12           A     We were trying to make an analysis of  
13 whether it was possible or appropriate for Gulf to own  
14 that office building. We decided it was not.

15           Q     Could you look at the next page of this  
16 exhibit? I apologize for the poor quality of the  
17 copy, but this is the way we received it from the  
18 Utility. Could you look at the first entry that's  
19 marked?

20           A     Sure.

21           Q     This is a dinner for Mr. and Mrs. J.  
22 Elliott; is that right?

23           A     Correct.

24           Q     Are both Mr. and Mrs. Elliott employed by  
25 Source, Inc.

1           A     No.

2           Q     But, likewise, as you said before, this is  
3 just an incidental expense?

4           A     You will see things like that throughout  
5 these expense reports, and the answer would generally  
6 be the same for every one of them.

7           Q     I really can't ask anymore questions  
8 concerning this page because I make out some of the  
9 numbers. Is it possible we could get a late-filed  
10 exhibit, a corrected page that would show all the  
11 numbers?

12          A     Sure. Absolutely. Absolutely.

13               MR. REILLY: And if we could maybe identify  
14 that as exhibit number --

15               COMMISSIONER DEASON: Yes, it will be  
16 identified as Late-Filed Exhibit No. 7, and it would  
17 be a copy of Page 6, a readable copy of Page 6 of  
18 Exhibit 5?

19               MR. REILLY: Correct.

20               COMMISSIONER DEASON: Very well.

21               (Late-Filed Exhibit 7 identified.)

22          Q     (By Mr. Reilly) Could I have you go ahead  
23 and turn to Page 7?

24          A     Sure.

25          Q     The item I've circled is for an outing at

1 Pelican Nest Golf Club for yourself and three persons;  
2 is that right?

3 A Correct.

4 Q Could you describe what constitutes an  
5 outing?

6 A Well, I suppose I'd call it a golf game and  
7 lunch.

8 Q Okay.

9 A It may have been -- a more descriptive  
10 choice of words may have been more appropriate.

11 Q And again, your position is that is an  
12 appropriate expense?

13 A Yeah. And in thumbing through these, that's  
14 where we come out.

15 Q And if I could have you turn to Page 8.

16 A Sure.

17 Q The first item I have circled is for a  
18 dinner for yourself and three other individuals; is  
19 that correct?

20 A Yes.

21 Q The total bill was \$162.77 or roughly \$41  
22 per person, would you agree?

23 A I would.

24 Q And, I guess, now we are getting back to the  
25 issue of reasonableness and whether it's extravagant,

1 and I suggested the standard of two times what the  
2 state pays. And this would be, of course,  
3 approximately four times.

4 Do you contend to stay and recommend and  
5 it's your position that the ratepayers should pay for  
6 these very costly lunches and outings?

7 A If I were -- as a businessman, I would say  
8 yes. You, obviously, don't agree. Obviously, we both  
9 defer to the Commission's judgment.

10 Q If I could have you look at the next entry,  
11 29.05?

12 A Sure.

13 Q Here it says you discussed security for the  
14 new office building; is that correct?

15 A Yes.

16 Q Now, this is the office that Gulf is now  
17 occupying?

18 A It is.

19 Q Was the security just for the portion of the  
20 office occupied for Gulf?

21 A No, the whole building.

22 Q Well, since the meeting was about security  
23 for the entire building, wouldn't this be an expense  
24 that should be charged to Caloosa, not the Utility?

25 A I don't know the exact time frame; it may

1 have been before we made that decision, but I can  
2 understand where that would be appropriate.

3 Q Let's get to Page 9 -- well, let's see.

4 Skip 9. Let's go on to 10.

5 A Okay.

6 Q Could you look at the item I've circled?

7 A Yes.

8 Q Why should the ratepayers pay you to have  
9 drinks with some associates at the Veranda?

10 A Well, it was a forum for a meeting. And,  
11 again, the theme is, could it have been done  
12 elsewhere? Yes, it could.

13 Q Let's move on to Page 11, and you'll see a  
14 charge that I've circled here of \$182.62?

15 A Yes.

16 Q And this is an dinner for four individuals,  
17 including the spouse of one individual; is that  
18 correct?

19 A That's correct.

20 Q So this would, just for the record, equate  
21 to approximately \$46 per person?

22 A Right.

23 Q And again, you feel that this is reasonable?

24 A It was my judgment it was.

25 Q Again, this is a dinner of a spouse at this

1 very high rate?

2 A That is correct.

3 Q Okay. Let's move on to Page 13. The first  
4 item is for \$19.33, and it's for a lunch with two Ford  
5 sales representatives; is that correct?

6 A I think just one, actually.

7 Q Just one?

8 A Yeah.

9 Q That makes it worse. Okay. Why couldn't  
10 you just go to the Ford dealership and talk about  
11 buying some new trucks?

12 A Could have. Could have. Could have  
13 probably done it on the phone. We've had a long-term  
14 relationship with these people. We buy trucks at a  
15 very good price. You know, we value these  
16 relationships. We value, you know, being able to  
17 purchase vehicles at the price we purchase them at. I  
18 thought it was worthwhile.

19 Q Are Ford salesmen in the Fort Myers area  
20 reluctant to sell you a truck?

21 A I doubt it.

22 Q Because where we come from, they are biting  
23 at the bit to sell you a truck.

24 A I think it's an issue of price, not an issue  
25 of willingness to sell.

1 Q Let's look on to the next item, \$21.21.

2 What was this lunch for? It says "Leadership  
3 Florida." Is that a public relations type  
4 organization?

5 A I think it's a civic-related organization.

6 Q Doesn't the Commission generally disallow  
7 these types of expenses?

8 A I think they do.

9 Q Okay. Could I have you look at the next  
10 item marked?

11 A Yes.

12 Q This is a dinner with two Gulf board  
13 members; is that right?

14 A That's correct.

15 Q And you would agree that this meeting with  
16 the board members of \$148.54 equates out to about \$50  
17 per person for this dinner?

18 A It does.

19 Q Would you turn to Page 14 of this exhibit?

20 And I'll try to move along so we are not too  
21 repetitive here. But I've circled several items that  
22 I've found to be extravagant. And again, my  
23 definition was two times the rate paid to state.

24 A Okay.

25 Q And would you agree by my definition, if you

1 agree with the definition, that all of these items  
2 that I've circled would exceed those amounts and could  
3 be defined as extravagant, if you accepted the  
4 standard?

5 A I would agree that they would exceed the  
6 standard.

7 Q Okay. Move on, then, to Page 16 and 17.  
8 And this is the same question, basically, that these  
9 would likewise exceed that standard?

10 A Okay.

11 Q Okay. Moving briskly to Page 19. Would the  
12 first two items I've circled also meet that  
13 definition?

14 A I think so.

15 Q Okay. And as to the next two items, both of  
16 these refer to a development of property on U.S. 41;  
17 is that correct?

18 A Correct. Well, let me look here at the  
19 first one. Yes.

20 Q Okay. What property is being developed, and  
21 how does this relate to the Utility?

22 A Well, only to the extent they are in our  
23 service area.

24 Q So this is a potential customer?

25 A That's correct.

1 Q Is this relating to development that we have  
2 a developer agreement in place, or is this a  
3 development in the future?

4 A No, this is future. These are people we  
5 were meeting with to explore what, you know, our  
6 requirements are in life.

7 Q If you could turn to Page 20 and focus on  
8 the second item I've circled.

9 A Yes.

10 Q What development did you discuss at this  
11 business dinner?

12 A The one that's \$45.03? Is that --

13 Q Let me make sure here. No, I think the  
14 second item. I guess that would be \$32.

15 A Okay. You know, I'm sorry, I don't  
16 remember. It's not clear here, and I just simply  
17 don't have a memory jog.

18 Q Could it be a development that Caloosa was  
19 interested in?

20 A No.

21 Q And quickly as to Pages 21 and 22, the items  
22 that we've circled, again exceed this definition that  
23 we've suggested as far as extravagant; is that  
24 correct?

25 A Yes.

1 Q Do you know how much the IRS allows Gulf  
2 Utility to deduct on its income tax returns for meals  
3 and entertainment expenses?

4 A No, I don't.

5 Q Would you accept, subject to check, that the  
6 IRS only allows Gulf to deduct 50% of these expenses?

7 A I would accept it subject to check.

8 Q We're going to change the subject.

9 A Okay.

10 Q Let's talk about Mr. Mann for a few minutes.  
11 He is an employee of the Company; is that correct?

12 A That is correct.

13 Q And Mr. Mann is the vice president of Gulf  
14 Utility?

15 A Vice president and a director.

16 Q Okay. Am I correct that Mr. Mann is not  
17 located at the Utility headquarters but, instead, has  
18 an office in Jacksonville, Florida?

19 A That is correct.

20 Q And this office is not an office owned by  
21 the Utility, is it?

22 A It is not.

23 Q Was Mr. Mann ever located at the Utility  
24 headquarters?

25 A Never.

1 Q Am I correct that Mr. Mann is employed by a  
2 company in Jacksonville named Timucuan?

3 A I believe it's pronounced Timucuan. And I  
4 do not know how to spell it.

5 Q Okay. I knew how to spell it, but I didn't  
6 know how to pronounce it.

7 COMMISSIONER DEASON: How about spelling it  
8 for the court reporter?

9 MR. REILLY: Okay. The spelling is  
10 T-I-M-U-C-U-A-N. Pronounce that again.

11 WITNESS MOORE: Timucuan.

12 Q (By Mr. Reilly) Timucuan. Anyway, this  
13 company is considered an investment -- they are  
14 investment advisors; is that correct?

15 A I believe that would be the case, yes, sir.

16 Q Do you know if he is an employee or owner of  
17 this company?

18 A I do not know. I mean, I believe him to be  
19 an employee. I have no idea whether he's an owner or  
20 not.

21 Q How long have you known Mr. Mann?

22 A For at least 10 years.

23 Q Do you know if Mr. Mann works full-time or  
24 part-time for this company that we spoke of?

25 A I don't know how he spends his days, every

1 day. I know he is available to us when we need him.

2 Q How well do you know Mr. Mann? I mean,  
3 you've known him for 10 years?

4 A Yes.

5 Q You've had a social --

6 A Only business related, I mean, as you have  
7 seen.

8 Q -- relationship?

9 A When he comes down and spends time with us,  
10 yes, I see him then. And I'll see him in Jacksonville  
11 when we have board meetings up there, but that's the  
12 limit of my relationship with him.

13 Q And despite the fact that he's been employed  
14 by Gulf for 10 years, you know very little about the  
15 relationship -- his relationship with his primary  
16 employer or if it is his primary employer?

17 A That's correct. I don't know what that  
18 relationship is.

19 Q But when he reports to work, he reports each  
20 day to that company?

21 A To the best of my knowledge, yes.

22 Q Mr. Mann does not keep time records of how  
23 much time he spends on utility business, does he?

24 A No.

25 Q What was Mr. Mann's salary for 1996?

1           A     I don't recall.

2           Q     In response to an OPC --

3           A     I mean, it's easy -- it's available readily.

4     I simply don't know.

5           Q     Does \$49,608 sound correct?

6           A     Yes.

7           Q     Earlier I arranged to have some exhibits  
8 handed to you. Could you refer to that second  
9 exhibit?

10          A     Exhibit 6?

11          Q     No. 6, uh-huh. This is your response to OPC  
12 Interrogatory No. 41.

13          A     Okay.

14          Q     In this interrogatory OPC asked if the  
15 Company does not maintain time records for Mr.  
16 Mr. James Moore, Mr. Randall Mann and Mr. Russell  
17 Newton, please provide an estimate of the time these  
18 individuals devote to utility operations for the years  
19 1995 and '96, Caloosa operations and other nonutility  
20 operations for these same years, is that correct?

21          A     I'm catching up with you.

22          Q     And you can read this. It's down on there  
23 on page -- well, it's the third --

24          A     Okay. I'm with you now. I'm reading --

25          Q     It's down there, No. 41.

1           A     Right.

2           Q     And that was our question.  And then after  
3 the question is your response.  You might want to  
4 refresh your --

5           A     I'm doing that.  Thank you.

6                     Okay.

7           Q     And just for the record, you might -- with  
8 respect to Mr. Mann only, would you read the answer to  
9 this question?

10          A     Yes.  "Mr. Mann does not submit time records  
11 and is paid on a salary basis.  The amount of time he  
12 spends each week on his various duties varies  
13 considerably depending on the needs of the Company."

14          Q     Would I be correct to infer from this answer  
15 that it's not even possible to estimate how much time  
16 Mr. Mann spend on the Utility's business?

17          A     I don't think I could without consultation,  
18 you know, trying to figure it out with him.  I mean,  
19 we could probably come to some number.

20          Q     Well, in our request we asked you to come up  
21 with that information.

22          A     Yes.  He wasn't available.  I mean, it's not  
23 that we are trying to -- I'm not trying to be -- but  
24 we haven't kept time records, and it would be just  
25 that, an estimate.

1 Q It would be his volunteering what he thought  
2 he spent?

3 A Yeah, exactly. Plus what we know about what  
4 he's done for us.

5 Q And in that 30-plus days that you had to  
6 answer that, you were unable to contact him and get --  
7 and he's always available when the Utility needs him?

8 A He is, that's correct. Well, we didn't do  
9 it, and I'm -- you now, if we can, we will. And I'm  
10 sorry if I haven't answered your question  
11 appropriately. It wasn't intentional.

12 COMMISSIONER CLARK: Mr. Moore, could I ask  
13 a question?

14 WITNESS MOORE: Sure.

15 COMMISSIONER CLARK: Who hired Mr. Mann?

16 WITNESS MOORE: Mr. Newton did in  
17 consultation with me.

18 COMMISSIONER CLARK: He was hired in  
19 Jacksonville?

20 WITNESS MOORE: That's correct.

21 Q (By Mr. Reilly) Do you believe that it is  
22 this Commission's responsibility to examine and  
23 evaluate the reasonableness of salaries paid to  
24 utility employees?

25 A I would certainly think that's within their

1 purview, yes.

2 Q And don't you believe it makes the  
3 Commission's responsibility much more difficult when  
4 an estimate of time Mr. Mann spends on Utility  
5 business cannot be provided, or has not been provided?

6 A Well, yeah, if you go strictly by the amount  
7 of time. I mean, we pay him for value of services. I  
8 mean, that's the way we've looked at it. I don't know  
9 how else to answer your question.

10 MR. REILLY: No further at this time.

11 COMMISSIONER DEASON: Staff.

12 CROSS EXAMINATION

13 BY MS. O'SULLIVAN:

14 Q Good morning, Mr. Moore. I'd like to begin  
15 with -- I assume you were here this morning and heard  
16 testimony from the customers and the golf club?

17 A I did.

18 Q Okay. Mr. Lawson from, I believe, Country  
19 Creek Golf Course discussed requesting a different  
20 rate structure and a different hookup charge for  
21 customers within his community who have irrigation.  
22 Have you discussed that at all with Mr. Lawson?

23 A That has been a favorite topic of his for as  
24 long as I've known him. And we have discussed it  
25 intermittently with him. And what we have done --

1 what we have agreed to do is to try and provide some  
2 analysis to him as to usage by the customers in there.  
3 It is the only development in our service area that  
4 has a total outside gray water system. And where he  
5 goes with that, I don't know.

6 Q So you haven't made that analysis part of  
7 this rate case or requested that rate in this rate  
8 case?

9 A No, we have not.

10 Q Mr. Moore, are you familiar with the  
11 situation regarding the class of service that was  
12 established by PSC Order 21450 for the Mariners Cove  
13 and Coach Light Manor Parks?

14 A I am.

15 Q Okay. Would it be an accurate summary of  
16 that order that a new class of service was approved  
17 because the mobile home parks had excessive inflow  
18 infiltration and that the situation will exist as long  
19 as no further repairs to the system are made by the  
20 mobile home parks?

21 A I believe that's correct, yes.

22 Q To your knowledge, have any repairs been  
23 made to the lines which would reduce the infiltration  
24 problem?

25 A Not to my knowledge, no.

1           Q     Do you know if the level of flows have  
2 reduced at all significantly from those mobile home  
3 park?

4           A     The last time I've looked -- and when you  
5 tend to check this is during the rainy season -- they  
6 had not.

7           Q     Would you then agree that the infiltration  
8 and inflow problems still exist for those master  
9 metered customers?

10          A     To the best of my knowledge, they do.

11          Q     All right. Thank you. I want to turn to a  
12 different subject now. Is Florida Gulf Coast  
13 University a current customer of the Utility?

14          A     Yes.

15          Q     Could you describe in what capacity they are  
16 customers at this time?

17          A     Well, they have meters set, they're taking  
18 water through the meters and they are paying bills.

19          Q     All right. Even though classes have not  
20 started yet, they are receiving service from the  
21 Utility?

22          A     Correct.

23          Q     And what -- if you are aware, what general  
24 uses are they using the water for right now if classes  
25 haven't started?

1           A     To my knowledge, they are using it for  
2 construction purposes. The construction project is  
3 large and ongoing, and they are also using it to run  
4 the chiller system. Water runs the chiller system  
5 which air conditions the university, and that system  
6 is being used in some of the buildings that require a  
7 reduced temperature for the installation of  
8 computer-related stuff. That's what we've been told.  
9 I mean, I don't know. The meters are turning.

10           Q     Okay. You mentioned in your testimony on  
11 Page 9 that they will be taking service during the  
12 projected test year of 1996. Were they a customer  
13 during 1996?

14           A     Yes, they were.

15           Q     Could you give us an approximate date that  
16 you began billing them?

17           A     In December -- well, the meters were set and  
18 they began to take water, other than contractor or  
19 construction water, toward the end of the year, in  
20 December at sometime, and I'm not sure of the exact  
21 date.

22           Q     And I take it that the lines to the  
23 university were in the ground during the test year of  
24 1996?

25           A     Yes, ma'am.

1 Q Okay. Turning to your supplemental direct  
2 testimony, you state that the university considered  
3 requesting treatment as a bulk customer, however, the  
4 Utility believed that each building is a point of  
5 delivery and they are metered separately and billed at  
6 the retail rate; is that correct?

7 A We had those discussions. They were just  
8 never pursued.

9 Q I just want to clarify that they are  
10 currently being billed separately for each building?

11 A Yeah. Each building or facility will have  
12 its own meter.

13 Q Okay. I'd like to refer you to -- do you  
14 have a copy of the MFRs there in front of you?

15 A No, I don't.

16 Q Okay. I guess one is about to be provided  
17 to you. If you could turn to Page 152, which is  
18 Schedule E-13. And let me know when you are there.

19 A Okay.

20 Q Okay. The Utility is projecting 108 bills  
21 for the university for the test year; is that correct?

22 A Yes, ma'am.

23 Q Okay. If you are having a meter at each  
24 building, does that mean there are going to be nine  
25 buildings projected for the university? Would that be

1 108 divided by 12?

2 A I think that's correct.

3 Q I'd like to turn you now to your  
4 supplemental testimony and the developer agreement  
5 which was attached.

6 A Yes.

7 Q And Page 5 of that.

8 A Page 5 of the agreement?

9 Q Right, that's correct. Paragraph C states  
10 that, "The owner intends to develop the property in  
11 phases." I'll let you get that in front of you.  
12 There?

13 A Okay. I'm with you. Where, on --

14 Q Paragraph C.

15 A Okay.

16 Q States, "That the owner intends to develop  
17 the property in phases, currently estimated to be on  
18 time schedule and requiring water and sewage  
19 collection service."

20 That paragraph refers to Exhibit C. Could  
21 you indicate where Exhibit C is attached to this  
22 document, and then would it be correct that that  
23 Exhibit C would show nine buildings for the  
24 university?

25 A Well, I'm looking for Exhibit C to start

1 with.

2 Q Okay. Part of our question is we're trying  
3 to find where Exhibit C is and where it would indicate  
4 the number of buildings.

5 A Right. I would think that to be the case,  
6 yes. I'm still searching, I'm sorry. (Pause)

7 Well, I'm having a hard time. (Pause)

8 I'm sorry, just having a hard time finding  
9 it.

10 Q Okay. I guess you would agree that the  
11 exhibits to the contract don't have the exhibit  
12 numbers indicated in the corner of the --

13 A No, not that I have.

14 Q But you would agree that that exhibit would  
15 show nine buildings for the university?

16 A Either that or nine meter locations or  
17 usage. I just have to look at it.

18 Q Okay. We'll move on. That's fine.

19 Do your projections in the MFRs for the  
20 university include all phases of the university as  
21 mentioned in the developer agreement?

22 A Having been involved in the original  
23 negotiations for service to the university, not the  
24 final execution of the contract, the university  
25 planning is limited by what they are allowed to plan

1 for by the Board of Regents. And to the extent that  
2 they get funding, which is based on the official  
3 student population allocated to them and then monies  
4 are allocated on a per head basis that is in the  
5 official population for each university, so goes their  
6 planning.

7 I would have to say my description of the  
8 planning at this point going very far out is  
9 indefinite. But I think they did the best they could  
10 to try to say what the university would look like,  
11 yes.

12 Q So the projections of the MFRs for the  
13 university include the more current or the more  
14 immediate nine buildings?

15 A It's based on the best available information  
16 that they provided us which we --

17 Q Okay. And the university paid the Utility  
18 \$419,000 in December of '95 to reserve capacity for  
19 water and wastewater service; is that correct?

20 A That is correct.

21 Q Okay. Was the entire amount credited to  
22 CIAC?

23 A I don't know the accounting treatment of  
24 that money when we received it.

25 Q Okay. Who could answer that question?

1           A     Probably either Carolyn Andrews or Keith  
2 Cardey.

3           Q     All right. On Page 4 of your supplemental  
4 direct testimony you indicated that Commission Staff  
5 had met with the university during the negotiations of  
6 the contract. Was the Utility concerned that Staff  
7 had influenced or impacted the contract in any way?

8           A     We only found that out after the fact. We  
9 didn't realize that they had even met.

10          Q     Okay. Was the Utility concerned that Staff  
11 had influenced it when it found out?

12          A     We didn't realize that the Staff had  
13 influenced it if, in fact, they did. I have no idea.

14          Q     And you have no concerns about that?

15          A     Well, I guess I take some comfort from it,  
16 actually.

17          Q     Okay. I have one more topic of questions.  
18 It addresses the one-million-gallon holding tank. Has  
19 that one-million-gallon reject water holding tank been  
20 constructed?

21          A     No, it has not.

22          Q     Okay. What is the status of the  
23 construction of this tank?

24          A     The construction, we should have 90% plans  
25 in the next two weeks and construction should take

1 place beginning in April.

2 Q Have any contracts for the construction of  
3 the tank been signed?

4 A No. We are still awaiting the 90% plans  
5 which we can then take to bid.

6 Q You indicated that the construction would  
7 start in April. Do you have an expected date of  
8 completion?

9 A The engineer projects four months.

10 Q As to the Three Oaks water treatment plant  
11 operating permit, the permit currently limits the 750  
12 million gallons -- I'm sorry, .750 million gallons  
13 capacity to .650 million gallons until additional  
14 disposal sites are available; is that correct?

15 A That is correct.

16 Q Okay. Have those sites been located,  
17 constructed or permitted?

18 A Yes. The site that gave us relief from that  
19 special condition was the execution of the agreement  
20 with the River Ridge development, which was done by  
21 WCI Communities.

22 Q Okay. Have they been placed into service  
23 yet?

24 A Yes.

25 Q Okay. In your deposition of December 19th,

1 you stated that they would be placed in service in the  
2 next several days. When were they placed into  
3 service?

4 A I believe it was in the next several days.

5 Q So it was within 1996?

6 A Yes, ma'am.

7 Q Okay. Is the site capacity still permitted  
8 at .504 million gallons per day?

9 A I didn't hear you, I'm sorry.

10 Q Certainly. Is the site capacity still  
11 permitted at .504 million gallons per day?

12 A Yes, nothing has changed there.

13 MS. O'SULLIVAN: Staff has no further  
14 questions. Thank you very much.

15 COMMISSIONER DEASON: Redirect.

16 MR. GATLIN: No questions.

17 COMMISSIONER DEASON: Okay. Exhibits.

18 MR. REILLY: Is it possible I could ask just  
19 one quick follow-up based on some questioning that  
20 Staff raised?

21 COMMISSIONER DEASON: Very quickly,  
22 Mr. Reilly.

23 FURTHER CROSS EXAMINATION

24 BY MR. REILLY:

25 Q To clarify, apparently in this Schedule E-13

1 there was a suggestion that nine of the buildings had  
2 meters installed and operational by the end of 1996.

3 Is your testimony today that there were nine meters  
4 registering water service before the end of the year?

5 A No, that's not true.

6 Q Okay. Could you clarify that?

7 A There were either one or two meters set and  
8 delivering service by the end of the year.

9 Q For basically construction purposes?

10 A No, for running -- to the best of my  
11 knowledge, they were for ongoing construction and for  
12 running the chiller system.

13 MR. REILLY: Okay. Thanks.

14 COMMISSIONER DEASON: Exhibits.

15 MR. GATLIN: Move exhibits, Mr. Chairman.

16 COMMISSIONER DEASON: Okay. That would be  
17 Exhibits 3 and 4 are admitted without objection.

18 (Exhibits 3 and 4 received in evidence.)

19 COMMISSIONER DEASON: Mr. Reilly.

20 MR. REILLY: I'd like to move Nos. 5, 6 and  
21 7 when it is delivered.

22 COMMISSIONER DEASON: Well, 7 is a  
23 late-filed. We'll just handle that by normal  
24 procedure. 5 and 6 will be admitted without  
25 objection.

1 (Exhibits 5 and 6 received in evidence.)  
2 COMMISSIONER DEASON: Thank you, Mr. Moore.  
3 Mr. Gatlin, you may call your next witness.  
4 MR. GATLIN: Mr. Cardey.  
5 COMMISSIONER DEASON: We're back on the  
6 record. You may proceed, Mr. Gatlin.

7 - - - - -

8 KEITH R. CARDEY  
9 was called as a witness on behalf of Gulf Utility  
10 Company and, having been duly sworn, testified as  
11 follows:

12 DIRECT EXAMINATION

13 BY MR. GATLIN:

14 Q Please state your name and address.

15 A My name is Keith R. Cardey, 460 Oriole,  
16 Elmhurst, Illinois.

17 Q Have you been sworn?

18 A Yes, I have.

19 Q Have you prepared testimony for presentation  
20 here today?

21 A Yes, I have.

22 Q If I were to ask you those same questions as  
23 set forth in that prepared testimony, would your  
24 answers be the same?

25 A Yes, they would.

1 Q Have you also identified six exhibits in  
2 that testimony?

3 A Yeah, that's correct.

4 Q The first one were the minimum filing  
5 requirements?

6 A Yes.

7 Q Okay. And the second one is the application  
8 to change plant capacity charge; is that correct?

9 A That is correct.

10 Q And 3 is the allocation of general office  
11 expenses to Caloosa Group, Inc.?

12 A That is correct.

13 Q And 4 is Order No. 960324, rate base and  
14 income statement adjustments for water operations?

15 A Correct.

16 Q And No. 5 is a summary of prepaid capacity  
17 charges as of 12/31/95?

18 A Correct.

19 Q And the sixth one is a developer agreement  
20 for division on prepaid capacity charges?

21 A Correct.

22 MR. GATLIN: We would like those exhibits  
23 identified, Mr. Chairman.

24 COMMISSIONER DEASON: They will be  
25 identified as Composite Exhibit No. 8.

1 (Exhibit 8 marked for identification.)

2 MR. GATLIN: Mr. Cardey is available for  
3 questions.

4 COMMISSIONER DEASON: I believe we need to  
5 insert the testimony.

6 MR. GATLIN: I thought I did. I'm sorry.

7 COMMISSIONER DEASON: Okay.

8 MR. GATLIN: I'd like to have the testimony  
9 inserted as though read.

10 COMMISSIONER DEASON: Without objection, it  
11 will be so inserted.

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GULF UTILITY COMPANY

135

TESTIMONY OF

KEITH R. CARDEY

Q. Please state your name and business address.

A. Keith R. Cardey, 460 Oriole, Elmhurst, IL 60126.

Q. What is your occupation?

A. I am a consultant in the public utility field.

Q. What is your educational background?

A. I am a graduate of the University of Wisconsin, with a Bachelor of Science degree in electrical engineering, and of the University of Kentucky with an LLB degree.

Q. Were you a witness in the Company's prior rate cases and prior dockets where Capacity charges were established?

A. Yes, I was.

Q. And have you provided services to the Company in the intervening years?

A. Yes, I have.

Q. And is a summary of your business experience attached to this testimony as Appendix A?

A. Yes, it is.

Q. What is the purpose of your testimony?

A. I am sponsoring the Minimum Filing Requirements (MFR's) for both the application for a change in rates and the changes in Plant Capacity charges. The documents have been identified as:

1 Application for Change in Rates . . . . . Exhibit \_\_ (KRC-1)

2 Application for Change in Plant

3 Capacity Charges . . . . . Exhibit \_\_ (KRC-2)

4 Financial statements supporting interim rate relief is included in Exhibit 8

5 (KRC-1), Appendix B. The following witnesses will sponsor and testify to

6 parts of Exhibit 8 (KRC-1):

<u>Name</u>	<u>Subject</u>	<u>MFR Ref.</u>
Keith Cardey	Rate Base	A-1 & A-2
	Net Operating Income	B-1 & B-2
	Rate Schedules	E-1 to E-14
	Engineering Schedules	F-1 to F-10
Robert Nixon	Income Taxes	C-1 to C-10
Carolyn Andrews	Financial Exhibits & 1996 Operating Budget	Remaining Schedules

15 Q. Would you summarize the matters you are testifying on in this proceeding?

16 A. I am testifying on these matters, with a page reference where the testimony  
17 can be found:

	<u>Page</u>
18 (1) Rate Case	
19	
20 (a) Rate Base	3
21 • Used & Useful Computations	4
22 • Service to Florida Gulf Coast University	9
23 • Margin Reserve	10
24 • No Imputed CIAC	11
25 (b) Net Operating Income	11

1	• Allocation of General Office Expense	12
2	(c) Rate Schedules	15
3	• Rate Design	18
4	(d) Engineering Schedule	21
5	(2) Interim Rates	23
6	(3) Comments on Order No. PSC-96-0501-FOF-WS	24
7	(4) Plant Capacity Charges	30
8	Q. Turning to the rate case, what test period was used in the preparation of	
9	Exhibit <u>8</u> (KRC-1) (MFR's)?	
10	A. The projected test year ending December 31, 1996 with a historic base	
11	year ended December 31, 1995. This was approved by the Commission in	
12	a letter dated March 15, 1996.	
13	Q. What amount of additional revenues is the Company requesting?	
14	A. The overall increase in revenues is \$210,405. The Company is requesting	
15	a \$366,340 increase in wastewater and proposing a decrease of \$155,935	
16	in water.	
17	Q. Pages 4 through 6 of Exhibit <u>8</u> (KRC-1) contain general information. Do	
18	you have any additional comments on the information shown?	
19	A. No, I do not.	
20	Q. Please explain Section A - Rate Base.	
21	A. Section A develops the rate base for both the water and wastewater	
22	operations. Schedule A-1, page 1, develops the Company's 1996 test year	
23	rate base for the water operations. Column 2 is a 13-month average	
24	balance as of December 31, 1996. Column 3 shows the adjustments that	
25	are necessary to properly reflect the used and useful rate base for the 12	

1 months ended December 31, 1996, which is shown in column 4. As shown  
 2 on line 9, the rate base for the test year ended December 31, 1996 is  
 3 \$4,427,672 for the water operations.

4 Schedule A-2, page 1, shows similar data for the wastewater  
 5 operations, with the rate base for the test year ended December 31, 1996  
 6 of \$4,928,296.

7 Q. Did you review the used and usefulness of the utility plant?

8 A. Yes, I did. First, as to central plant of the water system, it was 88.2% used  
 9 and useful for the 1996 test year as shown in the following table:

	<u>1996</u>
Capacity	4.215 mgd
Flows:	
5-day Avg. - peak month	3.059 mgd
(Highest flows for 5 consecutive days)	
Fire Flows	0.360
Margin Reserve	<u>0.297</u>
	3.716
% Used & Useful	88.2%

19 Source: Schedule F-5 of Exhibit 8 (KRC-1)

20 The Commission in Order No. 24735 recognized economics of scale in the  
 21 construction of the Company's water treatment facilities, and this principle  
 22 has been extended to the construction of Skid #3 at the Corkscrew  
 23 treatment plant which will go into service in December 1996. Under this  
 24 theory, the excess capacity is related to the last increment of capacity,  
 25 which in this case is Skid #3.

1	<b>Flows</b>	<b>3.716 mgd</b>
2	<b>Capacity:</b>	
3	<b>San Carlos WTP</b>	<b>2.415</b>
4	<b>Corkscrew WTP - Skids #1 &amp; #2</b>	<b>1.000</b>
5	<b>Corkscrew WTP - Skid #3</b>	<b><u>0.301</u></b>
6	<b>Total</b>	<b>3.716</b>

7 **% Used & Useful - Skid #3:**

8 **0.301 mgd/0.800 mgd = 38%**

9 The investment in Skid #3 is shown on Schedule A-1, page 3, of Exhibit 8  
 10 (KRC-1). The 38% used and useful of Skid #3 amounts to \$415,890 (col.  
 11 2, line 3).

12 The membrane of Skid #3 has a 5-year life and is depreciated at the  
 13 rate of 20% and the balance at 4.76%. The depreciation expense is:

14 **Membrane: \$130,000 x .2000 = \$26,000**

15 **Balance: 964,455 x .0476 = 45,908**

16 **\$1,094,455 \$71,908**

17 **Used & Useful @ 38% 27,325**

18 **Q. Would you explain the procedure for determining the used and usefulness**  
 19 **of the 1 million gallon concentrated reject holding tank as shown on**  
 20 **Schedule A-1, page 3, of the MFR's, Exhibit 8 (KRC-1)?**

21 **A. The facilities consist of a 1 million gallon tank, pump facilities, and metering**  
 22 **and control equipment. The costs are:**

23 **Holding Tank \$445,455 (col. 4, line 8)**

24 **Metering, Pumping, & Controls Equip. 254,545 (col. 4, line 13)**

25 **\$700,000**

1 Gulf has been permitted by the Federal Department of Environmental  
 2 Protection (FDEP) to mix the effluent from the Corkscrew WTP with the  
 3 effluent from the Three Oaks WWTP for disposal on golf courses. However,  
 4 the effluent from Corkscrew WTP is limited to 20% of the total volume.

5 The metering, controls, and pumping facilities are needed,  
 6 irrespective of the size of the tank, to meet FDEP's 20% limitation. These  
 7 facilities were therefore considered 100% used and useful (col. 2, lines 12  
 8 & 13).

9 The holding tank will serve the Corkscrew WTP, rated at 3.0 mgd.  
 10 The flows in the 1996 test year, allocated to the Corkscrew WTP, are:

11	Total Flows (Sch. F-5 of Ex. <u>8</u> [KRC-1])	3.716 mgd
12	Capacity of San Carlos WTP	<u>2.415</u>
13	Balance (Corkscrew WTP)	1.301 mgd

14 The used and useful investment of the holding tank is:

15 Percent:  $1.301 / 3.000 \text{ mgd} = 43\%$

16 Amount:  $0.43 \times \$445,455 = \$191,545$  (col. 2, lines 7 & 8)

17 The allocation of investment in Skid #3 of the Corkscrew treatment plant,  
 18 and the reject holding tank and associated pumping and control equipment  
 19 for the 1996 test year as shown on Schedule A-1, page 3 of Exhibit 8  
 20 (KRC-1) is:

21		<u>Used &amp; Useful</u>	<u>Non-Used &amp; Useful</u>	<u>Total</u>
22	Investment (line 16)	\$861,980	\$932,465	\$1,794,445
23	Depreciation (line 17)	<u>42,290</u>	<u>50,930</u>	<u>93,220</u>
24	Net Investment (line 18)	<u>\$819,690</u>	<u>\$881,535</u>	<u>\$1,701,225</u>

1 Q. Were you a witness in Docket No. 900718-WW that established the used  
2 and usefulness of the Corkscrew well field?

3 A. Yes, I was.

4 Q. Has the Company followed the same procedure of determining the non-  
5 used and usefulness of the Corkscrew well field in this proceeding?

6 A. Yes, it has.

7 Q. And does Appendix A of the MFR's Exhibit 8 (KRC-1) set forth the  
8 procedure used in this proceeding?

9 A. Yes, it does. The Company in 1990 developed a second water supply,  
10 namely, the Corkscrew water treatment facilities, consisting of 11 wells,  
11 11,000 feet of raw water line, and Skid #1, namely, a 0.5 mgd R.O.  
12 treatment plant that has a buildout capacity of 3.0 mgd. In Docket No.  
13 900718-WW, Order No. 24735, the Commission found the facilities to be  
14 prudently built and, when it established Gulf's Rate Base, recognized the  
15 principal of economy of scale. On page 2 of Appendix A, Exhibit 8 (KRC-  
16 1), column 2 summarizes the \$2,591,894 cost of the facilities and, in  
17 column 3, \$379,672 was found non-used and useful in Order No. 24735.

18 Skid #2 with a capacity of 0.500 mgd went into service in 1994 and  
19 Skid #3 with a capacity of 0.800 mgd in 1996. The investment allocated is  
20 as follows (column 6, line 7 of Appendix A, page 2):

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	Non-Used & Useful (Col. 3)	Allocation	Units	Skids #2 & #3 Used & Useful
Structures, Treat. Eq., Reuse Line	\$127,963	1.3/2.5	mgd	\$66,540
Wells, Raw Water Line	251,709	2/7	wells	71,917
	\$379,672			\$138,457

Referring to Appendix A of the MFR's, page 2, column 3, the amounts shown for structures, treatment equipment and the reuse line relate to 2.5 mgd of future capacity in the R.O. treatment plant. When Skids #2 and #3 with capacities of 1.3 mgd were added, they were allocated 52% of the \$127,963 of cost. Again, when Skids #2 and #3 were added, two of the seven wells were activated and the cost apportioned as shown above.

On page 1 of Appendix A, Exhibit 8 (KRC-1) of the MFR's for the test year 1996, I have found the non-used and useful property to be \$241,215 and the 13-month average of Reserve for Depreciation to be \$47,261. These amounts are shown on Schedule A-5, page 1, and A-9, page 1 of the MFR.

Q. Is the investment in the wastewater system all used and useful?

A. Yes, it is. In the wastewater system, the relationship between system capacity and flows is as follows:

1996

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Capacity	0.969 mgd
Flows:	
Avg Day - peak month	0.851
Margin Reserve (3.0 yrs growth)	
3.0 x 250 gal/ERC x 400 ERC	<u>0.300</u>
	1.151
%	118%

Source: Schedule F-6 of Exhibit 8 (KRC-1)

Again, the wastewater system is operating at capacity, with plans to expand the Three Oaks plant in 1997. Therefore, the wastewater system is 100% used and useful.

Q. Is Gulf's investment in its distribution and collection system used and useful?

A. Yes, it is. The Company's extension policy is for the developer to install the on-site facilities and contribute them to the Company. Since there is no rate base consideration under this practice, the facilities are considered used and useful. This is consistent with prior rate orders of the Commission.

Q. Would you briefly review service to Florida Gulf Coast University (FGCU) and how service to the university is included in this case?

A. Mr. Moore, in his testimony, stated that Florida Gulf Coast University will start operations in 1997. The Company has contracted to supply both water and wastewater service to the university and is constructing facilities to provide the service. The contract is for 183 ERC of water capacity and 209 ERC of wastewater capacity. A summary of the service requirements for



1 existing customers. The recognition of this service obligation is consistent  
2 with the Company's prior rate cases and is consistent with the policy of the  
3 Commission.

4 Q. Did you impute CIAC associated with the margin reserve you just  
5 described?

6 A. No, I did not. The margin reserve reflects the Company's obligation to  
7 serve existing and potential customers, and it invests in central plants to  
8 meet this service obligation. The Company has included the investment in  
9 margin reserve in used and useful investment.

10 If CIAC were imputed, the net effect would be to negate the  
11 Company's capital investment in plant and to have the stockholders absorb  
12 the cost of meeting the growth of the area.

13 The 1996 test period synchronizes or matches the gross revenues  
14 of the Company with the operating expenses to produce those revenues  
15 and the utility property that provides the service. Imputing CIAC from future  
16 customers is out of synchronization with the test year principle.

17 Q. Would you explain the remaining schedules in Section A?

18 A. The remainder of the schedules in Section A are the detail schedules  
19 supporting the rate base calculation on Schedules A-1 and A-2. Many of  
20 the schedules are cross referenced in column 5 of Schedules A-1 and A-2.  
21 Each supporting schedule contains an explanation of the financial data and  
22 calculations depicted thereon.

23 Q. Turning to Section B, would you explain this section?

24 A. Section B develops the Company's 1996 test year net operating income at  
25 present and proposed rates. Schedule B-1 develops the test year net

1 operating income for the water operations. Column 2 is the operating  
2 revenue, operating expenses and net operating income for the 12 months  
3 ended December 31, 1996.

4 The Company prepared a 1996 operating budget in the normal  
5 course of business, and this budget was used in developing the 1996  
6 income statement. The 1996 income statement includes the actual  
7 operations for January, February and March 1996, with the remaining nine  
8 months from the budget. Ms. Andrews has testified to the development of  
9 the 1996 budget, which is set forth in column 2 of Schedule B-1 of the  
10 MFR's.

11 Column 5 shows the revenue adjustment to produce an 9.25% rate  
12 of return on rate base. In the water operations, this is a \$155,935 rate  
13 decrease.

14 Similar data are shown on B-2 for the wastewater operations, where  
15 a \$366,340 increase is required to produce an 9.25% rate of return on rate  
16 base.

17 Q. As a part of your study, did you review the allocation of expenses to the  
18 affiliated company, namely, Caloosa Group, Inc.?

19 A. Yes, I did. The Caloosa Group, Inc. has investments in 33 developed  
20 residential lots and an office building. The ownership of the Caloosa Group  
21 is the same as in Gulf Utility Company, namely, 80% is owned by Russell  
22 B. Newton, Jr. and 20% by James W. Moore.

23 Gulf employees provide general supervision and accounting for  
24 Caloosa, participate in selling the lots and in the homeowners association  
25 of Caloosa Trace, plus provide administration of the office building.

- 1 Q. Is your study of the Allocation of General Office Expenses to Caloosa  
2 Group, Inc. shown in Exhibit 8 (KRC-3)?
- 3 A. Yes, it is.
- 4 Q. Would you describe the procedure used in making this study shown in  
5 Exhibit 8 (KRC-3)?
- 6 A. The procedure with reference to payroll (lines 1 through 6) was first to  
7 determine the service Gulf provided to Caloosa, then review the time  
8 required by each person who performed that service.
- 9 Caloosa is not an active company. It does not require an elaborate  
10 set of books. Two people maintain the books and necessary record  
11 keeping, with an estimate of 9 hours per month. The Federal and State  
12 income tax filings are prepared by outside accounting firms.
- 13 Caloosa owns 33 developed lots which it estimates will be sold in 18  
14 months. It does not own any additional land nor is it involved in any other  
15 development. One employee of Gulf handles the selling of these lots and  
16 does administrative work for the homeowners association, with an  
17 estimated time required of 16 hours per month for these functions.
- 18 With no employees and an inactive company, the administrative time  
19 is minimal. The administrative time of Mr. Moore and his secretary is  
20 estimated to be 5% of each of their time.
- 21 In costing out these services, I used current payroll costs of each  
22 employee and added payroll taxes and health insurance cost. As Exhibit 8  
23 (KRC-3) shows, the time varies from 2 to 10%, depending upon the service  
24 performed, with a total payroll cost of \$12,468.
- 25 During 1995, these five employees were reimbursed by Caloosa

1 \$12,142, which approximates the above cost.

2 Q. Turning to the cost identified as rent, office supplies, etc., on lines 7  
3 through 13, please explain the method of allocating these costs to Caloosa.

4 A. The largest item is rent in the amount of \$4,986 per month. The Company  
5 moved into a new office in late 1995. The previous office was located  
6 adjacent to the water plant, in a building owned by the Company. In  
7 addition to the rent, there is security, cleaning, power, supplies, etc.,  
8 totaling \$5,926 per month. As for the rent, the cost per square foot paid by  
9 Gulf Utility Company is the same as that paid by Lee County Memorial  
10 Hospital which will occupy the balance of the building.

11 The allocation of the above cost was on a square footage basis. I  
12 determined the square footage of the offices and the customer accounting  
13 and collecting area. This totalled 1,739 square feet out of a total of 3,964  
14 square feet of leased office space.

15 I then took the square footage of the offices of the five employees  
16 who perform services for Caloosa (979 square feet) and multiplied it by the  
17 percentage of time each employee worked for Caloosa, which amounted  
18 to 49 square feet. The 49 square feet in relation to the 1,739 square feet  
19 of all office and customer accounting and collecting space is 2.8%, with an  
20 allocated cost of \$1,991.

21 Q. Would you review the cost for computer time?

22 A. The computer is used for payroll and general accounting for 3-4 hours a  
23 month. At December 31, 1995, the investment in the equipment was:

24

25

1	Cost	\$161,700
2	Acc. Dep.	<u>124,300</u>
3	Net	<u>\$37,400</u>

4 The annual cost is about \$30,900, of which \$26,900 is depreciation  
5 expenses. As shown on Exhibit 9 (KRC-3), the cost is \$774 and the  
6 Company was reimbursed \$600.

7 Since the equipment will be fully depreciated in 1997, and with  
8 reduced usage, the \$600 per year is reasonable at this time.

9 Q. And how does Caloosa pay for these services?

10 A. Caloosa reimburses each of the five employees directly for these services,  
11 which will total \$12,142 in 1996, and pays Gulf \$600 a year for supplies  
12 and \$600 a year for computer time.

13 Q. And from your review, what are your conclusions and recommendations?

14 A. My recommendations are:

- 15 1. Caloosa's reimbursement of employees for services provided by Gulf  
16 is adequate and reasonable.
- 17 2. The charges for rent and office supplies be increased from \$600 to  
18 \$2,000 which is reasonable.
- 19 3. The charge for computer time was reasonable.

20 Q. Are the calculations and assumptions supporting Schedules B-1 and B-2  
21 reflected in the additional schedules shown in Section B?

22 A. Yes, they are.

23 Q. What information is included in Section E of Exhibit 8 (KRC-1)?

24 A. Section E sets forth the Company's present and proposed rates. Schedule  
25 E-1 summarizes the present and proposed rates for the water operations

1 and the present, interim, and proposed rates for the wastewater operations.  
2 Schedule E-2 is a proof of revenues for the year 1995.

3 On the water operations, after a four-year recovery period of rate  
4 case expense from the prior rate case, the rates were reduced as provided  
5 in Order No. 24735. The lower rates became effective on August 24, 1995.  
6 For the proof of water revenues, a billing analysis was made for the period  
7 of January 1, 1995 to August 23, 1995, and a second from August 24,  
8 1995 to December 31, 1995. Separate analysis is shown for each period.

9 Q. Were there any changes in the sewer rates in 1995?

10 A. No, there were not.

11 Q. Would you continue with your explanation of Section E.

12 A. Schedule E-3 is a monthly summary of customers during the year 1996.  
13 Schedules E-4 through E-12 contain factual information required by the  
14 MFR's.

15 Q. Would you describe how you estimated the bills and consumption for the  
16 test year 1996?

17 A. E-13 is the revenue projections for the test year 1996. The growth in  
18 customers, by classes of service, is as follows:

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	Water		Wastewater	
	Cust.	ERC	Cust.	ERC
Residential	466	466	339	339
General	9	103	16	142
Multi-Family	5	38	5	26
Subtotal	480	607	360	507
Pri. Fire Service	2	-		
Fla. Gulf Coast U.	1	183	1	209
Total	483	790	361	716

The growth in customers by classes of service and months, for 1996, is shown in Schedule E-3.

In the general service, there are 6 - 3" meters to service a shopping center with a contract ERC of 96 for water and 128 for wastewater. Florida Gulf Coast University again is a contracted amount.

The consumption shown in column 6 of E-13 was developed as follows, and using residential water service as an example.

Description	Meter Size			Total
	5/8"	3/4"	1"	
(1) Customers 1/1/96	6,578	3	2	6,583
(2) Bills (12 x 1)	78,936	36	24	78,996
(3) Additional Bills in 1996	2,969	-	-	2,969
(4) Total Bills (2 + 3)	81,905	36	24	81,965
(5) Usage/Bill-Mgals	6.25	15.47	17.17	
(6) Mgals (4 x 5)	511,974	557	412	512,943

The projection factor shown in column 5 is the end result of dividing column 6 by column 5.

Q. Did you recommend the rate design to the Company?

A. Yes, I did.

Q. And what were your recommendations?

A. The proposed rate design generally parallels the cost of providing service. Since the prior rate cases, operating expenses have increased in both water and wastewater, while the unit investment of water has decreased and the unit investment in wastewater has increased. The table below compares these changes in cost.

% of Increase from Prior Rate Case

	<u>Water</u>	<u>Wastewater</u>
	<u>1991/1996</u>	<u>1989/1996</u>

**Operating Expense****Power, Chemicals, &**

<b>Sludge Removal</b>	<b>8%</b>	<b>245%</b>
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<b>Payroll &amp; Benefits</b>	<b>10</b>	<b>277</b>
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<b>All Others</b>	<b>32</b>	<b>275</b>
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<b>Total</b>	<b>16</b>	<b>267</b>
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<b>Unit Investment (\$/mgd)</b>	<b>(3)%</b>	<b>66%</b>
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With these changes in cost, my recommendation in the water operations is to apply any proposed reduction across the board. With this proposal, all customers receive some benefit from the rate reduction.

In the wastewater operations, there is a general increase across the board, including the treatment and disposal of wastewater. Because of the increase in both the capital and operating cost of treatment, 80% of the proposed increase would apply to volume charges and 20% to the base facility charges.

Q. With reference to the water operations, would you comment on the decrease in the unit capacity charge of producing water?

A. The investment in producing water has decreased since the 1991 rate case. Using net investment (Gross Plant less Depreciation and Net CIAC), the table shows a reduction of 3% in unit investment.

	1991	1996
Plant Capacity - mgd	2.915	4.215
Gross Plant	\$5,735,000	\$8,113,000
Depreciation	<u>(873,000)</u>	<u>(1,948,000)</u>
Net Plant	4,861,000	6,165,000
CIAC (Net)	<u>(2,834,000)</u>	<u>(3,281,000)</u>
Net Investment	<u>\$2,027,000</u>	<u>\$2,884,000</u>
Net Investment		
Per mgd	\$0.70	\$0.68
% Reduction	—	3%

The decrease in cost is from the cumulative effect of both depreciation and CIAC, with depreciation being the more pronounced of the two.

Q. Regarding the wastewater operations, would you comment on the increase in treatment cost compared to that which you just testified to with reference to water?

A. In 1991, the Company treatment facilities included the San Carlos plant plus the first phase of the Three Oaks plant, which had a 250,000 gallon per day capability. In February of 1992, a second 250,000 gallon per day addition was placed in service at Three Oaks, and a third 250,000 gallon per day addition in 1995. The net investment (Gross Plant less Depreciation and Net CIAC) is as follows:

	1991	1996	1997
Plant Capacity - mgd	0.720	0.969	1.719
Gross Plant	\$2,772,000	\$5,777,000	\$7,652,000
Depreciation	<u>(504,000)</u>	<u>(1,162,000)</u>	<u>(1,426,000)</u>
Net Plant	2,268,000	4,615,000	6,226,000
CIAC (Net)	<u>(950,000)</u>	<u>(1,674,000)</u>	<u>(1,998,000)</u>
Net Investment	<u>\$1,318,000</u>	<u>\$2,941,000</u>	<u>\$4,328,000</u>
Net Investment			
Per mgd	\$1.83	\$3.04	\$2.52
% Increase	--	66%	38%

The addition of a 750,000 gallon per day plant in 1997 reflects the economy of scale of larger units but, on the negative side, will have excess capacity for a few years with the loss absorbed by the stockholders.

Q. Would you review the schedules, starting with Schedule F-1, Exhibit 8 (KRC-1)?

A. Schedules F-1 and F-2 show the monthly flows for 1995 for the plants, while F-3 and F-4 show peak flows for 1995.

Schedules F-5 and F-6 develop the used and usefulness of the property. The growth in 1996 was based upon the following:

		<u>Water</u>	<u>Wastewater</u>
1			1 5 6
2	Customer Growth	480	360
3	ERC Growth	607	507
4	FGCU - ERC	183	209

5 1996 includes two substantial additions to the systems, namely, a shopping  
6 center requiring six 3" meters. Their contract demand is for 96 ERC for  
7 water and 128 ERC for wastewater, which are included in the amounts  
8 shown for ERC Growth in the above table.

9 The ERC's for Florida Gulf Coast University (FGCU) are again  
10 contract amounts.

11 Schedule F-7 sets forth the Company extension policy, namely, the  
12 developers install the on-site facilities and contributes them to the  
13 Company. Since there is no rate base component, the distribution and  
14 collection system were considered 100% used and useful, consistent with  
15 prior Commission orders.

16 Schedules F-9 and F-10 set out data on growth, but as Mr. Moore  
17 indicated in his testimony, the Company estimates more growth in the  
18 future than in the past. A comparison is as follows:

	<u>ERC</u>	
	<u>Water</u>	<u>Wastewater</u>
19		
20		
21	Company Estimates	400
22	Schedules F-9 & F-10	339
23		
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25		

## Interim Rates

1

2 Q. What is the Company proposing with reference to interim rates?

3 A. The Company is proposing interim rates only for the wastewater operations.

4 The request for interim wastewater rates is based upon the calendar  
5 year 1995 operations. It includes a 13-month average rate base. Since the  
6 Three Oaks plant went into service in December 1995, the investment was  
7 annualized for the full year.

8 Operation and maintenance expenses were the actual expenses for  
9 1995. Depreciation expenses were annualized for the Three Oaks plant  
10 addition.

11 Q. Are the rate base, operating income, and rate of return supporting an  
12 interim rate increase set forth in Appendix B of Exhibit 8 (KRC-1)?

13 A. Yes, they are. The adjustments in column 3 are the annualizing amounts  
14 for the Three Oaks WWTP as above described. The adjustment in column  
15 5 is for increased revenues and taxes.

16 1995 is not a typical year for wastewater operations. Based on 1995  
17 operations, Appendix B (KRC-1) shows \$409,167 of interim rate relief is  
18 needed, while Schedule B-2 of the MFR shows the need for permanent  
19 rate relief of \$366,340.

20 Q. What rates are you proposing?

21 A. The Company is proposing interim rate relief of \$300,000, which is 82% of  
22 the requested amount of permanent rate relief. The interim rates are 96%  
23 of the proposed rates and are set forth in Schedule E-1, page 2 of 2, of  
24 Exhibit 8 (KRC-1).

25



1 Q. On page 2 of the MFR's (Exhibit 2 [KRC-1]) is shown the doubling of the  
 2 water rate base in an 18-month period. Did Staff consider any of these  
 3 projects in their June 30, 1995 study?

4 A. No, they did not.

5 Q. Have you made periodic reviews of the Company's earnings on its utility  
 6 operations?

7 A. Yes, I have for the years 1992, 1993 and 1994, as one of the financial  
 8 statements the Company submitted to the trustee of the Industrial  
 9 Development Revenue Bonds. A 1995 study has not been made.

10 The results show the earnings from water above average and  
 11 wastewater below average, but overall a reasonable rate of return.

12	1992	11.2%
13	1993	9.4%
14	1994	11.2%

15 Q. Did the Company pay dividends in that period?

16 A. No. The Company has never paid a dividend, and all earnings were  
 17 reinvested in the system.

18 Q. Have the water consumers benefited from the Company's construction  
 19 programs?

20 A. Yes, they have. For example, the looping of mains increases the reliability  
 21 of service as well as maintaining stable pressures.

22 Then again, the expansion of the Corkscrew plant also improved the  
 23 quality of water. In the prior rate case (Docket No. 900718-WU), the  
 24 Commission said this on page 4 of the Order:

25

1 Due to the depletion of pure water in the  
2 southwest coastal underground of Florida, the utility  
3 has to use a poor quality source water to meet its  
4 service demands. Therefore, the ability to treat the  
5 total dissolved solids becomes an important factor in  
6 the design of the water plant. Dissolved minerals,  
7 gases, and organic constituents may produce an  
8 aesthetically displeasing color, taste, or odor. Some  
9 chemicals may be toxic, and some dissolved organic  
10 constituents are carcinogenic. An advantage of  
11 membrane treatment is its high removal of total  
12 dissolved solids from the raw water.

13 Membrane softening adopted at the Corkscrew  
14 water plant is a typical alternative to conventional lime  
15 softening plants. Membrane softening will reduce  
16 hardness, organics, bacteria, and viruses. Many of the  
17 customer complaints about white color sediments are  
18 caused by the high content of hardness in the finished  
19 water from the lime softening treatment plant. This can  
20 be improved by using the membrane softening  
21 process.

22 Q. Going to the schedule that is attached to Order No. PSC-96-0501-FOF-WS,  
23 what are your comments?

24 A. As to the schedule, I have these comments:

25 Rate Base: The non-used and useful plant is overstated.

1 **Cost of Capital:** The schedule is not consistent with the prior case in that  
2 it failed to include acquisition adjustment in equity capital.

3 **Operating Expense:** Overstated the cost of services provided to an  
4 affiliated company; and second, no cost was included for defending  
5 itself against this action by the Commission.

6 **Rate Base Overstatement of Non-Used and Useful:**

7 The non-used and useful property for the test year ending June 30,  
8 1995 is:

	<b>Non-Used &amp; Useful</b>	
	<b>Plant</b>	<b>Dep.</b>
Corkscrew Well Field	\$318,121	\$39,566
Skid #2 \$502,806 x 19%	95,533	3,869
<b>Total</b>	<b>\$413,654</b>	<b>\$43,435</b>

15 Staff had a non-used and useful adjustment of \$881,728 in the water  
16 operations compared to \$370,219 shown above. This understates  
17 rate base by \$511,509.

18 **Cost of Capital:** In both the 1988 wastewater rate case (Order No. 20273)  
19 and the 1991 water rate case (Order No. 24735), plant acquisition  
20 adjustment was included in equity capital. At June 30, 1995 it was  
21 \$121,080.

22 On page 3 of Order PSC-96-0501-FOF-WS, the Order states:  
23 "Using the high-end of the range to calculate any potential over-  
24 earnings, we have established an overall rate of return of 9.82% for  
25 interim purposes."

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The 9.82% uses an average of the return on equity (13.11%), not the high-end (14.11%). Correcting Schedule 2 for the above items, the rate of return is 9.94%.

Affiliated Transactions: Five of Gulf's employees provide accounting and administration services for the Caloosa Group, an affiliated company. I reviewed the services provided and the cost of such services, and my testimony on this matter is included in this testimony. My conclusions are that the reimbursement for the cost of the five employees by Caloosa is reasonable, the cost for the computer use is reasonable, but the cost for supplies and rent should be increased, due primarily for rent on the new office building. There should be an adjustment of \$1,286, not the \$27,358 adjustment made by Staff.

	<u>Water</u>	<u>Wastewater</u>
Staff: Payroll	\$(16,143)	\$(7,597)
Office rent	<u>(11,215)</u>	<u>(5,278)</u>
	(27,358)	(12,875)
Cardey adjustment	<u>1,286</u>	<u>605</u>
Add back as an operating exp.	<u>\$26,072</u>	<u>\$12,270</u>

For an inactive company, Staff's allocation of payroll and office space is in error. A comparison of my allocation and Staff's is shown in the following table:

	<u>Staff</u>	<u>Cardey</u>
Allocation of payroll	12.67%	2.6%
Allocation of office space	25.94%	2.8%

1 In addition, the cost of reviewing and defending the Company's rights <sup>163</sup> against  
2 revenue adjustments is a proper and necessary cost of doing business and should  
3 be included in operating expenses. Assuming one-half of the cost included in the  
4 MFR's (Sch. B-3 of Exhibit 8 [KRC-1]), the cost would be  $1/2 \times \$20,209 =$   
5 \$10,104.

6 Q. Does Exhibit 8 (KRC-4) adjust the rate base and income statement for the  
7 water operations set forth in Order No. 960234-WS?

8 A. Yes, it does. It shows a decrease in rates of \$256,752 in contrast to a  
9 decrease of \$353,492 in the above order.

10 As I have previously stated, the June 30, 1995 period is not  
11 representative of the Company's operations, and any adjustment to water  
12 rates should be based upon the 1996 test period.

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Q. What is the Company requesting as it relates to Plant Capacity charges?

A. The Company is requesting the Plant Capacity charge for residential wastewater service be increased from \$550/ERC to \$800/ERC and the charge for residential water service be decreased from \$800/ERC to \$550/ERC.

The increased charge for wastewater is due to the higher cost of increased Capacity in its treatment plants. The decrease in the charge for water brings the level of CIAC within the guidelines of the Commission Rules.

Q. Who will the proposed Capacity charges be applicable to?

A. The charges will be applicable only to customers connecting to the system after the effective date of the proposed charges.

Since most future developments will take both water and wastewater service from the Company, they will pay \$1,350 per ERC both before and after the change. The main difference is the Company will record more CIAC in the wastewater and less in the water operations under the proposed plant Capacity charges than before.

Q. Would you state what is the basic economic consideration behind the proposed Capacity charges.

A. In broad terms, the charges represent a partial recovery of the capital the Company has invested or will be investing in its central plants. This includes treatment plants, major transmission facilities, force mains and distribution reservoirs.

Q. Please identify Exhibit 8 (KRC-2).

1 A. Exhibit \_\_ (KRC-2) is the application for changes in Plant Capacity charges.

2 Q. Does Exhibit 8 (KRC-2) contain the data required under Rule 25-30.565?

3 A. Yes, it does. The Rule sets out information required when applying for  
4 approval of new service availability charges, and Exhibit 8 (KRC-2)  
5 contains the information required under the Rule.

6 Q. Was Exhibit 8 (KRC-2) prepared by you or under your direction and  
7 supervision?

8 A. Yes, it was.

9 Q. Turning to the wastewater operations, please describe the method of  
10 determining the \$800 proposed Capacity charge.

11 A. The Capacity charge was computed as follows on page 35 of Exhibit \_\_  
12 (KRC-2):

	<u>Amount</u>
Investment in treatment, effluent	
disposal, force mains	\$4.74/gal
Usage/ERC	250 gals
Investment	\$1,185/ERC

19 The usage of 250 gals/ERC is in the present tariffs. The \$800/ERC charge  
20 results in a ratio of 74% net CIAC to net plant in year 2005.

21 Q. Turning to the water operations, please describe the method of determining  
22 the \$550 proposed Capacity fee.

23 A. The Capacity fee was computed as follows on page 79 of Exhibit 8 (KRC-  
24 2):

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Investment in water supply, treatment and storage	\$2.50/gal
Usage/ERC	396 gals
Investment	\$990/ERC

The usage of 396 gals/ERC is in the present tariffs. The \$550/ERC charge results in a ratio of 72% net CIAC to net plant in the year 2005.

Q. What Capital expenditures were included in the period 1995 to 2005?

A. The Company's 5-year construction estimates were used for major capital expenditures. The plant expansions are:

		Increase
	<u>Year</u>	<u>mgd</u>
Wastewater	1997	0.750
Water	1996	0.800
	2000	0.600

In the wastewater operation, large expenditures for mains, force mains, and lift stations are being made in 1996 and 1998, and in the water operation, for mains in 1996.

Q. Did you make any estimation for minor additions to the system?

A. No, I did not. In a utility operation, there are hundreds of small projects that occur year in and year out, and are normally included in construction forecast. These include small main extensions, raising manholes, replacing motors, etc., but no estimates were made for these items. The net effect on the study would be to lower the percent CIAC to net plant.

Q. And did you retain the present usage per ERC?

1 A. Yes, I did. The usage is 250 gallons per ERC in wastewater and 396  
2 gallons per ERC in water. The average usages have not changed.

3 Q. In estimating the on-site investment within a development, what costs were  
4 used?

5 A. The average cost is \$895/ERC for water and \$1,106 for wastewater. These  
6 were based upon costs of projects within the Company's service area in  
7 1994 and 1995. No adjustment was made for future inflation.

8 Q. With reference to the proposed Capacity charges, what will be the  
9 Company's policy with reference to those who have prepaid Capacity  
10 charges?

11 A. When an applicant applies for service, they reserve Capacity by paying the  
12 charges in effect at that time. The proposed charges are \$550/ERC for  
13 water and \$800/ERC for wastewater. They will be credited for any amounts  
14 previously paid.

15 On Exhibit 8 (KRC-5) is a summary of the prepaid charges as of  
16 December 31, 1995 and how the proposed charges affect each party.  
17 Overall, there will be a \$33,502 refund.

18 Q. Does the Company's Developer Agreements provide for collecting the then-  
19 effective Capacity charges when connections are made to the system?

20 A. Yes, they do, and a copy of the provision in the Developer Agreements is  
21 shown on Exhibit 6 (KRC-6).

22 I am also advised by legal counsel that the program outlined above  
23 is in conformity with the Florida Public Service Commission's policy.

24 Q. Does that conclude your testimony?

25 A. Yes, it does.

1 COMMISSIONER DEASON: Mr. Reilly.

2 MR. REILLY: Thank you.

3 CROSS EXAMINATION

4 BY MR. REILLY:

5 Q Good morning, Mr. Cardey.

6 A Good morning.

7 Q Isn't it correct that the basis of used and  
8 useful calculations for the Commission, that the  
9 Commission has adopted, is basically a flow comparison  
10 between plant capacity and flow demands?

11 A Yes.

12 Q Did you review the used and usefulness of  
13 the Utility plant?

14 A Yes, I did.

15 Q Could I direct your attention to your direct  
16 testimony on Page 4? On Line 8 you state, "Yes, I  
17 did. First, as to the central plant of the water  
18 system it was 88.2% used and useful for the 1996 test  
19 year as shown in the following table."

20 Isn't it correct that you prepared all the  
21 engineering schedules for F-1 through F-10?

22 A Correct.

23 Q Okay. At this time I would like to pass out  
24 a handout. This is the Company's response to Staff's  
25 interrogatory No. 17. And we'd like to short-title it

1 "Response to Staff's Interrogatory No. 17."

2 COMMISSIONER DEASON: Do you wish to have it  
3 identified?

4 MR. REILLY: I would like to have it  
5 identified.

6 COMMISSIONER DEASON: Exhibit 9.  
7 (Exhibit 9 marked for identification.)

8 Q (By Mr. Reilly) Before referring to this  
9 exhibit I just handed you, let's try to go to the --  
10 first, to the MFRs. And in Schedule F-5, which can be  
11 found -- let's see. Here we go. It can be found on  
12 Page 159.

13 A That's correct.

14 Q Okay. You used in this Schedule F-5, 607  
15 ERCs for 1996 growth; is that correct?

16 A That's correct.

17 Q However, now, I'd have you refer to this  
18 Exhibit 9 which in effect is a revised Schedule F-9  
19 and F-10; is that correct?

20 A That's correct.

21 Q And on this revised MFR schedule, I believe  
22 we see that the growth of 1996 is actually 431 ERCs,  
23 is that correct, by looking to Column 8 and comparing  
24 Lines 4 and 5 to try to compute the difference?

25 A See, I can't see the numbers you are

1 referring to.

2 Q It's handwritten to the right -- or you can  
3 do your own math of the 8,336 ERCs, total ERCs in '95,  
4 and 8,767 for 1996, subject to check?

5 A Okay.

6 Q And we came up with 431.

7 A All right.

8 Q And my question to you is why the 431 ERC  
9 number is F-9 revised was not used in your F-5  
10 calculation?

11 A The purpose of the test year, of course, is  
12 to reflect the conditions that will be applicable in  
13 1996. And it's the opinion of the Company that the  
14 growth in 1996 and the immediate future will be  
15 greater than the growth in the past. Therefore, we  
16 use the growth that is anticipated in 1996.

17 Q In effect, did you use a meter equivalent  
18 ERC instead of actual growth?

19 A No, we used the estimated growth.

20 Q The 607 ERC growth is not a projection based  
21 on historical flow data in Schedule F-9?

22 A No, it is not.

23 Q And so your 607 was derived from the meter  
24 size and projection factor which, I guess, can be  
25 found in Schedule E-13. Perhaps we can go to that and

1 see how this might impact on how you arrived at these  
2 numbers --

3 A No, that is not the correct procedure.

4 Q -- how you did it?

5 A The correct procedure was that the Company,  
6 by months, estimated the customer growth that they had  
7 anticipated. They were in contact with all of their  
8 commercial customers and got their schedule of coming  
9 on stream. And then in addition, there was the  
10 university that they also knew their schedule, plus a  
11 new shopping center under construction. So these were  
12 based upon knowledge of the activities in the area by  
13 the Company.

14 Q But didn't we -- wasn't it known that the  
15 university, which will someday be a very large  
16 customer of the Utility, would essentially be a blip  
17 on the screen for '96. They would not have impacted  
18 on growth factors for '96, would they?

19 A Well, it all depends on what you are trying  
20 to do. What we are trying to do is estimate the level  
21 of operations in the coming year when the rates will  
22 go into effect. Therefore, the test year reflects  
23 those factors that will reflect the normal operation  
24 and, certainly, the university would be included in  
25 that.

1 Q And the effect of these judgments is to  
2 create a higher growth figure than would otherwise be  
3 supportable with the historic data?

4 A No. The purpose is to try to reflect what  
5 the Company actually anticipates will be on stream  
6 when the rates go into effect.

7 Q My question wasn't what was the purpose,  
8 more was what was the effect of your analysis, is to  
9 produce a growth figure. Does the effect of your  
10 analysis, in fact, produce a growth factor which is  
11 higher than what would otherwise be supportable by  
12 historic data?

13 A Correct.

14 Q Okay. Let me have you refer to Page 18 of  
15 your testimony, Line 11. You stated, "The projection  
16 factor shown in Column 5 is the end result of dividing  
17 Column 6 by Column 5." And this presumably is in this  
18 Schedule E-13 which I've referred to, and I might have  
19 everybody flip over to that at the same time, if you  
20 don't mind.

21 A Well, let me make a change there. On Line  
22 12, that should be Column 6 by Column 4.

23 Q Okay. You were anticipating my next  
24 question.

25 Okay. Did you work up growth projection

1 individually for each classification by estimating  
2 total meter sizes in '96 and times the 1995 usage, or  
3 what kind of historical data did you use to come up  
4 with the projected '96 consumption, just these  
5 interviews and assessments as to what the growth might  
6 be beyond? How did you do that?

7 A The first part that you asked, did the  
8 projection estimate customers by meter size, and  
9 that's true, by meter size. As well as by the time  
10 period that they expected to come on line.

11 Q Let me have you refer to Page 22 of your  
12 testimony, Lines 19 to Lines 22. Down on this portion  
13 of the page, it appears that you have rounded off the  
14 358 ERCs to 500 ERCs for water customer growth. And  
15 339 ERCs to 400 ERCs for wastewater customer growth;  
16 is that correct?

17 MR. GATLIN: What's the reference,  
18 Mr. Reilly?

19 MR. REILLY: This is at the bottom of Page  
20 22 of his testimony.

21 A No, no, no.

22 Q (By Mr. Reilly) What's going on down  
23 there?

24 A That's not the purpose of that. The purpose  
25 was merely to demonstrate that the data that we

1 produced on F-9 and 10 produced some low numbers. And  
2 that, in our opinion, the growth in 1996 would be  
3 higher than shown on those schedules.

4 Q But, essentially, is it not correct to say  
5 that you are factoring up or rounding up the historic  
6 data information on up to these figures of 400 and  
7 500?

8 A No, that's not true.

9 Q Is the result what I suggest?

10 A No, the answer is what I've already said,  
11 that the Company has estimated higher growth in the  
12 1996 and future than they've experienced in the past.  
13 And the estimates the Company has used are the ones  
14 that are used in the MFRs.

15 Q But not only do you appear to factor it up  
16 here on Page 22, but don't you then actually factor it  
17 up again to 607 ERCs?

18 A No, that's not true either.

19 Q Okay. Could you explain?

20 A I didn't factor anything up. I put down, in  
21 my opinion, what the growth would be in 1996.

22 Q Well, perhaps I won't use the word  
23 "factoring up." But an analysis was applied that  
24 resulted in a larger growth factor in ERCs; is that  
25 correct?

1           A     The end product is that there would be  
2 greater ERCs.

3           Q     And the effects of this collective analysis  
4 jumps it from the 358 in schedules -- the F schedules  
5 to 500 and then on up to 607; is that correct?

6           A     Yes. And let me just state that we did not  
7 think the development of F-9 and F-10 as developed  
8 produced accurate results. That's why we did not use  
9 it.

10          Q     But isn't it correct that the PSC requires  
11 Schedule F-9 and F-10 in the MFRs because the  
12 historical growth data is used to support growth  
13 calculation in Schedules F-5 and F-6?

14          A     I don't know whether it goes that far. They  
15 require F-9 and F-10, but that does not necessarily  
16 mean it carries over to other schedules.

17          Q     Do you have any paperwork or work papers  
18 that help explain how you achieve these enlargements  
19 of the growth factor?

20          A     First, I don't like your terminology.

21          Q     Okay. These increases in the growth factor.  
22 You can apply any words you choose.

23          A     Do we have work papers?

24          Q     Work papers that support the calculations?

25          A     Of the customers that we used in the MFRs?

1 Q Right.

2 A Yes, we have, and they've been furnished  
3 several times both to Staff and others.

4 Q You use 396 gallons per day water usage per  
5 ERC in Schedule F-5 and 250 gallons a day wastewater  
6 generation per ERC for F-6; is that correct?

7 A That is correct.

8 Q Is it correct that these numbers came from  
9 the 1988 order or tariff?

10 A Yes.

11 Q Therefore, isn't it correct that those  
12 numbers have not been updated for eight years?

13 A They have not been changed, yes, sir.

14 Q According to the 9-27-96 revised Schedules  
15 F-10 and F-10 that are part of this Exhibit No. 9, we  
16 can find the current usage for water is 206 gallons  
17 per day per ERC. Can we not do this by dividing  
18 Column 7 by Column 8 and then 365 days a year?

19 A No, that's not what I used.

20 Q But that is an analysis that can be done?

21 A You can make a calculation, yes.

22 Q And when you divide Column 7, which is total  
23 gallons sold of ERCs or total gallons sold by Column  
24 8, which is the total number of ERCs, and then divide  
25 by 365, you can produce, with all the historic data

1 found on F-9, the 206 gallons per day -- yeah, 206  
2 gallons per day; is that correct?

3 A Those are not my calculations, I don't know.

4 Q But if that calculation was run, would it  
5 not produce a far more updated reflection of what the  
6 actual per gallon -- what the gallon usage per ERC in  
7 this Utility at this point in time?

8 A No.

9 Q And why not?

10 A That does not reflect the current usage for  
11 applications in F-5 for water and F-6 for wastewater.  
12 The numbers that are shown on F-5 and F-6 are  
13 appropriate for this Company in 1996.

14 Q All right. Doing my calculations based on  
15 1996 actual flows?

16 A I don't know what you are doing. That's not  
17 my calculation.

18 Q You apparently do not agree with the  
19 validity of this process, but if this same calculation  
20 was run on wastewater, it would actually produce 158  
21 gallons per day per ERC?

22 A I do not know.

23 Q Subject to check?

24 A No. That's not my calculation.

25 Q Okay. Let's move on to another subject. In

1 Schedule F-3 of the MFRs, direct your attention to  
2 Page 157. On this page you used a required fire flow  
3 of 360,000 gallons per day, which is 1,500 gallons per  
4 minute times 60 minutes times 4 hours; is that  
5 correct?

6 A That's correct.

7 Q Did you obtain this information from the  
8 Department of Insurance or from a local insurance  
9 agent or where did you get this requirement?

10 A Well, first, it's been a part of the MFRs  
11 for as long as I've been around anyway. And it's a  
12 representative of the fire flows for this Company.

13 Q Do you personally know that Gulf Utility can  
14 actually provide this flow at any given time?

15 A Yes.

16 Q And how do you know this?

17 A I've seen fire flows by the Company at  
18 different locations.

19 Q You personally saw the results of fire  
20 flows, written reports or something, that were taken  
21 by the Utility?

22 A Yes.

23 Q And for what, just two, three, or four; or  
24 what locations over what period of time? What kind of  
25 detail did you --

1           A     They have taken several tests over recent  
2 periods, and I've seen those, I suppose, 8, 10, 12, in  
3 different sections of the system.

4           Q     And when you say "recent periods," what time  
5 period are we talking about?

6           A     Some of them were as late as two or three  
7 weeks ago and some in early December.

8           Q     Prior to these most very recent tests run by  
9 the Utility after this issue of fire flow became a  
10 concern, prior to that time had the Utility conducted  
11 fire flow tests?

12          A     Yes. They have fire flow tests by both them  
13 and the fire departments which they have been a part  
14 of. So they have fire flow tests that go back a  
15 number of years.

16          Q     Would you be surprised if the Utility had  
17 responded to Public Counsel's inquiries and indicated  
18 that they did not keep fire flow test records? Would  
19 that surprise you? Prior to the most recent rate  
20 case?

21          A     Well, they have the results of fire flow  
22 tests, so I would assume that they have records of  
23 that. I can't tell you about that statement that was  
24 made.

25          Q     But you have personally seen records of fire

1 flow tests that go back into '94, '95 and '96 that the  
2 Company has actually conducted?

3 A Well, yes, I have seen those fire flows.

4 Q Just one second, please.

5 We will move on. I direct your attention to  
6 Page 4 of your testimony, Line 20. And I'm handing  
7 out an exhibit. It is just selected pages of this  
8 Commission Order No. 24735. All parties have a  
9 complete copy of this order. It is also one of the  
10 enumerated orders. I believe it's been given special  
11 focus by the Staff as taking official notice of it.  
12 So just for bulk purposes, we did not provide the  
13 entire order.

14 Now, here on this Line 20, Page 4, you state  
15 that, "The Commission in Order 24735 recognized  
16 economics of scale in the construction of the  
17 Company's water treatment facilities, and this  
18 principle has been extended to the construction of  
19 Skid 3 at the Corkscrew treatment plant which will go  
20 into service December 1996"; is that correct?

21 A Correct.

22 Q But isn't it correct that this order that  
23 you have selected pages of was really dealing at that  
24 time with the .5 MGD capacity plant?

25 A Well, the ultimate capacity was 3 million

1 gallons and only one skid was put in at that time.

2 So at that time it was .5 MGD.

3 Q Okay. Now, this order issued at this time  
4 then does not rule the used and useful percentages of  
5 Skid 2 and 3 that were put in subsequent to this  
6 order. Would you agree with that?

7 A That's correct.

8 Q Now, I have given you this selective page of  
9 this order because I wanted you to see if you could  
10 find within its provisions any clear language to  
11 support your direct testimony on a Page 4, Lines 23  
12 through 25, where you say, "Under this theory," I  
13 guess referring to the economies of scale, "the excess  
14 capacity is related to the last increment of capacity  
15 which in this case is Skid No. 3." Can you find any  
16 expressed language in there that would --

17 A I don't find those exact words. But having  
18 been a part of that case, certainly the economy of  
19 scale was a part of the findings of the Commission in  
20 that order.

21 Q Well, let me go ahead and just direct your  
22 attention to just a portion of that order. On Page 9  
23 of the order which, I guess, is the first page of the  
24 handout.

25 A Okay.

1           Q     And if you'll go one, two, three, four  
2 paragraphs down. Four paragraphs down, the paragraph  
3 that begins "Nevertheless," but don't read that. Go  
4 down, after "nevertheless," go down one, two, three,  
5 four, five, the sixth line. It starts out "However."  
6 And the order says, "However, the Utility's design  
7 engineer consultant explained that all of the  
8 accessory facilities besides the membrane train and  
9 feed pump are economically designed at a minimum  
10 size." Is that's correct? Is what that the order  
11 says?

12           A     Up to that point, yes.

13           Q     And you were involved in this case, and do  
14 you not remember that specifically the membrane skids  
15 and the well fields were treated differently and that  
16 adjustments were made in these areas concerning  
17 economies of scale?

18           A     First, the well field was treated separately  
19 from the treatment plant. Within the treatment plant  
20 itself, there was some adjustment for oversizing of  
21 the lines within the treatment plant. And some  
22 adjustments were the size of the building to handle  
23 future skids.

24                     But the Unit Skid No. 1 was included in cost  
25 of service at 100% used and useful.

1 Q But, although you allude to the fact that  
2 only Skid 3 now would not be fully used and useful, in  
3 fact, two skids have been added since this order was  
4 issued; is that correct?

5 A Well, yes. Skid 2 and 3 have been added.

6 Q But a finding of 100% used and useful for  
7 Skid 1 does not imply that economies of scale will  
8 necessarily make Skids 2 and 3 fully used and useful,  
9 is the essence of what we are requiring?

10 A No, I don't agree with that. The principle  
11 outlined in that order was the economy of scale. And  
12 the results of the order demonstrate that.

13 If you'll go to Page 167 of the MFRs.

14 Q 167?

15 A Yes. You will see the items that were found  
16 to be nonused and useful in the Corkscrew well field  
17 and treatment plant. And just as I have stated, the  
18 structures or adjustments were made for the size of  
19 the structure. The water treatment equipment, that  
20 \$2,405 is just basically oversizing of certain small  
21 pipes in there. The balance of the adjustments have  
22 to do with the well field. So skid 1 was 100% used  
23 and useful.

24 Q And I'll leave this line of questioning, but  
25 I just wanted to see if you could agree that although

1 economies of scale were discussed and applied in this  
2 earlier case, it did not apply to these two elements,  
3 the well fields and the skids.

4 A Economy of scale applied to the well fields  
5 and it applied to the skids, yes.

6 Q And would you tell me in that order where it  
7 said that as to those two elements? Because we've  
8 looked high and low and can't find that. In fact, it  
9 seems to say that there was a lineal relationship as  
10 to the well fields and as to the skids that would  
11 preclude such an analysis.

12 A Well, of course, Skids 2 and 3 weren't in  
13 there, so you can't read that into the order. But if  
14 you read the order and go to Page 167 of the MFRs,  
15 you'll find how they apply economy of scale to the  
16 Corkscrew well field.

17 Q But, in fact, the well field, 7 of the 11  
18 wells were found to be not used and useful; isn't that  
19 correct?

20 A At that time, yes.

21 Q Okay. Let's move on to another subject. If  
22 I could direct your attention to Page 6 of your  
23 testimony, Line 15. You used a used and useful  
24 calculation for a 1-million-gallon tank in associated  
25 facilities; is that correct?

1           A     Correct.

2           Q     And isn't it correct that the tank has not  
3 been built in 1996; is that correct?

4           A     That's correct.

5           Q     And I believe Mr. Moore testified, if I'm  
6 not mistaken, that he anticipates construction to  
7 begin in April?

8           A     To be started in April.

9           Q     Started in April. But still the finish date  
10 is the same. Since this case has begun, I've heard --  
11 back when construction was going to begin --

12           MR. GATLIN: I object to that question. You  
13 can ask a question but not testify.

14           Q     (By Mr. Reilly) All right. My question,  
15 did you supply the information to Public Counsel that  
16 the construction was going to be begin sooner than  
17 April 1996 in the prior responses?

18           A     I don't know. I can't answer that. I don't  
19 remember.

20           Q     Are you aware that there were earlier dates  
21 that construction was to have begun and has been  
22 pushed back?

23           A     Yes. And, of course, the reason for that is  
24 that they did not get permits to build this tank until  
25 November, I believe, of 1996. So all the time dates

1 were moved back just because of that delay in getting  
2 a permit.

3 Q Well, that's the nature of my question. All  
4 the time dates have been moved back except one. All  
5 along the Company has said this will be finished in  
6 August of '97 -- is that not correct -- no matter how  
7 many months the construction is pushed back?

8 A That -- I don't remember that date.

9 Q In your direct testimony on Page 67, Line 12  
10 to Line 15, you state, "In Docket No. 900718," again  
11 referring to this order, 24735, "the Commission found  
12 the facilities to be prudently built and when it  
13 established Gulf's rate base, recognized the principle  
14 of economies of scale; is that correct?

15 A Yes, that's correct.

16 Q Well, I'll tell you what. I'm going to  
17 leave that question because this goes to the same  
18 thing we fought out before about recognizing the  
19 economies of scale for wells and membranes. I think  
20 we've hit that about as far as we can.

21 MR. REILLY: And seeing no further  
22 questions, I shall retire at this time.

23 COMMISSIONER DEASON: Staff, how much do you  
24 have for this witness?

25 MS. O'SULLIVAN: Mr. Reilly covered quite a

1 bit of it. We probably have five or 10 minutes at  
2 most.

3 COMMISSIONER DEASON: Please, proceed.

4 CROSS EXAMINATION

5 BY MS. O'SULLIVAN:

6 Q Hello, Mr. Cardey.

7 A Good morning.

8 Q Nice to see you in person. We've talked  
9 over the phone during your deposition. Are you a  
10 registered professional engineer?

11 A No.

12 Q Okay. Mr. Reilly, walked you through or  
13 discussed with you calculations of the ERCs, and I  
14 believe you testified that the ERCs in Schedule F-5  
15 are based upon amounts from the last rate case; is  
16 that correct?

17 A Yes.

18 Q And the last water case was in 1991; the  
19 last wastewater case was, I think, in 1988?

20 A Correct.

21 Q Okay. Was there any other information that  
22 you reviewed in order to determine the ERC amounts for  
23 the current Schedule F-5?

24 A I sure did. Yes, I have.

25 Q Okay. What information was that that you

1 reviewed?

2           A     For the wastewater, just for example, I took  
3 the three maximum usage months, three consecutive,  
4 average, actually highest months in 1995, which is  
5 April, May and June, and took the residential usage  
6 during those three months, divided by the customers in  
7 those three months, and it came out to an average of  
8 251 gallons per day for wastewater.

9           For water, I took, actually, a five-year  
10 average of the five consecutive peak days and, again,  
11 divided by the ERCs and came out with 392 gallons per  
12 ERC. So both of them are representative of the  
13 amounts that are in the tariffs.

14          Q     Okay. But, again, you were basing those  
15 upon the assumption or the ERC amounts that were in  
16 the MFRs of 396 for water and 250 for wastewater?

17          A     Correct.

18          Q     Okay. My question was -- and let me  
19 rephrase it perhaps, was you are stating that those  
20 numbers were based upon the data from the previous  
21 rate cases. Did you use any other data or historical  
22 information or flow information before choosing to use  
23 those numbers again in this rate case?

24          A     Yes, and it's just the data that I read to  
25 you.

1 Q Okay. Wouldn't you agree, though, that an  
2 ERC is defined as the average yearly consumption -- or  
3 the average consumption for residents per day based  
4 upon the yearly consumption?

5 A You mean to use annual and since it is some  
6 other time period, is that your question?

7 Q Yes.

8 A I'm trying to find the usage to get the peak  
9 flows for the schedules, I think it's F-5 and F-6.

10 Q Okay. I'm going to change the subject. Are  
11 the San Carlos and Three Oaks treatment plants  
12 interconnected?

13 A Not at this time.

14 Q Are the San Carlos and Corkscrew water  
15 treatment plants interconnected?

16 A Yes.

17 Q Would that be the distribution systems?

18 A Through -- yes, through the transmission and  
19 distribution system.

20 Q All right. The Utility is requesting a  
21 margin reserve in this docket; is that correct?

22 A Correct.

23 Q Okay. On the MFR Schedule F-8, which is  
24 Page 162, when asked to provide calculations and  
25 analyses used to determine the amount of margin

1 reserve, the Utility indicated recap Schedules F-5,  
2 F-6 and F7. Does that response indicate that those  
3 calculations are contained on those previous MFR  
4 pages?

5 A Yes, the calculations are in there.

6 Q On Page 4 of your testimony, you address the  
7 calculations for used and useful. I'd like to have  
8 you turn to that page, and let me know when you are  
9 there.

10 A Yes, I am.

11 Q Okay. Could you explain the reason for a  
12 second calculation for the Skid No. 3 on the following  
13 Page since it was included in the first calculation?

14 A Well, it's just to demonstrate how the  
15 principle of economies of scale worked and how I  
16 applied it in this case.

17 Q All right. So that 80% was not added to the  
18 used and useful calculation?

19 A No, it was not added. It merely stated that  
20 that was the percentage of used and useful in Skid  
21 No. 3.

22 Q So it's a break-out calculation?

23 A Correct.

24 Q Okay. Referring to Page 6, Line 9 of your  
25 prefiled testimony, you state that the rating of the

1 Corkscrew water treatment plant is 3.0 million gallons  
2 per day. Isn't that plant currently permitted at 1.8  
3 million gallons per day?

4 A Yes.

5 Q Okay. Are there any plans or pending  
6 requests to increase the capacity?

7 A Well, there are plans. Of course, the  
8 Company has plans to expand it in the future. But I  
9 don't think there's any request to expand it.

10 Q Could you explain the reason for the lower  
11 permitted capacity?

12 A Well, that's the sum of Skids 1, 2, and 3,  
13 in contrast to the 3 million which is the ultimate  
14 capacity.

15 Q Okay. You also state on Line 13 at Page 6  
16 of your testimony that the flows allocated to the  
17 Corkscrew plant in 1996 are 1.301 million gallons per  
18 day. When was Skid 3 actually placed in service?

19 A In December of 1996.

20 Q Okay. And what was the capacity of the  
21 Corkscrew water treatment plant without the addition  
22 of Skid No. 3?

23 A One million gallons.

24 Q Okay. On Page 9 of your testimony, Line 22  
25 you indicate that the Company has contracted to supply

1 both water and wastewater service to the university.

2 How did Gulf know how much capacity to build?

3 A There is a contracted amount and these were  
4 negotiated with the engineers of the university.

5 Q Okay. What ERC values for the university  
6 were used by the consultant in that forecast or  
7 contract?

8 A Well, the results is, you know, showing down  
9 on Line 24 and 25.

10 Q Okay. So you used 396 for water and 250 for  
11 wastewater, right?

12 MR. GATLIN: Per ERC.

13 Q (By Ms. O'Sullivan) Per ERC.

14 A Per ERC, right.

15 Q Turning to the Corkscrew well fields, how  
16 many wells are located in that well field?

17 A Total of 11.

18 Q And how many of those are equipped with  
19 pumps?

20 A Five.

21 Q What is the capacity of each well equipped  
22 with a pump?

23 A 500 gallons per minute.

24 Q That's gallons per minute?

25 A Yes.

1           Q     Okay. Does Gulf Utility Company have plans  
2 to equip more of the Corkscrew well field wells with  
3 pumps within the next 18 months?

4           A     I don't believe it's quite that quick, but  
5 our plans, as they add skids, they have to add more  
6 well capacity.

7           Q     So within the next 18 months you know of no  
8 plans?

9           A     That's correct.

10          Q     Okay.

11                **MS. O'SULLIVAN:** I'm passing out an Exhibit  
12 on the cost proposal for the construction and testing  
13 of the reuse mixing system. I'd like to have that  
14 marked at Exhibit No. 10, I believe.

15                **COMMISSIONER DEASON:** Yes, that's correct.

16                **MR. REILLY:** Maybe I miscounted. I thought  
17 No. 10 was selected pages of -- not so? We had a  
18 composite on that one?

19                **COMMISSIONER DEASON:** Selected pages from  
20 the order, I did not identify that Mr. Reilly.

21                **MR. REILLY:** Could we have a composite  
22 exhibit then, for 9, being those two exhibits that I  
23 asked questions on.

24                **COMMISSIONER DEASON:** Exhibit 9 is the  
25 response to Staff Interrogatory 17.

1           MR. REILLY: And the second one I handed out  
2 was just selected pages of an order, which is --

3           COMMISSIONER DEASON: Yes. And you  
4 indicated that order has already been recognized.

5           MR. REILLY: All right. That's fine.

6           MS. O'SULLIVAN: Thank you.

7           (Exhibit 10 marked for identification.)

8           Q        (By Ms. O'Sullivan) Mr. Cardey, we've  
9 given you an exhibit relating to the estimated  
10 construction cost for the grant request by Gulf  
11 Utility to the South Florida Water Management  
12 District. I take it you are aware that Gulf has been  
13 approved for a \$300,000 grant for the construction of  
14 a reuse project from the district?

15          A        It's been approved, but there's been no  
16 money received.

17          Q        That's correct. And that project consists  
18 in general of four components which were indicated in  
19 the cost proposal, is that correct, the  
20 one-million-gallon per day tank, transfer and pumping  
21 equipment, reuse site, blending stations and the  
22 extension of the reuse main?

23          A        No, I don't know if it include the reuse  
24 main or not. It's my understanding that it did not  
25 include that amount.

1 Q Okay. Doesn't this exhibit indicate a  
2 12-inch reuse main extension? Is that part of the  
3 reuse project?

4 A You know, I -- did you just hand me  
5 something that I was supposed to be looking at?

6 Q Yes. It's Exhibit No. 10. It's estimated  
7 construction costs for the grant request by Gulf  
8 Utility.

9 A I did not get that. I got a schedule, a  
10 different schedule.

11 MS. O'SULLIVAN: We'll give you another  
12 copy. It'll just take a second.

13 Q (By Ms. O'Sullivan) Let me ask you. Are  
14 you familiar with this cost proposal?

15 A These are different amounts than we have  
16 used in the MFR.

17 Q Correct, correct. Right now I'm asking, I  
18 guess, if those four elements of the construction  
19 costs are all part of the reuse project?

20 A Totaling \$750,000?

21 Q Right.

22 A Yes.

23 Q Okay. Are any of the costs --

24 A Ma'am, let me back up a little bit.

25 MR. GATLIN: Are you referring to Exhibit

1 10?

2 MS. O'SULLIVAN: Yes.

3 MR. GATLIN: And what page?

4 MS. O'SULLIVAN: It's only one page.

5 MR. REILLY: Well, we've got three.

6 MS. O'SULLIVAN: That's the other one.

7 COMMISSIONER DEASON: Let's make sure the  
8 record is accurate. What I have before me and has  
9 been identified as Exhibit 10, the description at the  
10 bottom of the cover sheet indicates "Estimated  
11 Construction Costs for the Grant Request by Gulf  
12 Utility to the South Florida Water Management  
13 District," is that correct?

14 MR. GATLIN: That's not what we have.

15 WITNESS CARDEY: May I make a comment at  
16 this point?

17 Q (By Ms. O'Sullivan) I'm going to get to  
18 the question about the cost. Is that your concern?

19 A Yes.

20 Q Okay. Let me ask you if the cost of some of  
21 those elements are included in the MFRs?

22 A Yes. These and additional costs are  
23 included in the MFRs.

24 Q All right. Could you tell us the dollar  
25 amount as well as where those costs are included in

1 the MFRs?

2           A     Yes. The cost of the holding tank, pumps  
3 and controls are \$700,000, and the cost of the 12-inch  
4 reuse main extension is \$200,000.

5           Q     Okay.

6           A     A total of \$900,000.

7           Q     And are those costs included in the MFRs?

8           A     Yes.

9           Q     Okay. Could you tell us -- maybe it would  
10 have to be a late-filed exhibit -- where those costs  
11 are included in the MFRs in terms of what account and  
12 what month and what page number?

13          A     Yes, we could.

14          Q     Okay. Could we have that marked as a  
15 late-filed exhibit number -- I think we are on 11?

16                   COMMISSIONER DEASON: Yes. It would be  
17 Late-Filed Exhibit 11. And could have I a short  
18 title, please?

19                   (Late-Filed Exhibit 11 identified.)

20           MS. O'SULLIVAN: Certainly. That would be  
21 referring to the reuse project funding, indication of  
22 costs and amounts included in the MFRs, including Page  
23 number and appropriate account.

24           MR. GATLIN: Does Exhibit 10 continue to be  
25 the response to --

1 MS. O'SULLIVAN: Exhibit 10 would be the  
2 cost proposal, I believe.

3 MR. GATLIN: The cost proposal is Exhibit  
4 11, and it's a one-page exhibit after --

5 COMMISSIONER DEASON: No, no. We need to  
6 clarify. Apparently, you got handed the wrong  
7 exhibit.

8 MR. GATLIN: I did.

9 COMMISSIONER DEASON: Okay. Now, what is  
10 Exhibit 10 is it actually is consisting of two pages.  
11 There's a cover sheet and the second page at the top  
12 says, "Section 4, Cost Proposal."

13 MR. GATLIN: Yes, sir. That's 10, right?

14 COMMISSIONER DEASON: That is 10.

15 MS. O'SULLIVAN: Exhibit 11 would be the  
16 late-filed exhibit that we just described.

17 (Late-Filed Exhibit 11 identified.)

18 Q (By Ms. O'Sullivan) Okay. Mr. Cardey, I  
19 would like to have you refer to Page 9 of the MFRs,  
20 which is Schedule A-1, Page 3 of 3.

21 Referring to Line 29 generally. Is the  
22 one-million-gallon prestressed concrete storage tank  
23 in this document -- I'm sorry, which is Exhibit 10 --  
24 the same as the reject holding tank as shown in the  
25 MFRs on that page?

1           A     It's the same item, yes.

2           Q     Okay. Same item. The total cost requested  
3 in rate base for the reject holding tank as shown on  
4 Page 9 prior to adjustments is \$700,000; is that  
5 correct?

6           A     700,000 for all items, including the tank  
7 plus the pump controls and metering and other things.

8           Q     Okay. Is the cost of the 12-inch reuse main  
9 extension included in the test year?

10          A     Yes, it is.

11          Q     Where would that amount or that cost be  
12 shown in the MFRs?

13          A     We'll supply that with Exhibit No. 11.

14          Q     Okay. So that would be the location of the  
15 cost of the 12-inch reuse main in the MFRs.

16                   COMMISSIONER DEASON: He's going to include  
17 that in what already has been identified as Late-Filed  
18 11.

19                   MS. O'SULLIVAN: Yes. Thank you.

20                   COMMISSIONER DEASON: Okay.

21          Q     (By Ms. O'Sullivan) This reuse main was in  
22 service during the test year 1996; is that correct?

23          A     I couldn't hear.

24          Q     I'm sorry. This reuse main was in service  
25 during the test year 1996?

1           A     Yes.

2           Q     Okay.

3           MR. GATLIN: I didn't quite hear that  
4 question. Was or was not in service?

5           MS. O'SULLIVAN: It was in service.

6           WITNESS CARDEY: Yes, that's correct.

7           Q     (By Ms. O'Sullivan) Okay. Just a few more  
8 areas of questions here.

9                     On Page 13 of your testimony you state that  
10 Caloosa has 33 lots left unsold. The other  
11 testimonies indicated 28 lots unsold. Do you know at  
12 this date how many lots are left unsold?

13          A     I think the 28 was later testimony that was  
14 put in by Mr. Moore.

15          Q     Is it still your belief that these lots will  
16 be sold within 18 months?

17          A     That's their estimate, yes.

18          Q     Okay. Referring to Page 128 of the MFRs,  
19 Schedule E-1, which is the fire protection rates, or  
20 indicates the fire protection rates, you would agree  
21 that these rates were based upon one-third of the base  
22 facility charge; is that correct?

23          A     Yes, I think so.

24          Q     Okay. Would you agree that according to  
25 Commission rule that it's been updated, Rule

1 25-30.465, that the rates should be based upon  
2 one-twelfth of the base facility charge?

3 A Yes, we agree with that.

4 Q Okay. Why did Gulf decide to use a 1996  
5 test year in filing its rate case?

6 A As indicated in the opening of the MFR,  
7 there is a good deal of construction underway in all  
8 the facilities. And to be representative of the cost  
9 to be incurred when the rates become effective, they  
10 had to use a 1996 test year to include those costs  
11 that were being incurred toward the tail end of 1996.

12 Q Would you agree that some costs may be  
13 insured in 1997?

14 A Well, a lot of costs are to be included in  
15 1997. But the costs that we have reflected in the  
16 MFRs will be incurred in 1997.

17 Q Okay. Would it have made more sense for  
18 matching purposes to use a 1997 test year instead of  
19 1996?

20 A Well, at some place you draw a line, and  
21 certainly it was our feeling that the 1996 test year  
22 as presented represented the cost in the immediate  
23 future.

24 MS. O'SULLIVAN: Staff has nothing further.

25 Thank you.

1           **WITNESS CARDEY:** Thank you.

2           **COMMISSIONER DEASON:** Redirect.

3           **MR. GATLIN:** Yes.

4                           **REDIRECT EXAMINATION**

5 **BY MR. GATLIN:**

6           **Q**     Mr. Cardey, do you have an engineering  
7 degree?

8           **A**     Yes.

9           **Q**     And a legal degree?

10          **A**     Yes.

11          **Q**     And is the summary of your experience stated  
12 in Appendix A attached to your testimony?

13          **A**     Yes, it is.

14          **MR. GATLIN:** That's all I have.

15          **COMMISSIONER DEASON:** Exhibits.

16          **MR. GATLIN:** I think my exhibit is No. 8,  
17 Mr. Chairman.

18                   **COMMISSIONER DEASON:** Yes. Without  
19 objection, Exhibit 8 is admitted.

20                   (Exhibit 8 received in evidence.)

21          **MR. REILLY:** I'd like to move Exhibit No. 9.

22                   **COMMISSIONER DEASON:** Without objection,  
23 Exhibit 9 is admitted.

24                   (Exhibit 9 received in evidence.)

25          **MS. O'SULLIVAN:** Staff moves Exhibits

1 No. 10.

2 COMMISSIONER DEASON: Without objection,  
3 Exhibit 10 is admitted.

4 (Exhibit 10 received in evidence.)

5 COMMISSIONER DEASON: Thank you, Mr. Cardey.

6 We will recess for lunch at this time. We  
7 will reconvene at 1:15.

8 (Lunch recess.)

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10 (Transcript continues in sequence in  
11 Volume 2.)

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