BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

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 of Gulf Utility Company in Lee County for possible overearnings	:	DOCKET NO. 960234-WS

SECOND DAY - EVENING SESSION

VOLUME 5

Pages 690 through 893

PROCEEDINGS:	HEARING
BEFORE:	COMMISSIONER J. TERRY DEASON COMMISSIONER SUSAN F. CLARK
DATE:	Thursday, March 6, 1997
TIME:	Commenced at 8:30 a.m. Concluded at 6:50 p.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

APPEARANCES:

(As heretofore noted.)

I N D E X

MISCELLANEOUS - VOLUME 5

WITNESSES VOLUME 5

WITNESSES - VOLUME 5 CONTINUED

EXHIBITS VOLUME 5

EXHIBITS - VOLUME 5 (CONTINUED)

PROCEEDINGS

(Transcript continues in sequence from Volume 4.)

COMMISSIONER DEASON: Call the hearing back to order.

MR. GATLIN: Call Mr. Elliot to the stand.

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JAMES P. ELLIOT

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

DIRECT EXAMINATION

BY MR. GATLIN:

Q Mr. Elliot, have you been sworn?

A Yes, I have. I'm trying to figure how to get this microphone on.

Q It sounds like it's on.

You have been sworn?

A Yes, sir.

Q But you have not testified today; is that correct?

A That's correct.

Q Would you please state your name and address?

A My name is James P. Elliot. My business

address is 1334 Lafayette Street in Cape Coral, Post Office Box 1321, 33910.

Q Have you prepared testimony consisting of 15 pages for presentation this afternoon?

A Yes, I did.

Q Do you have any changes you wish to make to that testimony?

A Yes, I do.

Q Would you tell us?

A On Page 3, Line 18, there is a typo on that line. It should say Three Oaks WWTP or wastewater treatment plant, as opposed to the WTP. And also -- I'd also like too delete one of the exhibit pages in JPE-2, sheet 8 of 11.

Q Sheet 2?

A Sheet 8 of 11 in Exhibit JPE-2.

Q To delete it?

A Yes. That's fire flows taken from the course of the Utility Company's system.

MR. REILLY: Excuse me. Your first correction was a typo on Page 3, line what now?

WITNESS ELLIOT: Line 18. It refers to the Three Oaks WTP. It should be --

MR. REILLY: Another W.

WITNESS ELLIOT: -- W.

MR. REILLY: Okay, thanks.

Q (By Mr. Gatlin) Does that complete the additions or corrections?

A Yes.

Q With those corrections, if I were to ask you those questions today at this hearing, would your answer be the same as set forth in that prepared testimony?

A Yes, they would.

COMMISSIONER CLARK: Mr. Gatlin, I have a question. I thought for Mr. Biddy's testimony he deleted testimony on the infiltration and inflow?

MR. GATLIN: Yes.

COMMISSIONER CLARK: And are you deleting that same testimony?

MR. GATLIN: We haven't, but we should.

COMMISSIONER CLARK: Okay. I think it's on Page 11 and Page 12.

WITNESS ELLIOT: Yes. Beginning on Line 7 of Page 11, the question and then the following through -- answer which ends up on Page 12, Line 3, delete that also.

Q (By Mr. Gatlin) All right. Now, would your answers be the same?

A Yes, sir.

MR. GATLIN: May we have this inserted into the record as though read, Mr. Chairman?

COMMISSIONER DEASON: Yes. Without objection, it shall be so inserted.

Q (By Mr. Gatlin) Attached to your testimony are some exhibits, correct?

A That's correct.

Q And there are how many now?

A 7. There's still 7 exhibits. We just deleted one sheet of one of the exhibits.

Q JPE-1 is Rule 62-600.41 F.A.C. JPE-2 is margin reserve. JPE-3 is Rule 62-55.315 F.A.C. JPE-4 is the engineering design information, definitions, net positive suction head repumping systems. JPE-5 is pumping storage tank diagrams. JPE-6 is Lee County Land Development Code, Chapter 10, Article 3, Division 5, Fire Safety. And JPE-7 is January 14, 1997 fire plug test results, San Carlos fire district DEP permits. Are those your exhibits?

A That's correct.

MR. GATLIN: May we have those identified, Mr. Chairman?

COMMISSIONER DEASON: Yes. Composite Exhibit 36.

(Composite Exhibit 36 marked for identification.)

REBUTTAL TESTIMONY OF JAMES P. ELLIOTT

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ON BEHALF OF GULF UTILITY COMPANY

DOCKET NO. 960329-WS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS

A. James P. Elliott, 1334 Lafayette Street, Cape Coral, Florida, 33904

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

. I am employed by Source, Inc., an engineering and planning firm, as President.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I am a graduate engineer with a Bachelor of Science degree in Civil Engineering from Kansas State University in 1968. I am a registered Professional Engineer in Florida and Illinois. Prior to founding Source, Inc. in 1979, I was employed for four years with Black Crow and Eidness/CH2M Hill ("CH2M Hill") in Gainesville, Florida. At CH2M Hill, I was the Construction Service Manager for a wide variety of water and wastewater projects in Florida. Prior to joining CH2M Hill, I worked for Greeley and Hansen in Chicago for five years as a design engineer, project manager, and resident engineer on water and wastewater treatment projects.

Q. ARE YOU A MEMBER OF ANY PROFESSIONAL SOCIETIES OR AFFILIATIONS?

A. Yes. I am a member of the American Society of Civil Engineers, American Water Works Association, Florida Engineering Society, National Society of Professional Engineers, Water Environment Federation, American Desalting Association, and the Southeast Desalting Association.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION OR ANY OTHER REGULATORY BODY?

A. Yes. I testified in three administrative hearings relating to Florida Department of Environmental Protection (then the Department of Environmental Regulation) permitting issues. I also testified before the Commission on behalf of Southern States in Docket No. 920655-WS and Docket No. 950495-WS.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to rebut certain portions of the direct testimony of Office of Public Counsel ("OPC") witness, Mr. Ted L. Biddy, and the testimony of Florida Public Service Commission (PSC) witness, Thomas M. Beard. Specifically, I will rebut some of the comments and assumptions made by Mr. Biddy and Mr. Beard.

Q. ARE YOU FAMILIAR WITH GULF UTILITY COMPANY'S WATER AND WASTEWATER SYSTEMS?

A. Yes, I am intimately familiar with Gulf Utility Company's water and wastewater treatment facilities including well fields, transmission/distribution piping systems, reuse facilities, collection systems and sewage pumping stations. Source, Inc. has provided continuing engineering services to Gulf Utility Company and its predecessor, San Carlos Utilities, since 1978. I am the Engineer of Record for the San Carlos WWTP, the Three Oaks ~~WTP~~ WWTP, the U.S. 41 Cascades water booster reservoir and pumping station, and the Corkscrew water booster reservoir and pumping station, as well as numerous wastewater collection/transmission system extensions and water transmission mains within the Gulf Utility Company system.

Q. DO YOU AGREE THAT A MARGIN RESERVE SHOULD NOT BE INCLUDED IN USE AND USEFUL CALCULATIONS AS STATED BY MR. BIDDY?

A. No. A margin reserve is necessary due to the economic benefit of the utilities customers, and for public health, safety and environmental protection considerations. The margin reserve allows the utility to achieve some portion of economy of scale benefit. If no margin reserve is allowed as Mr. Biddy suggests, then the utility is forced to operate very close to the capacity limits at each facility that can present significant health and environmental concerns. Lack of margin reserve could result in circumstances in the utility system such as: inability to meet fire demand, low water pressure, insufficient chlorine contact time, insufficient treatment of water and/or wastewater, insufficient effluent storage or disposal capacity, that can result in connection moratoriums. Without applying a margin of reserve, the utility is forced into a continual design, permitting and construction sequence that involves almost continuous work and review by several entities including engineers, regulatory personnel, inspectors and others. This continual effort would certainly increase costs to the utility and its customers. This is definitely the case with Gulf Utility's Three Oaks W w TP. The master plan for this facility was driven by the FPSC Used and Useful Policy which necessitated several small phase increments. As a result, Gulf Utility has been in a continuous cycle of design, permitting and construction since 1988 when the first phase of this facility was constructed. Implementing small phase increments has been costly for Gulf Utility Company and could have been avoided with a reasonable allowance for margin reserve. DEP rules, in concept, require that utilities provide margin reserve. Specifically, DEP Rule 62-600.405 titled "Planning for Wastewater Facilities Expansion" states:

The permittee shall provide for the timely planning, design and construction of wastewater facilities necessary to provide proper treatment and reuse disposal of domestic wastewater.

A schedule of expansion activities is embodied in the rule. This schedule stipulates that if the Capacity Analysis Report (CAR) indicates that less time than five years of capacity remains in a wastewater treatment facility, then planning and preliminary design of the expansion must be initiated and documented in a signed and sealed statement provided by a professional engineer. If less than four years of capacity remain, then the CAR must include a signed and sealed statement that engineering plans and specifications for the next expansion have been completed. If less than three years of capacity remain, a completed construction permit application must be filed with DEP. And if less than six months remain , an application for an operating permit for the newly expanded facility must be submitted. Once the CAR identifies that less than five years of wastewater plant capacity remains, the rule stipulates a process to follow that is intended to ensure the facility expansion is completed in a timely manner which is always less than five years. A copy of Rule 62-600.405 is attached as Exhibit JPE-1.

A five-year margin reserve for wastewater and water facilities is necessary to enable the utility time to complete the expansion process. The purpose of Rule 62-600.405 is to ensure that at least a five-year margin reserve of capacity or that the expansion process is in progress. Typically, the expansion process includes the following elements: (1) solicit engineering proposals and negotiate engineering contracts; (2) preliminary engineering and planning; (3) site surveying; (4) existing facilities evaluation; (5) land acquisition and/or negotiation of reuse agreements; (6) preliminary engineering design; (7) [illegible]ning; (8) final design; (9) DEP-HRS

permitting; (10) local government permitting; (11) bidding; (12) secure financing; (13) negotiate construction contract; (14) facilities construction; (15) preparation of operation and maintenance manuals; (16) performance testing; (17) completion certification documents and record drawing preparation; and (18) startup/ acceptance procedure. In my experience with Gulf Utility Company and other utility clients, the expansion process can take a significant portion of the five-year period. It is obvious that no margin reserve or inadequate margin reserve allowance would preclude sufficient time for utilities to complete a prudent expansion process. Overlapping expansion intervals do not make regulatory or economical sense. If the Commission accepts Mr. Biddy's assertion that margin reserve be discounted totally from this case, the utility's ability to provide cost-effective safe and reliable service to its customers is, at the very least, jeopardized.

Q. DO YOU HAVE ANY COMMENTS ON THE ONE MILLION GALLON REJECT HOLDING TANK AT THE CORKSCREW WTP?

A. Yes. The concentrate holding tank to be constructed at the Corkscrew Water Treatment plant site represents part of the cost-effective facilities being developed to provide sufficient blending of concentrate effluent with wastewater effluent for utilization as an irrigation source at the Villages of Country Creek and the Vines golf course that provide the disposal of these flows. The tank is being constructed as a component part of membrane treatment skid #3 at the Corkscrew WTP. The late start on engineering and construction of the holding tank was awaiting DEP's decision to either approve the holding tank or a deep injection disposal well. When approval was given at issuance of the operating permit renewal for Three Oaks WWTP Phase III construction, which controls all effluent disposal,

engineering started. Construction is scheduled to start in February, 1997. These facilities should be considered as a component of rate base.

Q. DO YOU AGREE THAT THE OLD THREE OAKS WASTEWATER TREATMENT UNITS' COSTS BE TRANSFERRED INTO THE ACCOUNT OF PLANT HELD FOR FUTURE USE AS RECOMMENDED BY MR. BIDDY?

A. No, I do not. The old treatment tanks are a necessary element in the Three Oaks WWTP process to provide the required redundancy for on-line aeration and clarifier units. These units are to be considered 100 percent used and useful in that they are necessary for ensuring compliance with DEP Rule 62-610 requiring Class I reliability. When the Three Oaks Phase IV expansion is completed, one of the old treatment tanks will be modified and converted for use as a flow equalization basin and the second tank used for effluent storage.

Q. DO YOU AGREE THAT THE COSTS FOR THE SECOND CHLORINE CONTACT CHAMBER AT THE THREE OAKS WWTP SHOULD BE HELD FOR FUTURE USE AS RECOMMENDED BY MR. BIDDY?

A. No, I do not. The second chlorine contact chamber is a necessary element in the Three Oaks WWTP to provide required redundancy to the on-line chamber. This second chlorine contact unit should be considered 100 percent used and useful as it is necessary to assure compliance with DEP Rule 62-610 that requires Class I reliability for this plant.

Q. DO YOU HAVE ANY COMMENTS ON THE FIRE FLOW REQUIREMENT APPLIED IN THE UTILITY'S USED AND USEFUL CALCULATIONS?

A. Fire flow is provided by Gulf Utility Company facilities throughout the water transmission and distribution system to meet instantaneous demands including peak flows and fire flows. Fire flow tests are routinely conducted as a requirement of the Lee County Development Standards Ordinance in support of new development. The result of several fire flow tests are attached as Exhibit JPE-2.

Q. DO YOU HAVE ANY COMMENTS ON THE USED AND USEFUL DETERMINATIONS PREPARED BY MR. BIDDY REGARDING THE WATER SUPPLY WELLS?

A. Yes. Mr. Biddy has utilized the rationale that only that amount of water needed to supply the system at the projected maximum day meets the used and useful criteria. He further assumed that the San Carlos WTP would operate at capacity with the Corkscrew WTP supplementing the remaining system demand. He did not take into account the different types of systems involved and their methods of operation. Furthermore, it appears that insufficient allowance was given to allow for percent of reject water and blending water at the Corkscrew membrane softening water treatment facility. It is not economically practical to operate the type of membrane softening treatment facility for short time intervals. Mr. Biddy also does not allow credit for additional wells to back up the wells in service. According to "Recommended Standards for Water Works," Section 3.2.1.2, "A minimum of two (2) sources of groundwater shall be provided." Paragraph 62-555.315 of Chapter 62-555.315, paragraph (1), (copy enclosed as Exhibit JPE-3) reinforces the two (2) source recommendation and makes it a requirement for permitting by DEP. Furthermore, Chapter 62-555 FAC requires that the utility utilize prudent planning in the basis of design for the water supply and treatment facilities for providing adequate service for the duration of the Permit issued

which local regulatory agencies interpret as being five (5) years. The used and useful requirements must be in concert with accepted design practice and regulatory requirements.

Q. COULD YOU COMMENT ON MR. BIDDY'S STATEMENTS RELATIVE TO FINISHED WATER STORAGE?

A. Yes, in particular I disagree with the concept presented in Mr. Biddy's testimony that additional allowance for emergency storage due to the misconception that storage can be reduced due to use of maximum daily flow (MDF) in design of wells and treatment plant. It is standard practice to provide emergency storage based on an assessment of risk and degree of system dependability. If emergency storage allowances are arbitrarily discounted or reduced as Mr. Biddy suggests, the concern is that the health, safety and welfare of the customer is being jeopardized.

Q. MR. BIDDY INCLUDES A PROVISION FOR DEAD STORAGE IN GULF UTILITY'S GROUND STORAGE TANKS. IS THERE DEAD STORAGE IN GULF UTILITY'S GROUND STORAGE TANKS?

A. No. The Gulf Utility ground storage tanks were constructed on level grade such that the centerline of the pumping units are above the bottom of the tanks. "Dead storage" would indicate that a portion of tankage would not be pumpable or available for use. This is not the case in the Gulf Utility facilities in that the pumping systems in place have available suction head capabilities to allow pumping the tanks to floor level without exceeding the allowance NPSH for the pumps. It is common practice in South Florida to design systems similar to those in place. Storage tanks are installed at ground level to eliminate high construction costs for compacted fill under the tanks. In turn, local and state building codes

require the electrically energized equipment be placed above a minimum, 25-year flood plain which, in South Florida, can be as much as five (5) to six (6) feet above normal grades. 707

Mr. Biddy, in his Exhibit TLB-2, did not include 29.3% or 838,000 gallons of the total storage volume because he determined this volume to be "dead" or "retention" storage. This storage volume must be included in used and useful calculations. Each of the storage and pumping systems have been designed to provide adequate heads at the pump suctions; therefore, the storage volumes deleted from used and useful calculations developed by Mr. Biddy should in no way be considered as "dead" or "retention" storage and deducted from the available storage volumes. Exhibit JPE-4 (reprinted from pump information section of the Peerless Pump catalog) provides explanations regarding the "definition of" and "determination of" net positive suction head. Also attached is Exhibit JPE-5, sheets 1 through 3, which depict graphically the suction head conditions for the pump installations within the utility's system. As these exhibits illustrate, each installation has adequate available suction pressure to completely dewater the storage tank.

Q. **MR. BIDDY STATES THE FOLLOWING IN HIS TESTIMONY: "EPA GUIDELINES ARE NORMALLY USED ON GRANT APPLICATIONS FOR CONSTRUCTING MUNICIPAL WASTEWATER SYSTEMS. PRIVATE UTILITIES DO NOT HAVE GOVERNMENT FUNDING, SO THE COMMISSION SHOULD NOT APPLY SUCH A LAX GUIDELINE IN THE USED AND USEFUL CALCULATION FOR REGULATED UTILITIES. PRIVATE UTILITIES HAVE TO ACHIEVE**

HIGHER STANDARDS TO PROVIDE RATES WHICH ARE COMPARABLE TO MUNICIPAL WWTPS."

DO YOU AGREE WITH THIS STATEMENT?

A. No. There is no basis to apply different standards to municipal wastewater systems and privately owned wastewater systems. Additionally, the used and useful concept is not used by municipalities when setting their utility rates.

Q. CAN YOU COMMENT ON MR. BIDDY'S STATEMENTS RELATIVE TO INFILTRATION AND INFLOW STANDARDS AND GULF UTILITY COMPANY'S PRACTICES?

A. Yes. Gulf Utility Company has an obligation to provide the best service possible at the lowest possible costs. I feel that Gulf Utility Company is striving to meet and maintain this obligation. Standard specifications, developed by Gulf Utility Company to which developers are required to comply, have more stringent requirements than those Mr. Biddy refers to in his testimony. The Gulf Utility Company standards require that infiltration allowance for gravity sewer systems installed shall not exceed 100 gpd/inch diameter/mile of pipeline. Furthermore, Gulf Utility Company specifies that watertight manhole castings be installed in flood-prone areas to reduce the possibility of sewer inflow. Gulf Utility Company has also conscientiously developed an ongoing program to locate and reduce infiltration and inflow into the wastewater system. As noted, Gulf Utility Company's MFR document, Schedule F-4 (Max. Month ADF = 0.673 MGD) and Schedule F-10 (Wastewater ERC = 3208) calculations reflect approximately 210 gpd/ERC. Population trends in Southwest Florida are slightly less than 2.5 persons per residential unit, which would equate to a flow of approximately 85 gpcd within the Gulf Utility system. In my opinion, based on my knowledge of

system flows and review of historic biological plant loading trends, I do not feel that the Gulf Utility Company's wastewater systems treat an excess amount of inflow or infiltration.

Q. ARE THE GULF UTILITY COMPANY'S WATER TREATMENT PLANTS SIZED TO MEET INSTANTANEOUS DEMANDS LIKE FIRE FLOW AND PEAK HOUR DEMANDS?

A. No. The San Carlos WTP and the Corkscrew WTP were designed to meet the maximum day water demand as a minimum design requirement. Since the treatment capacities basis of design for these plants did not include instantaneous demands, deductions for such demands are not valid for inclusion in OPC's Used and Useful Calculations for water plant capacity. The single maximum day demand for water treatment facilities is in accordance with design standards and DEP rules and regulations, as well as utility construction practice. Instantaneous demands like fire flow and peak hour demands are included in the design basis for water storage and high-service pumping systems, not plant treatment process capacities.

Q. IS THE REFERENCE PROVIDED BY THOMAS M. BEARD, SECTION 12 OF THE "LEE COUNTY DEVELOPMENT STANDARDS ORDINANCE," AS EXHIBIT TMB-1, THE CURRENT COUNTY STANDARD?

A. No. The Lee County Development Standards Ordinance, Section 12, "Fire Safety Design Standards and Requirements," is not the latest revision. The current requirements are included in the "Lee County Land Development Code," Chapter 10, Article III, Division 5 - Fire Safety. A copy of the current requirements are

attached as Exhibit JPE-6; which replaced the requirements of Section 12 over three years ago.

Q. IS GULF UTILITY COMPANY REQUIRED BY LEE COUNTY TO MEET FIRE FLOW REQUIREMENTS AS SUGGESTED BY MR. BEARD?

A. No. The requirements of LDC Section 10-384(c), found in Exhibit JPE-6, state, ". . .The engineer, contractor or installer of water supply system in new developments shall demonstrate, by actual test, the water supply system will meet fire protection design requirements . . ." The Lee County Code makes no specific requirement of the utility company. The Lee County Land Development Code provides regulations for new developments. The County has no jurisdiction over private utility companies for providing fire flow capacity for existing developments. A large portion of the infrastructure including water transmission and distribution systems serving existing developments and commercial areas within the Gulf Utility franchise were installed prior to the adoption of the Lee County "Development Standards Ordinance." An example of an "old" commercial area that water mains were installed prior to the Development Standards Ordinance is the Constitution Boulevard and the Rockefeller Circle area identified by Mr. Beard. In these areas, the current Lee County Code requires that the development justify whether or not fire protection design requirements are satisfied prior to issuance of a construction permit. Supplemental measures such as inclusion of lake draft tubes, sprinkler systems and rated intermediate fire wall installation are allowed.

Q. DO YOU HAVE KNOWLEDGE OF THE DIFFERENCE BETWEEN THE FLORIDA CITIES WATER SYSTEM AND THE GULF UTILITY COMPANY SYSTEMS WITHIN THE SAN CARLOS FIRE DISTRICT?

A. Yes. The portion of the San Carlos Fire District that is served by Florida Cities Water Company is served by 16-inch and 24-inch trunk, transmission mains that supply a much larger service area beyond the San Carlos area. Since the large transmission mains traverse the northern portion of the San Carlos Fire District area, the higher fire flow capacity is available as a benefit afforded by its geographical location within the system. Florida Cities Water Company provides comparable pressures and flows as the Gulf Utility Company's pressures and flows to its customers at the distribution extremities of their system in south Fort Myers and the Fort Myers Beach areas.

Q. HAVE YOU OR REPRESENTATIVES OF YOUR COMPANY WITNESSED AND DOCUMENTED FIRE FLOW TESTS IN THE SAN CARLOS FIRE DISTRICT AREA SERVED BY GULF UTILITY COMPANY?

A. Yes. We scheduled and witnessed three (3) fire flow tests that were conducted on January 14, 1997. These tests were conducted by a State-certified fire sprinkler contractor. These tests were taken at the extremities of the Gulf Utility Company service area at locations deemed deficient by Mr. Beard. The results of these fire flow tests are attached as Exhibit JPE-7 The difference between the fire flow tests conducted on January 14, 1997 and those conducted previously by the San Carlos Fire Department is that the duration of the test was a minimum of ten minutes in contrast to the three to five minute test conducted by fire department personnel. Sufficient time was allowed such that a pressure drop was experienced at one or

more booster pumping stations that initiated startup of the high-service distribution pumps designed to provide fire flow to the system. The starting and shutdown functions of the Gulf Utility Company booster pumping stations are automatic based on system pressure. Test results provided in Exhibit JPE-7 are a true representation of fire flow availability as the duration of a fire event will be more than ten minutes.

Q. DOES GULF UTILITY COMPANY PROVIDE FIRE FLOW TO ITS CUSTOMERS?

A. Yes, as documented by the fire flow tests presented as Exhibit JPE-2 and Exhibit JPE-7.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Q (By Mr. Gatlin) Were you here this morning when the firemen testified?

A Yes, sir.

Q And you heard what they said?

A Yes.

Q Would you review the fire flow service on Island Park, that old system and so forth?

A To my knowledge, the fire flow system on Island Park is one of the oldest sections, and that was put in back in the '80s and before that. And I believe the backbone system there is an eight-inch line that runs on Park Road, and then serves several subdivisions up and down that road. It's an older system designed before even they developed the standards and ordinances working code.

Q Is there any obligation under the ordinance or any other place that requires that the Utility retrofit that system?

A Could you repeat that question, please?

Q Yes, I will. Is there any requirement under the ordinance or any other place that would require Gulf to retrofit that system?

A No, there is no requirement under Lee County ordinances.

Q What about the fire service at -- is it

Breckenridge?

A Breckenridge.

Q Breckenridge, yes. What's the situation there?

A That's an older subdivision, I would say mid '80s. And my understanding of that, we were the engineers in some of the first stages of the design on that project and that system was designed for the regulations at the time.

Q Has it been improved recently?

A I'm not knowledgeable of that.

Q All right. Would you review the service along Route 41?

A Route 41 contains several loops and has been upgraded pretty much continuously through the years. And I believe that the fire flow flows along there consistently, 1,500 gallons a minute or more, which is basically the commercial area of Gulf Utility's franchise.

Q Did you here Mr. Reilly ask Mr. Cardey some questions relative to the Corkscrew plant site?

A Yes, I did.

Q Do you know what is there and what is planned?

A The Corkscrew site was originally zoned by

my firm, and in that zoning case we prepared a master plan that incorporated some of the elements that Mr. Reilly referred to.

In doing a zoning case you put down the ultimate maximum, the highest and the best use of the land, and that did include an office building. It doesn't mean it was contemplated to be built, that was just the philosophy of the zoning cases.

Q Do you know of any contemplation now to build that office building?

A No, I do not.

MR. GATLIN: Mr. Elliot is available for questions.

COMMISSIONER DEASON: Mr. Reilly.

MR. REILLY: Thank you.

CROSS EXAMINATION

BY MR. REILLY:

Q Mr. Elliot, Staff and public counsel engaged in a fairly extensive discussion with Mr. Moore trying to quantify the capacity of the water and wastewater lines that the Utility have extended to serve the university. Would you be the best witness to try to help shed some light on that subject?

A No. I personally don't have any knowledge of that agreement. As I understand, the system is

designed by the engineers working for the university, and it's all the sizes attended to in their demands and such required in the developer's agreements. So I don't have any knowledge really of the capacity of that line.

Q I thought Mr. Moore said that he had engineers review those specifications that the university gave it --

A That's true.

Q But you were not the engineer to do that?

A That's correct, I was not the engineer then.

Q Do you know who was?

A I believe it was Mr. Ruskai.

Q And so there's no one participating in this procedure who has professionally reviewed those particular specifications?

A No, I don't believe so.

Q Do you, however, have personal knowledge about what type of lines they are? I mean, are you, for instance, aware that it's a 12-inch water main and a 12-inch forced wastewater main out there?

A That's what I have been told, but I haven't reviewed the plans or have any involvement in any of that.

Q However, just based on your general

engineering understanding of the incredible capacities -- or I'll change that word, just the capacity of a 12-inch main, in your professional judgment, would the capacity of those mains be far in excess what would be required normally to service those six buildings?

A I don't have any idea because I didn't do the hydraulic analysis. If you don't know the demands and you haven't performed the analysis, I mean, I can't really speak to the capacity of those lines.

Q Would it be your judgment that either the university would expect or require the Utility to construct lines that were not sufficient to meet the foreseeable phased construction of that university?

A I really don't know that.

Q I can see that we are going to get as much information out of you as we got out of Mr. Moore.

Changing subjects. On your testimony --

A Yes, sir.

Q I would like to direct you to your testimony, and perhaps we'll have more luck there. On Page 5 you make the statement concerning a DEP Rule, 62-600.405. And I believe you even include a copy of that rule.

A Yes, sir.

Q And we engaged in a very extensive discussion of this rule in the Southern States case, and I certainly will not burden this Commission with a similarly long discussion of it. But you do make a statement here, about down on Line 19, that the purpose of the Rule 62-600.405 is to ensure that at least a five-year margin reserve of capacity or that the expansion process is in progress.

And my first question to you is which is it? Is it that this rule, its purpose is to ensure five-year margin reserve or that just the expansion program is in progress?

A It's to ensure proper planning of the facilities actually, which to me translates to having a five-year margin reserve. In other words, there's several increments that are in my testimony that are also in the rule that you go through in that planning, design, building, implementing and placing in service that they have this fairly specific process involving the last analysis report.

Q And you in your testimony, just above Line 19, you go on to say, for instance, when you have less than three years capacity, the rule requires you to at least have a completed application for the construction of a plant; is that correct?

A In less than three years? Yes, in less than three years.

Q And you somehow interpret that to have an application ready to file where no construction has even begun, that that, in your mind, indicates that the thrust of this rule is to require a five-year margin reserve?

A I would think the thrust is that basically the thing allows for margin reserve or wants you to consider margin reserve. And then in the specific items that they have you go through the planning process all the way through construction. Absolutely a five-year margin reserve. That's just what I interpret it to be.

Q But it's not found in the wording of the rule?

A No.

Q And, in fact, you can get as close to six months to complete, you know, no further capacity beyond six months, before you actually have to have the construction completed under this time schedule; is that correct?

A That's not true, because six months is the period of time it takes to assemble all the certification documents and for DEP to translate that

construction permit into an operating permit. That's everything has to be absolutely functioning at that time. That's just the margin.

You know, what they are asking them to do is to ensure that you have excess capacity in your system so that you don't get right down to the wire and find out that you are into a situation that's affected the health, safety and welfare of the public.

Q And that really was my next question. Is because the thrust of this rule is a planning process to assure that there's a sufficient reserve capacity. Is that not correct?

A That's correct.

Q And what I'm trying to get you to, perhaps, agree with me, if you will, is that there's a big difference between reserve capacity and margin reserve. Whereas reserve capacity is an -- I guess, an engineering concept of making sure that you have sufficient capacity to meet growth and the needs of the system. But margin reserve really speaks to who is going to pay for that reserve, doesn't it?

A I don't view it that way. Going back to this planning, the best analysis report is an integral into the planning process and that that translates in your prediction of how much reserve capacity you have

left in the increments of time; five years, six years and on. I believe that that's very necessary to do that. And that's having margin reserve. Otherwise you get right down to the wire, and you are in violation modes and everything else.

Q Would you not agree, however, that there's nothing in 62-600.405 that speaks to the issue of who should pay for whatever is the appropriate reserve capacity?

A No, it doesn't speak to that.

Q And to the extent that we use that as a term of art in a PSC proceeding, margin reserve by its very term implies that current customers will bear that cost; is that correct?

A I'm not familiar with that part of the case.

Q Well, you're saying that the purpose of the rule is to ensure that at least a five-year margin reserve; might change that wording to say, at least from your view of it, which I don't agree that it's a five-year term, but given that aside, that the purpose of the rule is to ensure that at least a five-year reserve capacity is preserved.

A Yes.

Q As opposed to --

A That's my opinion.

Q -- the more colored term of who's going to pay for it.

A Right.

Q Which in my view is -- you would agree with that. Thank you.

On Page 6, Line 20 of your testimony, you state -- this is, now we are talking about the reject holding tank. You say the tank is being constructed as a component part of the membrane treatment Skid No. 3 at the Corkscrew water treatment plant.

And I want to get a little better understanding of what you mean "being constructed." Are even the drawings, the detailed engineering drawings, even finished as we speak today?

A Not by me. I don't know that for a fact. I am aware of the permitting situation with that, and that was part of the reason of the delays, is that we -- as I go further in my testimony here, I was aware of the disposal mechanism and the requirements, the holding tank and the blending and all of that was translated back to the operating permit for renewal for the Three Oaks wastewater treatment plant even though -- because that involved the blending and the mixture of the concentrate and the effluent; that was a common disposal thing. And then DEP was trying to

sort out those issues and so was the Company and that added some delays.

So the permitting was tied into the -- that's how I have knowledge of the system. Now, I didn't review the plans. The plans through the reject storage tanks and the bid schedule and everything else are done by others, but I'm not in that process.

Q Can you state that the permit to construct the holding tank has even yet been approved?

A I believe that it has.

Q But you are not sure?

A I'm not 100% positive. I don't have the permit in front of me.

Q But it is true that the date for beginning actual construction of this tank has continued to slip?

A Yes.

Q And I think there was another witness who testified the latest date that they hoped to at least begin construction was April of this year?

A Yep, I heard that in the testimony. And my testimony as the time it was written and my rebuttal testimony had February 1997 to start.

Q And yet rather amazingly this same witness suggested that it would be completed by August of '97.

Is that your understanding, too, this construction?

A I think that's doable.

Q And the problem I have with that is it seems that the Utility at one time says we need this big margin reserve because it takes so long to permit and construct these facilities. And yet when we come to an issue of trying to get them on line for rate base purposes, you know, we can do it in three months. And that just creates a great tension for me.

So my question to you is: Even if they can get this thing constructed -- I mean to say that it's on line and permitted to provide service -- how many months are we talking about? I mean, isn't it realistic that this is not going to be on line until 1998 or later in your judgment?

A Well, it has a lot to do with the specific facility you're talking about. You take the components that are relatively simple. You have the site already identified where this facility goes and something like the storage tank -- I think it's a prestress concrete type that Croom's can build actually in a couple of months. That's one case.

If you are talking about, for example, the expansion of the Three Oaks wastewater plant, that will take a longer period of time if you had to go out

and negotiate reuse agreements, locate the land application sites, go through the hydro-geological investigations, you might have to wait for zoning of the reuse site, and on, and on. There's a lot of difference between an already zoned piece of property that you can put a tank on; you just can't apply that using your thought process or "Well, we can put that thing out." That's true in some of the facilities, but not generally.

Q Well, assuming the Commission is going to grant some type of margin reserve, the next issue becomes, well, how long will that margin be. And you are suggesting five years; is that correct? For instance, wastewater treatment?

A That would be ideal. That's not -- you know, I've heard different values being used by the witnesses.

Q But can't a utility --

A Zero.

Q Can't a utility engage in proper planning and have the permitting process without spending great sums of money and then actually have the window of construction to be something closer to an 18-month period where the large dollars are actually being expended to physically construct the improvements?

A Not from my experience, no.

Q Then it's not reasonable to be able -- once you actually begin, when you're through with all the permitting and you're actually beginning construction, it's not realistic to assume that you could construct an expansion, let's say, of a plant in an 18-month period?

A Not if you have to sell bonds and you have to make -- secure some other local development orders and some other things. I mean, I don't know how you can discount the planning, the permitting, zoning and all the other processes.

Q And I've conceded that. I think every situation will be unique, and the time it takes to get the financing or to get the permits and the approvals, and the zoning is different. But I'm going to say, other than there's some planning and engineering and soft costs, I'll call it, could be borne by the Utility -- I'm speaking of physical construction -- all that process has been done, preplanned; you've kept up with these little reports, the DEP rules, so you are anticipating your needs, and yet you've not spent the large dollars to physically begin construction. Are you suggesting that the 18-month physical construction could not be reasonably

accomplished?

A I'll answer that. I believe it could be done, and it may not be done. It depends on a lot of circumstances.

Q Well, the size of the facility.

A That's right. The size of the auxiliary facilities that have to be built, the companion facilities to make that thing functional --

(Simultaneous discussion.)

Q But I'd be -- excuse me.

A -- sites.

Q But I'd be referring to just a typical addition.

A It's just an on-site thing, a concrete tax. Yes.

Q Okay. And this I might say both in terms of water and wastewater; let's talk about this Utility. Gulf Utility, if I'm not mistaken, both in terms of its Corkscrew, as well as its Three Oaks facilities, everything is in place. It's now a matter -- when you are talking about adding capacity, you are talking about adding skids or you're talking about adding trains. The entire system now -- the treatment is designed to receive additional phased increases of capacity. Is that not true?

A That's true. However, I would like to explain that in order to get a permit to put in a skid or a train, you also need to have the industrial waste permit that includes the disposal, and that could be the real long element there.

And the same thing with the wastewater plant. You're sure you can build, but, you know, you can't get a permit unless you have the effluent disposal. That's been some of the difficult things that make Gulf Utility very unique.

Q Let's move on to the subject of Class 1 reliability.

A Yes, sir.

Q Page 7, Line 7 to 13 of your rebuttal testimony you state, The old treatment tanks are a necessary element to the Three Oaks wastewater treatment process to provide the required redundancy for on-line aeration and clarifier units; is that correct?

A That's correct.

Q Now, when Public Counsel conducted its field inspection on December 5 of '96, from what we could determine, the tanks were physically off line and the aerators were pulled. How can you help me understand that this is providing any redundancy assistance at

all?

A Well, first of all, I'm not sure that the aerators were pulled. I don't believe that would be the case. It's required in the rules, and I think there was a supplemental exhibit. There was some discussion, anyhow, by one of the witnesses about the -- the question of reliability really relates to an EPA standard that requires that you have back up components in a reuse system.

And we master planned this whole site from the very beginning and respecting the used and useful concepts of the PSC. In so doing we make maximum utilization of all the facilities. And I'm giving you a roundabout answer that, yes, those facilities were necessary, and it was planned to convert those -- not converts those tanks in Phase 3, but to use them as the redundancy for those developments.

Q So it's your testimony that the aerators had not been pulled out?

A I don't believe they have. I don't know why they would have been pulled out.

Q But you don't have any firsthand knowledge whether they were or they weren't?

A Last time I looked at the plant, they were there.

Q Which was how long ago?

A It was probably a month ago.

Q I think we are going to try to hand out something here and get you to comment.

A Is that the same thing you're handing out to Mr. Biddy?

Q I think this is really just a DEP rule. It's -- I think the one we are drawing some attention to is DEP Rule 62-610.300, general technical guidance related rulings and forms. Do you have that?

A Yes.

Q Just a question here. Concerning this rule, if you look at 62-610.300(1)(c).

A Yes, sir.

Q Would you read that to me?

A (C) U.S. Environmental Protection Agency, 1974. Design Criteria for Mechanical, Electric, and Fluid System and Component Reliability, MCD-05, Environmental Quality and Structural Resources Center, the Ohio State University, 200 Chambers Road, Room 310 --

Q Well, that's good enough. No, my question is: This is an EPA manual; is that correct?

A That's correct.

Q Now if I have you flip over on the second

page of what I handed out is Rule 62-610.462. And this is speaking of reliability and operator staffing.

A Yes.

Q And I think the relevant portion of this rule is the first sentence of (1) Would you read that?

A Following reliability requirements --

COMMISSIONER DEASON: Sir, just a second. I'm right here.

WITNESS ELLIOT: Oh, you're looking at .2.

COMMISSIONER DEASON: Yeah, read a little bit slower. Thank you.

WITNESS ELLIOT: Yeah, this isn't a test.

62-610.462 Reliability and Operating Staffing. (1) The following reliability requirements shall apply. Facility reliability shall have a minimum Class 1 reliability as prescribed in Rule 62-610.300(1)(c) F.A.C.

Q Okay. So am I interpreting this correctly to indicate the that this DEP Rule 62-1610.462 is saying that to understand the guidelines for Class 1 reliability, you need to go to this EPA guideline? Is that a fair understanding?

A That's correct. That's what we use.

Q Okay, good. Now if I can just take you --

we are going to hand out the second companion document. And I believe these are just, of course, selected pages of this fairly thick document. But I suggest that it's hopefully the relsvant pages.

And the cover sheet is on here, and it's design criteria for mechanical, electric and fluid systems and component reliability. And it's MCD-05. Is this at least the cover sheet of what we are talking about?

A That's the same standard in DEP that we use.

Q All right, sir. If I could -- okay. According to Section 212.1.5.

A Yes, sir. On Page 20?

Q On Page 20. It requires a 75% of the total design flow backup for final sedimentation basins and filter; is that correct?

A That's correct. That's what it reads.

Q Excuse me?

A That's what it reads.

Q And you would agree with that?

A Yes. Sorry, the answer's yes.

Q And Page 22, if you look at 212.1.9, disinfect at contact basins. And here I believe it requires a 50% design flow backup for disinfection of contact basins; is that correct?

A That's correct.

Q For Class 1 reliability?

A Yes.

MR. REILLY: If possible, I'd like to have these two documents, just a composite, numbered for me, please.

COMMISSIONER DEASON: Yes, they will be identified as Composite Exhibit 37.

(Composite Exhibit 37 marked for identification.)

MR. REILLY: And we'll say requirements for Class 1 reliability will be a short title.

I'm sorry, was a number --

COMMISSIONER DEASON: 37.

MR. REILLY: I'm sorry, I didn't get that.

Q (By Mr. Reilly) Okay. If I could direct you to your Page 7 of your testimony, Lines 17 through 21, you state the second chlorine contact chamber is a necessary element in the Three Oaks wastewater treatment plant to provide required redundancy to the on-line chamber. You go on to say it is necessary to assure compliance with DEP Rule 62-610 that requires Class 1 reliability for this plant.

You go on to say, therefore, the second chlorine contact chamber is needed because of this

Class 1 reliability requirement; is that correct?

A That's correct.

Q Now, my understanding of this Section 212.1.9 that we've just looked at in the EPA guideline on Page 22 seems to require 50% design flow backup for disinfectant contact basins; is that correct?

A That's correct.

Q Therefore, the Utility does not have to provide 100% design flow backup for chlorine contact chambers; isn't that correct?

A Well, that's in an ideal world. I mean, I can qualify that. The original facilities, the two plants we've referred to and the chlorine contact tank, they were rated for 501,000 gallons per day. And if I take the permitted capacity as DEP looks at it, as being 750,000 gallons today -- per day, I come up with figures that the existing clarifiers meet the 75% rule in that we oversized them through -- we have an overflow rate surface settlement rate pouring contact tank.

I think where you are headed to is basically overstated by some slight margin, but I'm using the permitted capacities the way he reviews it and not based on some flow calculation that, I think, was passed out in the correction to -- entered into the

exhibits by Mr. Biddy.

Q Okay. On Page 13, Line 16 of your testimony, you state --

A Excuse me, what page is that in?

Q This is Page 13, Line 16, we are talking about fire flow once again.

A Yes, sir.

Q And you speak of an example of an old commercial area that water mains were installed prior to the development standard ordinance. It's Constitution Boulevard and Rockefeller Circle area identified by Mr. Beard.

And my question is how much fire flow can be provided in this area?

A I think there are some fire flows that were taken in my exhibits, and I don't recall specifically. I think it was somewhere in the -- over 1,000 gallons per minute, I think. It's in my Exhibit JPE-7. It says sheet 2 of 3. And in that exhibit, I think it's 1,213 gallons per minute at 20 psi.

Q And yet there have been other readings in this area substantially lower than this?

A I don't think there's any that are substantially lower than that. I think it's somewhere around 1,000 to that number.

Q Not lower than 750?

A I don't believe so, not in that area.

Q Are there any commercial customers in this area?

A Yes, sir.

Q And again, the requirements there would be, of course, more than the residential?

A That's correct. I might ask you to clarify it. What requirements are you referring to?

Q I guess we are talking about flow, flow rate requirements to meet fire --

A But what requirements? County requirements?

Q I'm assuming the same ordinance that you are talking about.

A Yes, that's the county land development code you're talking.

Q Right. Now on Page 14 of your testimony, Lines 21 through 24, you mention that fire flow test duration should be at least 10 minutes instead of the three to five minutes?

A Yes, sir.

Q And the reason is to let the water distribution system sense the pressure drop and kick on high service pumps to make up the pressure.

A Right.

Q And my question is: Isn't it correct that the additional five to seven minutes can be potentially fatal as far as controlling a fire, particularly if the firefighters are responding to a fire that's already been in progress for some time before they even arrive?

A Well, their arrival time and the couple of minutes, 10 minutes, I think you'd be fighting a fire a lot longer than 10 minutes. And I saw the exhibits that the fire marshal had, and in reviewing those I can't debate their methodology or anything like that.

My statement here is geared for the knowledge in the engineering of the system, that that's the way the automatic system works. It's not tripping the system to wait five or 10 minutes for the system to respond. It's just in our conducting the tests a little bit longer, we're allowing a real world situation as to how the hydrant would react.

And I would think in the first two or three minutes while they are hooking up the hoses, it's going to take them -- and open that valve and get all positioned, I doubt if that's going to be the critical time period. There will be flow coming out of the hydrant. I don't think they have a pumper truck that's capable of pumping 2,500 gallons.

Q Would you then disagree that the normal time period to test a hydrant and tha recommended time period, at least according to those documents brought to this hearing by the firefighters, was three to five minutes?

A No, I don't debate that. And I think one of the exhibits referred to the logic behind not flowing any more than three minutes is basically a water conservation thing of being criticized as far as depleting the water resources unnecessarily or flooding out an area disposable to water. So there were other mitigating circumstances.

Q Can I get you to look at Page 8, Line 14 of your rebuttal testimony. You state -- we are talking about water supply wells now. You state that further it appears that insufficient allowance --

A Excuse me, what line?

Q Page 8, Line 14. You say: Furthermore it appears that insufficient allowance was given to allow for percent of reject water and blending water at the Corkscrew membrane softening water treatment plant; isn't that correct?

A That's what it reads, yes.

Q But isn't it correct that Mr. Biddy allows 15% of raw water for reject concentrate?

A I didn't pick that up in here.

Q Could I have you look at Mr. Biddy's TLB-2?

A I don't have that with me.

Q We'll see if we can just get you one real quickly. (Tenders document.)

I'll help you find it. I believe it's on Line 55. It says additional 15% raw water supply is used for Corkscrew water treatment plant as reject concentrate. Does that aid you at all in understanding his --

A No. My Line 55 doesn't have anything on it. So I must be looking at a different -- could TBL-2, Page 1 of 1?

Q Let me go see.

A It's the same line.

Q I see. It's still there, it's just different.

A Okay.

Q This is one of those exhibits, I think, that got updated and some lines changed. The content is still there, if you see it, when I was directing you to Line 56. So does that help you understand Mr. Biddy's?

A Well, that's in the footnote. I'm trying to find out where it's applied in the calculation.

Q I think it's Footnote 4. And in my version it says "OPC's calculated used and useful percent." And our percentage is --

A So you are allowing for the 85% recovery of that. I see that.

Q Okay.

A Yes.

Q So he did, in fact, give an allowance for that. Is that a proper allowance? Is that, in your judgment?

A I'm not familiar with whether they're blending any water at the site at this point in time, but that would be an element.

Q I think this is not blending, although I can ask you a question about that in a minute or two.

A I'm not aware of any.

Q I think it's a credit for lost water, right, as a result of the whole process and that this is not going to be finished product water. It is going to be lost, right? A lost 15% credit.

A That's not a loss. That's inherent in the process when you have a membrane separation process you have the reject stream, and that obviously has to be supplied by the well. So I think what you are stating here is 85% recovery So I agree. Yes.

Q They were given a credit --

A Yes.

Q -- for that.

And my question is, is that appropriate or did you think that our percentage is not correct?

A Yes, that's appropriate.

Q Okay. Now, on the issue -- I think you've said you don't know about this, but I was curious whether Gulf is, in fact, blending any raw water with its -- well, the first question is can they. Can they? Is their piping that permits the Gulf Utility to physically blend raw water with finished membrane product water?

A I think you have to ask Mr. Messner. I know there was talk of blending as a method to providing a different element into the treatment. They were talking about a blend well on site that would add some minerals back into the water for stability. And if that's the case, then that should be included, too.

Q Okay. We are just going to hand out one last little exhibit here. Then we'll rap this up.

COMMISSIONER DEASON: Mr. Reilly, do you wish to have this identified?

MR. REILLY: Yes, please.

COMMISSIONER DEASON: Exhibit 38.

(Exhibit 38 marked for identification.)

MR. REILLY: And it's short titled Recommended Standard for Water Works, just selected pages.

Q (By Mr. Reilly) And what I'd direct your attention to is not the cover sheet, but the next page over. And isn't it correct that Section 3.2.1.1 of the recommended standards for water works also states that the total developed groundwater source capacity shall equal or exceed the design maximum day demand and equal or exceed the design average day demand with the largest producing well out of service; is that correct?

A That is what it reads, yes, sir.

Q And do you concur with this requirement?

A Yes. Let me add a footnote to that, if I may.

Q Okay.

A A lot of that depends on the type of treatment you have. We just discussed the membrane process where you need a little bit more than the maximum day demand because you have -- inherent in the process you have a reject stream.

Q Okay. One last little bit of questions here on Page 10 of your testimony. Okay, I'm sorry.

Before I take you to that, I understand I need to ask you one more question on another matter.

On Page 9. And the question is -- while we are looking at Page 9, the Line 9 of your rebuttal testimony, you state: It is a standard practice to provide emergency storage based on an assessment of risk and degree of system dependability.

And my question is: Do you know if Gulf Utility has conducted a risk assessment to determine and design how much emergency storage it needs for its water distribution system?

A I'm not aware of that; however, I designed the reservoirs in the system. I know what I included in the design concepts for those reservoir and pumping stations. I'm not aware that Gulf Utility's assessed a particular risk value, no.

Q Were there any studies or any supporting documents or standards that would indicate --

A To my knowledge, there isn't any standard to apply to that other than just what it says here, that you have to assess the dependability of the facilities. In smaller systems in Lee County, the HRS requires one day -- a 24-hour period for the production capacity of the facility.

In larger systems, you know, Gulf Utility

provides, I think it was 2.6 million total storage, which represents about 18 hours. Other facilities -- yeah, so there's no specific standard. But that's the standard that we use here locally, that ideally you would provide 24 hours. In larger systems you can sometimes reduce that. The City of Cape Coral has about five days storage, and Sanibel has about 10 days storage.

Q Now, this would be in addition to fire storage?

A That's their risk assessment in case of a catastrophic event. If you had a hurricane, that they would still have some storage available. If you had a line rupture somewhere, they would still be able to supply fire flow to portions of their system, if they had multiple tasks.

Q Is that your recommendation to have that extensive --

A My recommendation is what they have now is adequate, but no more than that.

Q Okay. Real quickly, moving on to Page 10. In Line 13 of your rebuttal testimony, you state: Also attached -- we are talking dead storage now.

A Yes.

Q "Also, attached is Exhibit JPE-5, Sheets 1

through 3, which depict graphically the suction head conditions for the pump installations within the utility's system. As these exhibits illustrate, each installation has adequate available suction pressure to completely dewater the storage tank."

A That's correct.

Q Therefore, according to this explanation, you agree with Mr. Biddy that there is no dead storage; is that right?

A I didn't know Mr. Biddy said there was no dead storage.

Q Well, I guess the better way of phrasing that is that he was including no dead storage in any allowance in his recommendation.

A In his testimony he said that he didn't believe in the design we had here and that we were unable to use a portion of the volume of the tank. I believe it was 838,000 gallons.

Q I think we've done this once before, but I believe I led a witness where he expressly states that there would be no dead storage, that there is no effective -- well, that's he's not giving any dead storage allowance. And you're saying there is no dead storage.

So we all agree that there is no allowance

for dead storage in this particular Utility in this particular site; is that correct?

A Well, in engineering terms what I just stated is that the tanks here can be totally dewatered.

Q So there is no dead storage for these facilities?

A Right.

Q Okay. That's all I -- let's see. One second here. That's fine.

MR. REILLY: I think that takes care of it.

COMMISSIONER DEASON: Staff.

CROSS EXAMINATION

BY MS. O'SULLIVAN:

Q Hello, Mr. Elliot.

A Hi.

Q In your rebuttal testimony you state that the Lee County Development Standards Ordinance, Section 12, entitled Fire Safety Design Standards and Requirements has been replaced by the Lee County Land Development Code; is that correct?

A Section 10, Lee County Development Code, Section 10 replaced the ordinance --

Q The previous ordinance?

A Section 12, yes.

Q Would you agree that with minor format and presentation changes, the verbiage of the two documents is substantially the same?

A No, it's substantially different.

Q As it relates to fire flow, is it substantially the same?

A No, it's different.

Q What major differences are there?

A The major differences are that the specific fire flows are not related to the water utility. The responsibility of determining fire flows and the use of fire flows is basically on the developer, and based on the building type, and based on occupancy usage and many things that are in the formula.

Q Can you point -- looking at Exhibit JPE-6 attached to your testimony, could you indicate where that is found?

A Well, the computation is on 10-82.3. It's Section 10-385, Developments Provided Within the Public Water System, (B), Fire Flows.

Q All right. And you are saying that differs from the previous Section 12?

A I believe the previous Section 12 had specific flow class or flow requirements for different types of buildings that -- you know, it was -- this

has kind of translated responsibility on the developer and is related more to building function and classification as it is to, like, a commercial zone or an industrial zone.

Q I'm going to hand you Section 12, which is the previous document, the Fire Safety Standards Design Requirements. Looking at Page 12-3 and also the bottom of 12-2, isn't that substantially the same fire flow requirements and the same standards as the new ordinance?

A Yes. It states the same as far as this is between buildings and the needed fire flow, that's the same. I think the computation formula is different.

Q Okay. Where are you referring to? Which computation formula? The F fire flow?

A Yeah, the F fire flow and the multipliers. I don't interpret that to be a specific requirement of the Utility Company. I think there's a misconception as to what the fire flow requirements are for a specific area and who's responsible for those requirements.

Q I understand. I'm still trying to figure out though. Looking at the two documents here, it appears that the fire flow calculation from Section 12 is: Fire flow is based on the formula F=18 x C x A,

and it lists what those factors are. That appears to be the same factors and calculation on Page 10-82.3. Would you agree?

A Okay. Yes, I do.

Q Yeah, I'm just trying to understand where you think the new one differs from the old one.

A I haven't studied the difference. I just know that this -- without taking time to compare them, I don't know what the intrinsic differences are.

Q Okay. So when I asked you earlier whether you could agree whether or not it was substantially the same, you said, no, they're not; now you would say that you're not sure?

A I'll change my answer. I'm not sure without reviewing them in detail.

MS. O'SULLIVAN: I'd like to have this marked as an exhibit please, if I could. It's Section 12, Fire Safety Design Standards and Requirements.

COMMISSIONER DEASON: Do you have copies?

MS. O'SULLIVAN: I believe we have just a couple of copies. We can give my copy if you'd like.

COMMISSIONER DEASON: It will be identified as Exhibit 39.

(Exhibit 39 marked for identification.)

Q (By Ms. O'Sullivan) Now, I understand that

your testimony is that the county does not have authority or jurisdiction over the Utility to provide fire flow; is that correct?

A That's correct.

Q Who does have jurisdiction over the Utility, or does anybody?

A I would say who has jurisdiction over the -- that would be DEP and HRS. But as far as fire flow, I don't know. I don't believe anybody does.

Q What standard do you think the Utility should adhere to in providing fire flow in its territory?

A Well, basically, their responsibility is to maintain, and the new standards ordinance is to maintain the existing system. I think that's implied in the new order. I'm not sure exactly where.

Q That's the Utility's obligation, the Utility's --

A Yes, is not to decrease the level of service.

Q In your -- strike that, strike that.

The total number of fire hydrants in Gulf Utility's service area is approximately 400; is that correct?

A I don't know that for sure, I didn't count

them.

Q Would you agree, subject to check, that it's at least several hundred?

A Yes, I feel it's several hundred.

Q You said that you've tested three as indicated in your Exhibit JPE-7. Do you believe that to be a representative sample of the total number available?

A For the flow available?

Q Yes.

A I believe at the time it was taken, yes, and in the areas taken.

Q All right. Those fire flow tests indicated in JPE-7 that there are three separate tests there. Did you contact the local fire department to witness those tests?

A No. We contacted the Utility Company, and we contacted a licensed sprinkler official to conduct the test with us. I didn't conduct it personally, I represented -- my firm was present.

Q Would you agree that the Lee County Land Development Code requires that the fire department be present for fire flow tests? To be more specific, could I refer you to Section 10-384 (5)(c) which is on Page 10-82.2?

A Yes. Except I'd make an exception to that. That's for fire flow tests that are specific to this code. And the purpose of this code is for building permitting, it's a land development code. I think that's the context of these fire flow tests, involve a fire department. I think our tests were a matter of taking engineering data and testing. And I don't think that really applies.

Q Understanding that you feel that the development order doesn't require you to have the fire department there, did you consider having the fire department there to witness the tests?

A I don't know. I didn't make all the arrangements.

Q Who did?

A Marty Owens in my company. And Steve Messner, I don't know, he may have some knowledge of that.

Q You stated in your testimony that the flow tests were taken at the extremities of Gulf Utility's service area; is that correct?

A They were taken, I think, at areas that were referenced by Mr. Beard as being weak areas. And I think that was -- the intent was to find, to verify those numbers to satisfy ourselves.

Q Were these hydrants at the most remote locations of each line?

A I would say no. Like, for example, the Constitution area is really a looped area. That was on sheet 2 of 3. And Island Park and Park Road, that was at the absolute extremities of it. That may have been the most convenient two hydrants that lined up.

Q All right. Did those three fire flow tests encompass or were taken at all segments of the distribution system included in the study?

A Could you repeat that question, please?

Q Certainly. I'll rephrase it. Were the three fire flow tests taken representative of all segments of the distribution system?

A No. Actually, they were representatives of some of the weak areas of the system, not -- I'd say the vast majority of the system furnishes much higher fire flows than these represented here.

Q All right. You stated in your testimony that the duration of a fire event will be more than 10 minutes; is that correct?

A That's the way I would like to take them; that's the way these were taken. And that's basically an engineering determination, not a fire official's determination. Because I like to see how the system

reacts in reality to how the system is designed, the automation of the high service pumps when they kick in in a real life fire situation.

Q So your statement was not based upon education or experience in fire science, but instead upon engineering principles or engineering --

A No, I don't have a fire badge or degree in fire fighting.

Q What would cause the flow levels to be less than design expectations?

A Pardon me? Repeat, please.

Q Certainly. What would cause fire flow levels to be less than design expectations?

A That's hypothetical?

Q Yes.

A Well, design expectations, if you do the correct hydraulic modeling, they generally come out fairly close, assuming you haven't made some wrong assumptions, if you have a calibrated model so --

Oftentimes you have closed valves. We went in an area close to Island Park and found out that the fire flows were much less than expected, and we found that we had several closed valves, such that the loop system wasn't functioning properly. I mean, that would be one instance or one case.

Typically, in dead end lines you don't have the fire flow that you -- but you would anticipate that in your calculation.

Q Would buildup in the lines also, or scaling, also cause fire flow problems? Hypothetically again.

A On a very old system that had cast iron and some other things in it. I would say in this system specifically, it would be negligible because of the water processes involved.

Q Okay. During your cross examination with Mr. Reilly, you discussed the fire event and the 10-minutes duration, lasting more than 10 minutes. Did you imply that the fire department would turn on the fire hydrants before they hooked up the hoses?

A No, I didn't mean that. They would hook up the hoses and then turn the hydrant on. I stand corrected.

Q The MFRs in this case indicate used and useful calculations based on 1,500 gallons per minute. Are you saying that the Utility is not required to meet that amount?

A 1,500 gallons a minute is what a considerable amount of the system does provide; I can state it that way. The system as we interpreted the development code, one of my staff members was

instrumental in writing this code, the intent is to never diminish the quality or the flow and the pressures in the system from this day forward. And I'm just saying that Gulf Utility in the vast majority of their commercial system provide the 1,500 gallons per minute flow.

As the code is written, the minimum flow is 500 gallons a minute. And then you'd have the ability to different occupancies, different classifications at building, you can add sprinkler systems, draft tubes, you can build fire walls, you can change your method of construction. And that's all incumbent on the design engineer -- developer's engineer of how they want to do that and what building product and where he's located within the system even.

Q Just one moment. Sorry. Is it your interpretation of the applicability of the Lee County land development code that it only applies to developments that come on line after this code was enacted?

A Sure. Because that's what they are using. That's how they utilize the code is, if you're a developer you'd have to go take a fire flow test within a certain period of time and match that up to your building time or else you won't get a development

order. And that's the whole mechanism. That's the whole purpose for the code. The code wasn't written to specify fire flow rates for fire departments, that's certainly not the intent of the code.

Q So it's your testimony that the code does not apply. Even if a development is put in after this code was enacted that Gulf Utility intends to serve, that it doesn't apply to Gulf Utility, just to the developer?

A The only part that it applies to Gulf Utility is that it's their system that they are testing, that applies basically to the developers. The only way it would apply to Gulf Utility is if they are building a structure -- for example, we had to get a development order for the Corkscrew water plant, we'd have to go through the same process as a developer. But it doesn't stipulate a gallons per minute flow, that a utility company has to do something to create this flow.

All I'm saying is that their existing system is what the existing system is, and that's how that they apply the code, is to taking fire flow tests on the existing system. What we're further saying, I think, is we provide 1,500 gallons a minute in the vast majority of the system, and there are some older

areas of the system where we cannot because they were built to codes prior to this.

Q All right. Just a moment.

MS. O'SULLIVAN: We have nothing further. Thank you for waiting.

COMMISSIONER DEASON: Redirect.

REDIRECT EXAMINATION

BY MR. GATLIN:

Q Do the plants, the water plants, provide at least 1,500 gallons per minute pressure delivered?

A The water plants as I -- I didn't design the Corkscrew plant -- were designed with the intent to provide the maximum daily flow. The booster pumps and water storage systems are designed for the fire flow component. However, as Mr. Cardey testified, is that once that's depleted, then that's part of the maximum day flow that you have to refill those tanks. I believe that's what we were saying.

Q Would you use the old code to date?

A Pardon me?

Q Would you use the old code, Section 12? Would you use it for now?

A No, it wouldn't have any validity. The purpose of the code, again, is for developments.

Q You'd use the more current and present code;

is that correct?

A Yes.

Q These lines, these old lines in various parts of the system, what would be involved in replacing those lines, retrofit larger lines for fire flow?

A It would involve a great deal of cost because these areas are in already developed areas where you have a lot of other utilities and infrastructure in the system, so it would be a tremendous expense.

Q Including digging up streets, making ditches in the streets?

A Streets, driveways, you'd have to acquire easements probably.

Q Would you recommend that Gulf Utility be required to do this?

A No.

Q Why?

A Whether or not -- they are not compelled to do that. I mean, there's nothing in -- that requires them to do that. So unless there was a funding mechanism that it would make this useful. So obviously someone would benefit from the lines. So I wouldn't arbitrarily go out and replace these lines.

MR. GATLIN: That's all I have. I move Exhibit 36.

COMMISSIONER DEASON: Without objection, Exhibit 36 is admitted. Other exhibits.

(Exhibit 36 received in evidence.)

MS. O'SULLIVAN: Staff moves Exhibit No. 39.

COMMISSIONER DEASON: Without objection, Exhibit No. 39 is admitted.

(Exhibit 39 received in evidence.)

COMMISSIONER DEASON: Thank you, Mr. Elliot.

(Witness Elliot excused.)

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WITNESS ELLIOT: Thank you.

MR. GATLIN: Call the next witness. Mr. Nixon. Are you ready?

COMMISSIONER DEASON: Yes. Yes.

- - - - -

ROBERT C. NIXON

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

DIRECT EXAMINATION

BY MR. GATLIN:

Q Mr. Nixon, you testified earlier did you not?

A Yes, I did.

Q And you were sworn in before that?

A Yes.

Q Have you prepared testimony for presentation in this proceeding consisting of 25 pages of questions and answers?

A Yes.

Q Are there any corrections or additions that you wish to make?

A No.

Q If I were to ask you those questions today, would your answers be the same?

A Yes.

MR. GATLIN: Mr. Chairman, may we have this inserted into the record as though read?

COMMISSIONER DEASON: Without objection, it shall be so inserted.

Q (By Mr. Gatlin) Now, Mr. Nixon, you have two exhibits, do you not, attached to your testimony?

A Yes, I do.

Q RCN-1 is the average adjusted balance sheet working capital allowance, and RCN-2 is capital projects included in accounts payable; is that correct?

A That's correct.

MR. GATLIN: May we have these exhibits identified, Mr. Chairman?

COMMISSIONER DEASON: Yes. Composite Exhibit 40.

(Exhibit 40 marked for identification.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

GULF UTILITY COMPANY

APPLICATION FOR CHANGE IN WATER AND WASTEWATER RATES

DOCKET NO. 960329-WS

REBUTTAL TESTIMONY OF ROBERT C. NIXON, C.P.A.

Q. Please state your name and professional address.

A. Robert C. Nixon, C.P.A., a partner in the accounting firm of Cronin, Jackson, Nixon & Wilson, P.A., 2560 Gulf-To-Bay Boulevard Suite 200, Clearwater, Florida 34625.

Q. Have you previously provided testimony in this Docket?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the direct testimony of Ms. Kimberly Dismukes, witness for the Office of Public Counsel, on the issue of the allowance for working capital.

Q. First, let's begin by understanding what working capital is. Would you please define working capital from both a financial standpoint and the rate making perspective?

A. From a financial standpoint, working capital is a measure of financial liquidity of a business enterprise. The measurement is based on the availability of cash and other current assets that are readily convertible to cash that may be used to meet liabilities that must be paid in the current business cycle. This financial liquidity measure

is based on a comparison of current assets to current liabilities at a point in time. Measurement is expressed as the ratio of current assets to current liabilities and is commonly referred to as the current ratio. In my experience, most banks and other financial institutions look for a minimum current ratio of 2 times. According to Gulf's audited financial statements at December 31, 1995, the Company had current assets of $4.8 million and current liabilities of approximately $1.4 million. This results in a current ratio of approximately 3.4 times.

The rate making perspective of working capital is quite different. The following definitions are taken from the text *"Accounting for Public Utilities,"* by Robert L. Hahne and Gregory E. Aliff, published by Matthew-Bender:

> "For rate making purposes, working capital is a measure of investor funding of daily operating expenditures and a variety of non-plant investments that are necessary to sustain ongoing operations of the utility. The rate making measure of working capital is designed to identify these ongoing funding requirements on average over a test year." Emphasis supplied.
>
> "The average amount of capital provided

by investors, over and above the investment in plant and other specifically measured rate base items, to bridge the gap between the time expenditures are required to provide services and the time collections are received for such services." Emphasis supplied.

These definitions of working capital have been accepted and used by the Commission since it began regulating water and wastewater companies under its jurisdiction.

Q. Does Ms. Dismukes' testimony on working capital conform with the generally accepted definitions you have just given?

A. No. Ms. Dismukes fails to understand that the allowance for working capital is just that -- an allowance over and above the capital investment in plant and other specifically measured rate base items. Under Ms. Dismukes' definition, current assets and current liabilities are a source of capital for rate base plant investment. Long lived plant assets simply are not funded by working capital. Rather, working capital is a measurement of cash required to fund day-to-day operations.

Q. What sources of capital has the Commission looked to in support of rate base plant investment?

A. The Florida Commission, and all other jurisdictions of which I am aware, utilize the capital structure plus accumulated deferred income taxes and tax credits.

Q. Please define the term capital structure as you have just used it.

A. The capital structure of a utility consists of those long-term sources of funds used for plant investment and include common equity, long- and short-term debt, deferred tax credits, and customer deposits. These are the elements of capital structure which the Commission has used for as long as I can remember and are set forth on Schedule D-1 of the Commission's uniform MFR's and adopted by reference in Rule 25-30.437.

Q. Does that schedule of capital structure contain any current asset or current liability accounts?

A. No, except for customer deposits, which is viewed as a type of short-term debt.

Q. Why is an understanding of the definition of working capital and the components of the capital structure important?

A. Understanding these definitions is important because Ms. Dismukes has recommended that negative working capital should be used to reduce the Company's net rate base

investment which, as I just explained, is supported by a Company's capital structure, and not its working capital accounts. Traditionally, the Commission and its Staff have well understood these definitions and, as a result, have not reduced rate base investment by a negative working capital allowance.

Q. On page 22, lines 19-21, Ms. Dismukes states that if the Commission does not include a negative working capital allowance in rate base, it will provide the Company with an opportunity to overearn. Is she correct?

A. Absolutely not. For this to be true, the Commission would need to abandon its traditional rate making practice, based on the capital structure and the cost thereof, and adopt a new capital structure which includes current assets and current liabilities. Additionally, the Commission would need to abandon its traditional definition of working capital and determine that current assets and current liabilities do not fund day-to-day operations; but instead, are a source of funding for capital utility plant investments.

Q. Is there such a thing as negative working capital?

A. Yes, for a financially distressed utility. Under Ms. Dismukes' proposal, the worse off a utility is financially, not only is there no need for an allowance for working capital, but a utility should be penalized by

reducing its investment which is supported by the capital structure.

Negative working capital may exist prior to rate relief, particularly if rates have been grossly insufficient. However, if proper adjustments are made to reflect the impact of the sought after rate increase, balance sheet working capital is seldom negative.

More often, computation of a negative working capital allowance simply means that the computation is flawed. Either the adjustments just mentioned have not been considered or the calculation contains current assets or liabilities which should have been eliminated. Conversely, certain components may have been eliminated which should have remained in the computation.

Q. Has the Commission adopted any rules or published any guidelines on how balance sheet working capital is to be calculated?

A. None of which I am aware. Although rule making would certainly be appropriate under Section 120.54 F.S., and may be required, no rule as defined in Section 120.52 (15) has been adopted by the Commission on balance sheet working capital.

Q. On page 23, lines 11-15, Ms. Dismukes quotes the remarks of Commissioner Deason in part: "and a negative working capital allowance, all it means is that there are other

sources of capital other than things supplied by the investor that are being used to support the operations of this company. And it is important to recognize that like we do other sources of capital." Would you please comment?

A. I respectfully disagree with Commissioner Deason that a negative working capital means there are "other sources of capital." Assuming the computation was correctly made which resulted in a negative allowance, this would simply mean that there are other sources of cash working capital to support day-to-day operations. A negative working capital computation would not demonstrate a source of capital used to support rate base under the definitions and long-standing Commission policy I have discussed above. In my opinion, a negative working capital, validly computed, simply means that a company has no need for an allowance which earns a rate of return. It does not mean that working capital deserves capital structure recognition.

Q. On page 24, lines 9-11, Ms. Dismukes states that the Commission's rules have no requirement for a zero working capital allowance and notes that the Commission's rules require that the balance sheet approach to working capital be used for Class "A" and "B" water and wastewater utilities. Is she correct?

A. She is correct that no rule exists regarding zero working capital; however, long-standing Commission policy, as reflected in numerous rate orders, indicates that zero working capital is appropriate for those companies with a validly computed negative working capital allowance. She is incorrect with regard to which utilities are required to use the balance sheet method. Under Rule 25-30.433 (2), the balance sheet approach for calculating working capital is required only for Class "A" utilities. Working capital for Class "B" and "C" utilities is based on the formula method.

Q. On page 24, beginning at line 14 and continuing through page 25, line 13, Ms. Dismukes discusses her hypothetical example, attached to her testimony as Schedule 18, to demonstrate how the Company would overearn if a negative working capital allowance is not included in rate base. Does the hypothetical example on Schedule 18 support her assertion?

A. No. The numbers in the hypothetical example are self-serving and have been crafted to demonstrate Ms. Dismukes' argument for recognition of negative working capital. The flaw in the example, as crafted, is Ms. Dismukes' belief that the Commission somehow regulates total assets and liabilities. It does not. Historically, the Commission has considered only defined elements of rate base and

capital structure, not total assets and liabilities. As I mentioned previously, the Commission would need to change its basic approach to rate making in order for Ms. Dismukes' example to have any validity.

More specifically, items such as accounts payable, accrued taxes, and miscellaneous accrued liabilities are not sources of cost-free capital. They may be a source of cash flow and cash working capital required to pay for day-to-day operating expenses, but they are not a capital source of funds supporting rate base plant investment.

Q. Would you please comment more specifically on the numbers in the hypothetical example?

A. As I previously stated, the numbers in the hypothetical example are self-serving and have been crafted to support a specific conclusion. In addition, the numbers do not appear to be realistic. We are not given enough information to fully understand the financial position and working capital needs of the utility in the hypothetical example. I note the following:

1. The realism of the numbers in the capital structure is questionable. Presumably, the original plant investment was in excess of $100,000, since net plant is shown. Yet, common equity and long-term debt total only $75,500. Thus, it is likely this utility has been losing a lot of money. The example does not fit the typical

utility capital structure, where total capital exceeds the rate base and must be reconciled downward on a prorata basis.

2. Miscellaneous current liabilities appear to be conveniently high. What are they? Do they relate to operations and properly belong in the computation of working capital? Not enough information is available to answer these questions.

3. The existence of $3,000 of accumulated deferred income tax debits is suspect. They would arise only from book/tax timing differences where income is recorded for tax purposes, but not book purposes. Further, they would only be booked if it was more likely than not that the company would have future taxable income which would allow realization. As I mentioned, the numbers in the capital structure suggest the company has been losing money and probably operates at a loss for both book and tax purposes.

Without this deferred tax asset, the capital structure would correctly total $90,000 and be equal to the net rate base investment before consideration of any allowance for working capital.

4. Net CIAC is unrealistically low. Under Commission Rule 25-30.580, governing service availability charges and CIAC levels (75 percent/25 percent rule), one would expect

net CIAC to be much higher than the $10,000 shown in the hypothetical example.

Resolution of the questions raised above or simply use of a more realistic number for net CIAC would change the results stated by Ms. Dismukes and support the traditional methods of rate making previously discussed.

Q. You have defined working capital and distinguished between working capital and the capital structure of a utility. Also, you have discussed and explained the Commission's traditional rate making practices related to these items. From a practical standpoint, what is allowance for working capital trying to approximate?

A. The concept of working capital is a cash concept. Regulators attempt to determine the amount of investor-supplied cash which is necessary to fund day-to-day operations between the time expenses are incurred and cash is collected to pay for such expenses. Generally, the methods used to estimate this cash requirement are lead/lag studies, the formula method, and balance sheet method.

Q. Earlier, you mentioned that the Commission had no rules, written procedures, or other guidance to actually make the balance sheet working capital computation. Is that correct?

A. Yes.

Q. Generally, how is working capital, using the balance sheet method, computed?

A. The simple answer is that cost-free current assets are subtracted from cost-free current liabilities. In reality, the computation is much more complex and subjective. For instance, those elements of current assets and liabilities which are considered elsewhere in the rate making process are eliminated and certain known and measurable items are added. It is these types of additions, subtractions, and adjustments to the current asset and liability accounts which make the computation subjective and for which no Commission guidance exists.

Q. Let's discuss some of these issues generally and as they apply to Gulf Utility Company. First, what problems are involved with determining cost-free current assets and current liabilities?

A. Cash is certainly a problem. In a well managed utility, there is no such thing as cash which is not in an interest bearing account of some kind. Since the Commission first started using the balance sheet method in the late 1970's, in a telephone case, the banking industry has offered a variety of cash management tools which now allow even operating accounts to earn interest. Such innovations as overnight "sweep" accounts and various types of temporary investment accounts are available to the utility manager.

As it applies to Gulf, its operating cash account is a "sweep" account which earns a modest amount of interest. Although the operating account earns interest, it should not be eliminated from the working capital computation, since the account is required to fund day-to-day operations. Rather, the Commission should recognize today's banking and operating environment by allowing such cash in the computation, and reducing such cash by the interest earnings.

Q. What difficulties are associated with the elimination of working capital accounts which are provided for elsewhere in the rate making process?

A. A good example of this type of adjustment is customer deposits. Since they are recognized in the capital structure, they are eliminated from the working capital computation. While customer deposits treatment is straightforward, other less apparent items lead to controversy for which there is no firm guidance. For example, most utility companies include plant construction payables in accounts payable. Because the plant assets related to the payables are included in rate base and earn a rate of return, such payables should be eliminated from the computation. The source of funding for construction payables is generally long-term debt recognized in the capital structure. Also, such payables do not relate to

funding of the day-to-day operations and the working capital needed to fund such operations.

Another controversial item in this area relates to accrued interest payable. Although interest payable has been recognized in cost of capital applied to rate base, it is generally included to offset cash carried in the operating account to actually make the payment. However, circumstances differ from company to company and interest payments may not be made from the operating cash account. In the case of Gulf, the Company's primary financing vehicle is Industrial Development Revenue Bonds. The Company has special cash deposits from which principal and interest payments are made. As a result, it is not appropriate to include interest payable in the working capital computation, since payments are not made from the operating account and the account which actually funds interest payments has been eliminated.

It is very important in analyzing current assets and liabilities to utilize the matching concept.

Q. How about the additions or adjustments to working capital accounts you mentioned?

A. These adjustments generally attempt to account for the impact of rate increases on working capital. These adjustments are important because a company's historic test year balance sheet working capital is understated,

since its rates have not been sufficient to cover operating expenses and/or generate a fair rate of return. These types of adjustments include the impact of higher rates on cash and customer accounts receivable.

Another adjustment of this type recognizes deferred rate case expense or deferred maintenance costs which are approved in the course of a rate proceeding and not reflected in test year working capital.

Gulf has made several adjustments along these lines which should be considered and approved by the Commission.

Q. Do used and useful adjustments impact the balance sheet working capital computation?

A. Yes. Interest payable should be adjusted for used and useful interest. That is, the interest expense which is associated with the capital structure as reconciled to rate base. This would not apply to Gulf, since interest payable is not funded by the operating cash account. Instead, there is a matching debt service cash account which has been established to service debt.

Q. Have you reviewed the Staff Audit Report dated November 12, 1996, and Gulf's response dated December 6, 1996, as related to working capital in Audit Exception No. 5?

A. Yes. I also reviewed Gulf's response to Audit Exception No. 5 included in the Audit Report as pages 14 and 15.

Q. What period did the audit use for computing the working capital allowance?

A. The 13 months ended August 30, 1996. As stated in the report, this was the latest period for which actual data was available.

Q. What test period did the Company use?

A. The projected test year ended December 31, 1996.

Q. What period should be used and why?

A. The projected test year ended December 31, 1996. Failure to use the projected period ignores the impact of known changes, primarily related to annualized 1996 growth, the revenue associated with Florida Gulf Coast University (FGCU), and impact of the proposed rates requested in this proceeding.

Q. What working capital accounts were impacted by this failure and do the projected test year balances appear reasonable?

A. Cash and customer accounts receivable. Based on a comparison of projected test year balances with historic test year balances (year ended December 3, 1995), and projected revenue on Schedule E-13, pages 152 and 154 (MFR's), the projections for these accounts appear reasonable.

Average cash and customer receivable balances for the historic test year amounted to $1,120,472 and $260,014,

respectively. These same average account balances for the projected test year amount to $1,143,929 and $305,246, respectively. Thus, average projected cash increased by $23,457 (2.09%) while projected customer receivables increased by $45,232 (17.39%).

As mentioned above, projections for these accounts included the impact of customer growth and a full year's revenue using proposed rates. A summary of projected revenue increases is as follows:

	1995	1996	MFR Reference
Water	$2,124,579	$2,140,299	E-2, pg. 133; E-13, pg. 152
Sewer	1,117,570	1,670,870	E-2 pg. 135; E-13, pg. 154
Total	$3,242,149	$3,811,169	
Total increase		$569,020	
Average monthly increase		$ 47,418	

Based on the above, Gulf's projections for cash and customer receivables appear reasonable.

Q. I understand how receivables could be expected to increase by the average monthly increases in revenue. How about cash?

A. The cash average assumes that over the projected period, approximately 50 percent of the increase in receivables would be converted to cash, net of increased O&M expense and taxes other than income.

Q. Please discuss the reasonableness of the other projected

working capital accounts.

A. I would like to divide these accounts into two categories: Those that do not effect the allowance for working capital computation and those that do have an impact.

Those that do not have an effect because they are eliminated are as follows: Special deposits, notes receivable and payable to associated companies, miscellaneous current and accrued assets (interest), accounts payable - construction, customer deposits, unamortized debt discount, preliminary survey and investigation charges, clearing accounts, and accumulated deferred income taxes.

Thus, from a working capital standpoint, the accuracy of the projections for eliminated accounts is irrelevant. However, I would point out that with the exception of accumulated deferred income taxes, all of the average projected balances for these accounts are lower than the average historic balances for 1995.

Q. What are the remaining accounts which do have an impact and are the projected average balances reasonable?

A. The remaining accounts are as follows: Prepayments, materials and supplies, accounts payable/trade, accrued taxes, accrued interest, miscellaneous current liabilities, deferred rate case expense, and miscellaneous deferred debits.

Prepayments consist primarily of prepaid insurance and office equipment maintenance contracts. Projected insurance costs are depicted on MFR Schedules B-3 (pages 71 and 72). The policies were expected to be renewed in January and February, 1996, and expensed over a 24-month policy period. As a result, the projected monthly amounts and resulting average balance appears reasonable.

Materials and supplies were projected to total $24,326. This compares to the historic 1995 average balance of $26,078. Thus, the projection is reasonable. During the course of this proceeding, Gulf increased the average to $37,476 for inventory of a water treatment chemical to improve water quality. This balance has been accepted by OPC witness Dismukes.

Accounts payable/trade averaged $180,640 in the 1995 historic test year as compared to $170,889 for projected 1996, a difference of just 5.7 percent. The difference appears due to the fact that construction payables are included throughout the historic test year, while they are excluded for the months of April through December on the projected balance sheet. In any event, the difference between 1995 and 1996 is immaterial and the projected balance appears reasonable.

Accrued taxes were projected to average $329,812 as compared to the historic average of $209,052. The

projection included increases in payroll taxes, property taxes, and Regulatory Assessment Fees. Projected increases per Schedules B-15, pages 93 and 94 total $40,546. Thus, the 1996 projection appears overstated and should be accepted.

Q. Speaking of accrued taxes, did the Company's projection include an account "CIAC Tax Payable," totalling $314,632?

A. No. The title of this account is misleading. Actually, this account represents the liability for "Contributed Taxes" -- gross-up collections. The account is carried as a liability until the Commission determines how much should be refunded to the contributor of gross-up. The opposite side of this entry is cash deposited in an interest bearing escrow account, pursuant to the Company's gross-up tariffs. Such cash has been excluded from the working capital computation.

Q. Please continue with your comments on working capital accounts.

A. The next one is accrued interest. Since I have eliminated this account from the working capital computation, as discussed in further detail below, an accurate projection was not essential. However, Gulf has provided Staff with a detailed computation of 1996 accrued interest, totalling $269,790, (page 15 of Audit Report) which has been accepted by OPC witness Kim Dismukes.

Miscellaneous current and accrued liabilities include salaries and employee benefits payable. The projected 1996 average balance is slightly less than the 1995 balance ($49,740 vs. $50,088). Thus, the projected amount appears to be reasonable.

Deferred rate case expense was projected to average $57,561. This number was used by the auditors. In keeping with Commission policy, the average actual expense approved in this proceeding should be substituted for the projected 1996 average balance.

Finally, miscellaneous deferred debits were projected to be $335,205 for 1996, as compared to an average 1995 balance of $465,660. This account contains amounts due under developer refundable advance agreements ($204,231, which did not change) and various deferred charges. These items include the cost of operating permits and regulatory costs primarily related to gross-up proceedings. The only projected changes to the account balance related to amortization of the various deferred charges mentioned above. Therefore, the projected balance is reasonable.

Q. What is your conclusion regarding the projected working capital account balances which have an impact on the computation of the allowance?

A. Based on my comments above, the projected working capital accounts for the 1996 test year are reasonable and provide

an acceptable basis for determining an allowance for working capital.

Q. Have you computed an allowance for working capital using the MFR account and balances we just discussed?

A. Yes. Attached to my testimony is Exhibit 40 (RCN-1), which calculates a working capital allowance of $476,996, before adjustment for final deferred rate case expense.

Q. Let's briefly discuss each of these adjustments. What is the adjustment to cash?

A. This adjustment removes interest bearing money market accounts and a small amount of interest earned on the operating account during the first quarter of 1996.

Q. How about special deposits?

A. These are the trust and special deposit accounts set up pursuant to Gulf's IDRB's and from which principal and accrued interest are paid. This is the matching asset for accrued interest.

Q. What adjustments were made to notes and accounts receivable and payable?

A. Both projected test year balances for these accounts were eliminated, as they are related party transactions. Additionally, the note payable is accounted for elsewhere in the rate making process (capital structure).

Q. Explain the adjustment to materials and supplies.

A. This account was adjusted for additional water chemicals

discussed above, and agrees with the recommended balance of OPC witness Dismukes.

Q. What about miscellaneous current and accrued assets?

A. The projected balance was eliminated since it represents interest receivable on the IDRB special deposits mentioned above.

Q. If the Commission does not follow the matching concept and does not eliminate accrued interest on the IDRBs, should interest receivable then be eliminated?

A. No. Interest receivable on the IDRBs is a source of working capital to fund accrued interest and would not be eliminated. The interest receivable is simply the other side of accrued interest payable.

Q. How about accounts payable/trade?

A. The Company used actual balances through March, 1996. Such balances included construction payables primarily related to the Three Oaks wastewater treatment plant and Corkscrew Road water main and water treatment plant. I have eliminated the average balance of these construction payables as calculated on Exhibit 40 (RCN-2).

Q. And you also eliminated accounts payable - construction related to FGCU?

A. Yes.

Q. Do you have any support for the elimination of construction payables?

A. Yes. Again the matching concept is applied. The source of payment for construction is long-term debt, which is accounted for elsewhere in the rate setting process and the special deposits eliminated above.

Further, the Commission has previously issued rate orders recognizing that elimination of construction payables is appropriate (St. Johns Service Company, Order No. 18551; Hydratech Utilities, Inc., Order No. 22226).

Q. Customer deposits do not require comment. Please explain the adjustment to accrued interest.

A. As noted elsewhere, the matching concept requires that accrued interest be eliminated. Interest is simply not paid out of the operating cash account. A portion of cash receipts is deposited into a special deposit account to pay interest. As noted above, the cash used to pay interest has been eliminated. Failure to eliminate accrued interest, artificially and unfairly reduces the Company's working capital requirements.

Q. If interest were paid from the operating account, would accrued interest be eliminated?

A. No. The matching concept would require that accrued interest remain in the computation.

Q. Unamortized debt discount/expense and accumulated deferred income taxes are considered elsewhere in the rate setting process and eliminated, correct?

A. Yes.
Q. How about preliminary survey and investigation charges and the clearing account?
A. Because they do not relate to day-to-day operations, they were eliminated.
Q. Explain the adjustment to miscellaneous deferred debits.
A. The components of this account were discussed above. The receivable related to developer refundable advance agreements was eliminated since it does not related to utility operations.
Q. Do you have anything further to add?
A. Not at this time.

MR. GATLIN: Mr. Nixon, is available for questions.

MR. REILLY: Excuse me. Before I do that, is it to late for me to go ahead and move some exhibits into the record?

COMMISSIONER DEASON: No. Go ahead, Mr. Reilly.

MR. REILLY: This will be Composite 37 and Exhibit 38.

COMMISSIONER DEASON: Without objection, Exhibits 37 and 38 are admitted.

(Exhibits 37 and 38 received in evidence.)

CROSS EXAMINATION

BY MR. REILLY:

Q Good afternoon, Mr. Nixon.

A Good afternoon.

Q Are you absolutely sure that Gulf Utility is not a Subchapter S corporation?

A I am positive.

MR. REILLY: Okay, I have no further questions.

COMMISSIONER DEASON: Staff.

MS. O'SULLIVAN: Staff has no questions, thank you.

COMMISSIONER DEASON: I take it there is no

redirect?

MR. GATLIN: No redirect.

MR. REILLY: I'm not sure I know what the subject would be if this is a Subchapter S corporation.

COMMISSIONER DEASON: Exhibits. Exhibit 40.

MR. GATLIN: Move Exhibit 40, yes.

COMMISSIONER DEASON: Without objection, Exhibit 40 is admitted. Thank you, Mr. Nixon.

(Exhibit 40 received in evidence.)

(Witness Nixon excused.)

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COMMISSIONER DEASON: While Mr. Messner is coming to the stand let's take a brief assessment.

Mr. Reilly, how much cross do you have for the two remaining witnesses?

MR. REILLY: Around 15 minutes.

COMMISSIONER DEASON: Each or total?

MR. REILLY: I think each probably.

COMMISSIONER DEASON: Staff.

MS. O'SULLIVAN: I would say 15 to 20 for Mr. Messner, and let me just check Ms. Andrews real quickly.

I would say 20 to 30 for Ms. Andrews.

COMMISSIONER DEASON: Okay. You may

proceed, Mr. Gatlin.

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STEVE M. MESSNER

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

DIRECT EXAMINATION

BY MR. GATLIN:

Q You have not testified today, have you, Mr. Messner?

A No, I have not.

Q Would you state your name and address?

A My name is Steve M. Messner. My business address is 19910 South Tamiami Trail, Estero, Florida 33928.

Q And have you prepared testimony for presentation today?

A Yes, I have.

Q Is the rebuttal testimony labeled as rebuttal testimony consist of 17 pages -- 18 pages?

A Yes, that's right.

Q If I were to ask you those questions today, would your answers be the same?

A Yes, they would.

MR. GATLIN: May this be inserted in the

record as though read?

COMMISSIONER DEASON: Without objection, it shall be so inserted.

Q (By Mr. Gatlin) And you have prepared what's entitled additional rebuttal testimony, have you not?

A Yes.

Q If I were to ask you the same questions in that testimony, would your answers be the same?

A Yes, they would.

MR. GATLIN: May that testimony be inserted into the record, Mr. Chairman?

COMMISSIONER DEASON: Without objection, it shall be so inserted.

Q (By Mr. Gatlin) And you have one exhibit, do you not?

A Yes.

Q It's SMM-1, Domestic Wastewater Facility Permit No. FLA-014519. Is that the exhibit?

A Yes, sir.

MR. GATLIN: May we have that one identified, Mr. Chairman?

COMMISSIONER DEASON: Yes, Exhibit 41.

(Exhibit 41 marked for identification.)

GULF UTILITY COMPANY

REBUTTAL TESTIMONY OF

STEVE MESSNER

Q. State your name, business address, and position with the Company.

A. Steve M. Messner, 18513 Bartow Blvd., Ft. Myers, Florida. I am and have been Operations Manager of Gulf Utility Company for 16 years.

WATER TREATMENT PLANT STAFFING

Q. Why are two additional water operators required in the water department?

A. In accordance with Chapter 17-699, treatment plant classification and staffing, the recent expansion of the Corkscrew facility resulted in a classification change from a Class C facility requiring staffing at 6 hours per day for 5 days per week and one visit on each weekend day to a Class B facility requiring staffing 16 hours per day for 7 days per week. Both positions will be filled in February 1997. The cost of the two employees will be:

2 employees, plus 3.6% overtime	$44,175
Payroll & Unemployment Taxes	1,879
Health Insurance	8,831
Retirement Benefit Payments	2,494
TOTAL	$57,379

WATER TREATMENT CHEMICAL COSTS

Q. Why have water treatment chemical costs increased in 1996?

A. For many years, the San Carlos WTP provided water to most of our customers. The water produced at this facility can leave mineral deposits (calcium) on the interior of water mains. This condition is known as scaling and will be identified as an egg-shell coating within the interior pipe walls. In late 1996, Gulf Utility Company in conjunction with Betz-Dearborn conducted a corrosivity analysis on the product water at both water treatment facilities, as well as locations throughout the distribution system. The results of the study indicated that the product water generated at the Corkscrew WTP is corrosive. The problem is compounded due to soluble iron remaining in the product water. As the water is pumped into the distribution system, the addition of chlorine and caustic soda act as oxidants and chemically react to convert the soluble iron (dissolved) into an insoluble iron. This insoluble iron may precipitate out of solution and result in red or brown water. With the looping of the system at the south end (Corkscrew Road to U.S. 41) in 1996, the Corkscrew product water was being delivered to customers and portions of the

system which were traditionally served by the San Carlos facility.

This corrosive water may dissolve the existing mineral deposits, resulting in discolored water. The solution to this problem was to add two chemicals to the product water. The addition of zinc orthophosphate will sequester the corrosive tendencies of the water. The addition of pyrophosphate will maintain the iron in a soluble state.

The chemical addition combined with weekly analysis and system monitoring has been extremely positive in providing our customers a safe and reliable supply of drinking water. Additionally, the corrosive characteristics in the water have been eliminated. The cost of these chemicals for the test year is summarized below.

<u>Corrosion Control Chemical Cost</u>	
500P Pyrophosphate	$1.3027 per gallon
510P Zinc Orthophosphate	$0.6827 per gallon
<u>San Carlos Water Treatment Plant</u>	
500P 24.19 lbs per MG	$31.51 cost per MG
510P 34.78 lbs. per MG	$23.74 cost per MG
Annual treated	432,963 MG
Annual Cost	$23,921.16
<u>Corkscrew WTP</u>	

500P 36.2 lbs. per MG	$47.16 per MG
510P 52.13 lbs. per MG	$35.59 per MG
Annual treated	310,250 MG
Annual Cost	$25,673

The cost of Betz-Dearborn 500P and 510P as shown is $49,594.

SYSTEM PRESSURES

Q. Have you read the testimony of Thomas Beard?

A. Yes I have.

Q. Mr. Beard has testified that Gulf has had higher pressures in past years. Would you comment on this?

A. Pressure throughout the system is higher today than in the past. Gulf has greatly improved its capabilities of supplying water and pressure in its distribution system. Pumping capabilities at the major entry points to the system, namely the San Carlos Water Treatment Plant and the Corkscrew Water Treatment Plant, have been upgraded. System looping has been improved in conjunction with pumping upgrades. Gulf's water distribution system of today exhibits greater pressures and consequently higher sustained flows than in previous years. This uniform pressure is beneficial not only in supplying water to our customers but in the event of a fire, the increased attendant usage will provide for a consistent flow

with minimal differential pressure loss. Furthermore, the pressures within the water distribution / transmission system are uniformly balanced through the addition of a Supervisory Control And Data Acquisition (SCADA) system that enables Gulf's personnel to closely monitor and adjust the overall system inflow and pressure from the two high-service pump stations at the water treatment facilities in conjunction with U.S. 41 storage/booster pump station. These pumps are controlled from a central computer terminal located at the San Carlos water treatment facility operations center.

QUALITY OF WATER IN ISLAND PARK

Q. Would you comment on Mr. Beard's statement relating to the quality of water and preflushing in Island Park?

A. All treated water supplied to Gulf's customers meets or exceeds all regulatory requirements. There have been numerous fire flow tests conducted in Island Park without preflushing hydrants. In the past, an eggshell layer of mineral calcium carbonate scaling was formed on the interior walls of the water mains. Under the circumstances, it is good system management to preflush those areas that experience seasonally low flows to avoid dislodging the calcium carbonate during a fire flow test causing an inconvenience to our

customers. Pre-flushing is a standard practice in the water utility industry and is not an indication of water quality problems as suggested by Mr. Beard. This is a positive maintenance procedure that benefits the customers and does not affect the actual fire flow test.

FIRE PROTECTION ON JEAN STREET

Q. Mr. Beard states that no hydrants for fire protection are available on Jean Street. Would you comment on this?

A. There are also no fire hydrants in developed areas of San Carlos Park which are served by individual wells. There are no fire hydrants where there are no water lines installed. As Mr. Elliott states in his rebuttal testimony on page 10, in existing developments approved prior to Lee County Code, there are no requirements for Gulf to provide fire service.

Q. Mr. Beard testified the fire flow at Florida Gulf Coast University was 1,348 gallons per minute. Would you comment on this?

A. Mr. Beard had no actual fire flow data on which to base his testimony. He took no fire flow test. On January 14, 1997, Gulf conducted an independent fire flow test at this site. The results are attached to Jim Elliott's testimony as Exhibit_(JPE-7) showing

1561 gpm at 20 psi.

LIFT STATIONS

Q. The Company included $21,000 of annual cost for maintenance and repair of lift stations and manholes. Ms. Dismukes cut this in half namely to $10,500. What are your comments?

A. The Company has 42 lift stations and over 600 manholes, and the operation and maintenance of these facilities is included in the $21,000. Relating this cost to lift stations only, the average cost would be:
$10,500 ÷ 42 lift stations = $250/lift station/year
As I will show, it's not possible to maintain adequate and safe service to our customers without adequate maintenance expenditures and OPC's proposed adjustment should be rejected by the Commission.

Q. Would you outline what programs are included in the $21,000 annual cost?

A. The Company has a program of preventative maintenance conducted on all system lift stations. On a weekly basis the preventative maintenance includes:

1. Check pump amperage.
2. Check pump draw down.
3. Check control panel.
4. Clean and degrease pumping equipment and wet well.

5. Grounds maintenance.

Additionally, station pumps are pulled yearly for field inspection. At this time, wet wells, piping, pump rails, fittings, bolts, supports are inspected for signs of degradation. Repairs/replacements are completed as needed.

On the average, every 4-5 years the entire control panel requires replacement. This work will include replacing motor starters, capacitors, breakers and thermal relay units. On the average, this cost is $1500 - $2000 per lift station, with repair made on 8-10 lift stations per year.

The re-coating of wet wells becomes necessary as the system ages. Recoating is a necessary procedure, in providing a barrier against corrosive sewage gas that will break down the concrete walls of the wet well. As the system ages, the original coating may break down allowing the gas (H_2S) to ultimately destroy the integrity of the station. If this is allowed to take place, a complete change will be necessary. Through inspections, maintenance and periodic recoating the integrity of the stations will remain intact.

The following is a list of scheduled recoating. Current recoating costs are $8,000 per station.

Year	Location
1997	Wildcat Run #18
	Three Oaks Middle School - #3
	Cypress Chase - #5
1998	Breckenridge - #20
	Caloosa Trace - #34
	Woodbriar - #32
	Vines - #21
1999	Wildcat Run - #16
	Country Oaks - #8
	Pineapple Road - #6
2000	Vines - #23
	Villages at Country Creek - #11
	Villages at Country Creek - #10

As this schedule shows, some 3 wet wells will be coated each year in each of the next 3 years. At $8,000 per lift station, this cost is about $24,000 per year. Ms. Dismukes used cost in the past to arrive at her adjustment. But there has been a change in the method the Company accounts for these costs. In prior years some of these costs were capitalized while in the future all these costs will be expensed. By reviewing the cost outlined above, the costs will exceed $21,000 just for lift stations, then there will be added cost for repair of manholes. Ms. Dismukes

proposed adjustment should be rejected by the Commission.

LAND - THREE OAKS WASTEWATER TREATMENT PLANT

Q. Would you describe the use of the facilities at the Three Oaks Wastewater Treatment Plant?

A. By way of background, in the 1988 rate case (Order No. 20272) when only Phase I was in service, the Commission found 50% of the land to be used and useful.

Since that time, in 1991 Phase 2 was constructed and in 1995 Phase 3 was constructed. In addition, a second force main now delivers wastewater to the site. In addition, piping underlies the whole plant site. Contracts for Phase 4 have been let and construction should start no later than March 1997.

The Three Oaks facility site encompasses numerous structures above and below ground that are necessary in operating a wastewater treatment facility.

A description of the above ground facility is as follows:

A. Treatment units

B. Clarification units

C. Surge tanks

D. Filtration units

E. Contact units

F. Process control building

G. Motor control center

H. Standard effluent storage tank

I. Sub-standard effluent storage tank

J. Electrical service equipment and feed

K. Chlorine building

L. On-site - off-site effluent pumping

M. Digester units

N. Influent metering/sampling structure

O. Odor control - chemical storage and pumping

P. Sludge stabilization structure

Q. Blower assembly structure

R. Drainage/retention area

S. Roads and access areas

T. Buffer zone

In addition to the above are the underground utilities relating to the operation. These include:

1. Influent piping - allowing raw sewage (influent) to enter the headworks and continue to the treatment units.
2. Effluent piping - allowing treated effluent to be pumped to reuse system or to on-site storage.
3. Yard piping - extensive piping network that connects all on-site treatment plant components.
4. Electrical service equipment and associated

conduit for feed to structures, lighting, pumping and blowers and associated control panels.

The useful nature of the Three Oaks site extends far beyond the numerous visible structures. These structures are linked through a well designed system of piping and conduit that exist below ground. These below ground systems traverse the entire site providing the essential link to the various components of the treatment facilities.

When the required buffer zones and road and access areas are factored in, the land is fully utilized and is 100% used and useful in the operations. Mr. Biddy's adjustment should be rejected.

LAND - CORKSCREW WATER TREATMENT PLANT

Q. Would you describe the use of the facilities at the Corkscrew Water Treatment Plant?

A. By way of background, the Commission in the 1991 rate case (Order No. 24735) found the land to be 100% used and useful. There has been no change since that time except the site is now used more extensively for day-to-day operations.

Q. Could you describe the facilities at the Corkscrew Water Treatment Facility site?

A. The Corkscrew facility site encompasses numerous structures above and below ground that are necessary

in operating a water treatment facility.

A description of the above ground facility is as follows:

1. Process Control Building
2. Bulk Chemical Storage and Containment
3. Concentrate Disposal
4. High Service Pump building
5. 1.0 MG Ground Storage Tank
6. Waste Disposal/Drainfield
7. Meter Vault
8. Tank Fill Vaults
9. Electrical Service Equipment and Feed
10. Blend Well
11. Drainage and retention area
12. Roads and access areas
13. Buffer zone

In addition to the above are the underground utilities relating to the operation. These include:

1. Product piping - allowing product to feed from the process building to the storage tank.
2. Chemical piping - allowing bulk tanks to feed to chemical pump facilities.
3. Concentrate disposal yard piping.
4. High service pump piping - pump suction feed

from the storage tank and pump discharge piping to system.

5. Ground storage tank.

6. Waste disposal/drainfield - yard lift station with raised drainfield.

7. Electrical service equipment and associated conduit for feed to structures, lighting, pumping and concentrate disposal.

8. Blend well - yard piping.

The useful nature of the Corkscrew Facility site extends far beyond the numerous visible structures. These structures are linked through a well designed system of piping and conduit that exist below ground. These below ground systems traverse the entire site providing the essential link to the components of the facility.

The Corkscrew site is fully utilized in the operations of the Company. Additionally, land is set aside for a buffer zone, for retention areas, and the remaining land, either has a structure on or piping under it, or a roadway and access area to the plant. It's 100% used and useful in the operations. Mr. Biddy's adjustment should be rejected.

Q. Is Gulf required, by regulatory authority, to maintain a mix of effluent from the Three Oaks WWTP and the

Corkscrew WTP?

A. Yes, they are. The permits are attached as Exhibit_(SM-1) and these permits are interrelated where the mix of effluent is required. The provision requiring blending in the Three Oaks permit is on page 1 and 2 and the first 2 pages of the Corkscrew permit on pages 3 and 4.

Q. Would you review how the Company has disposed of effluent from the Corkscrew plant as well as its plans in the future.

A. Since 1991, concentrate from the Corkscrew WTP and effluent from the Three Oaks WWTP were disposed of by spray irrigation on two (2) nearby golf courses, the Vines Country Club and the Villages at Country Creek. The concentrate together with the effluent were mixed in-line i.e., both plants freely discharged into the common system that "fed" the golf course reuse lakes. In 1996, water production at the Corkscrew WTP was increased to 1.8 MGD with a corresponding increase in permitted concentrate flow to between 318,000 GPD and 450,000 GPD. The Three Oaks WWTP currently produces up to 750,000 GPD of treated effluent.

With the 1996 expansion of Corkscrew WTP, the historical means of in-line mixing was determined by DEP to no longer be sufficient to provide assurances

of protection to ground water supplies within the zone of discharge at the reuse sites.

Historically, the overall ratio of flows delivered to the golf courses has approximated the goal of 75 percent effluent / 25 percent concentrate. However, the blend received at each golf course holding pond has been different, with the Vines course receiving primarily effluent and the Country Creek golf course receiving most of the concentrate.

In discussions with FDEP, in order to obtain the necessary permits to construct and operate the Corkscrew WTP and the Three Oaks WWTP a system that would provide controlled blends and quantities at the two (2) golf courses and the new River Ridge development was required. The system must meet FDEP criteria of providing assurances of maintaining ground water quality standards within the zones of discharge as stipulated in regulations relating to ground water monitoring programs (Chapter 62-610 Florida Administrative Code - Reuse of Reclaimed Water and Land Application).

Criteria were proposed and evaluated by Gulf Utility Company in conjunction with Montgomery Watson, a consultant engineering company and FDEP.

Option A: Included the installation of dual lines

that would allow the concentrate and effluent to be pumped independently with blending occurring on the receiving ponds at each reuse site.

Option B: Install deep well injection at the Corkscrew site for disposal of concentrate.

Option C: Blending of concentrate with effluent occurs in the receiving ponds at each reuse site. To accomplish this, effluent and concentrate will be pumped sequentially into the transmission system on a daily cycle. Reuse sites will receive a measured quantity of effluent during the first half of the cycle; measured amounts of concentrate will then be pumped to each site during the second half of the cycle.

Each reuse site will be equipped with a monitoring and control station comprising a flow meter, a flow control valve and a control system. The control system will include a remote terminal unit (RTU) and the instrumentation required for control input. The RTU's will also handle telemetry to the operations center and will be compatible with the existing system. Instrumentation at each site will include a conductivity monitor to allow the system to distinguish between concentrate and effluent. This is necessary to account for the volume of water in the

reuse transmission pipeline.

A 1.0 million gallon storage tank will be constructed at the Corkscrew WTP to store concentrate while the wastewater plant is pumping effluent into the system. An existing effluent storage tank at the Three Oaks WWTP performs a similar function.

All three options presented were satisfactory in meeting FDEP requirements. Upon evaluation Options A and B were not as cost effective as Option C. Based upon this program Gulf Utility was able to obtain the necessary permits to construct and operate the Three Oaks WWTP and the Corkscrew WTP.

Q. Does that conclude your rebuttal testimony?

A. Yes it does.

ADDITIONAL REBUTTAL TESTIMONY

STEVE MESSNER

Q. Could you comment on Mr. Kleinschmidt's statement relative to a fire hydrant maintenance agreement?

A. Gulf Utility entered into an agreement with the Estero Fire Department on March 25, 1992 where Estero agreed to maintain the hydrants within their jurisdiction.

Q. Mr. Elliott in his rebuttal testimony basically said the existing Lee County ordinances require fire service in new developments but not in areas built prior to the effective date of the ordinance. Do you agree with that?

A. Yes, I do.

Q. Mr. Kleinschmidt said Gulf Utility Company is required by Lee County to meet hydrant spacing requirements. What are your comments?

A. The statement is not entirely correct. This is correct in new developments; there are no requirements for utility companies to retrofit or upgrade older areas to meet current standards for fire protection.

Q. Would you comment on Mr. Kleinschmidt's statement relating to unsuccessful fire flow due to debris in the lines?

A. It is company policy that a utility representative accompany the fire department on all flow tests. On

tests where we were present, we observed no "debris, nor were we advised by Mr. Kleinschmidt of debris in the lines from unauthorized testing he performed where we were not present. Specifically, the utility was not notified prior to or after the tests in Wildcat Run or the Breckenridge subdivision referred to by Mr. Kleinschmidt. Mr. Kleinschmidt suggests a problem with obtaining fire flow in some cases, however, to date this information has not been communicated to Gulf Utility Company.

Q. Would you comment on Mr. Kleinschmidt's statement relating to the effects of reduced pressure on existing buildings?

A. A fire sprinkler system is designed based on the results of prerequisite testing and with looping of the system in January 1996, pressures and flows have improved. In any event, a developer of a new project is responsible to make sure that the project has been designed to meet fire protection standards. That is not the utility's responsibility.

Q. Mr. Kleinschmidt testified that Gulf Utility does not meet flow requirements in its service area and attached Exhibit BOK-1 as back-up. Would you comment on this?

A. Mr. Kleinschmidt included fire flow results from 1995.

This is 1997. As stated in previous testimony, Gulf has greatly improved its capabilities of supplying water and pressure in its distribution system through system looping in early 1996. On February 18, 1997, two (2) fire flow tests were conducted by a state certified fire sprinkler contractor. These tests were taken in Gulf Utility's system at the locations deemed deficient by Mr. Kleinschmidt. The results of the test were

Location	Kleinschmidt 1995	Gulf 1997
U.S.41-Sunny Grove MH Park	939.76 GPM @ 20 psi	5642 GPM @ 20 psi
Breckenridge @ Pensacola	1154.93 GPM @ 20 psi	3254 GPM @ 20 psi

Mr. Kleinschmidt's tests are on pages 1 and 2 of Exhibit_(SM-2), and Gulf's 1997 tests on pages 3 and 4. I am not acquainted with how Mr. Kleinschmidt conducted his test, but Gulf's was performed by an independent party, namely a state certified fire sprinkler contractor. Test results provided in Exhibit_(SM-2) are a true representation of fire flow availability based upon current system capabilities.

Q. Does this conclude your testimony on this subject?

A. Yes, it does.

MR. GATLIN: The witness is available for questions.

COMMISSIONER DEASON: Mr. Reilly.

CROSS EXAMINATION

BY MR. REILLY:

Q Good afternoon. Mr. Elliot yielded to you to possibly answer any questions we had concerning the capability of doing any blending at the Corkscrew water treatment plant of raw water with the product water. My first question is can such a blending occur there at the plant?

A At the plant site, no, it cannot.

Q Where is this blending --

A I'm sorry, can you repeat the question?

Q This is the possible blending of raw water with membrane product water?

A We have on site what we call a blend well which we can blend raw water or feed water directly into the storage tank.

Q And your purpose for doing this is what?

A Would be to add back some of the minerals that are removed through the membrane softening process.

Q So you can do that. My next question is: Are you doing that?

A Yes.

Q And my next question is: How much of this are you doing?

A The blend well runs approximately 40 gallons a minute. So while we run the facility, we run the blend well.

Q So all of your product water now -- all of your membrane product is blended with the raw water to give you your finished product?

A To the extent of blending at that rate, yes.

Q And what is the approximate percentage of this plan of raw water to membrane water?

A Current capacity is 1.8 million gallons a day. And as I say, the blend well will yield approximately 40 gallons per minute.

Q 40 gallons per minute?

A Yes.

Q How does the 40 gallons per minute -- just help me with the math, what that is?

A If you times that by 1,440, you will get gallons per day.

Q Now, am I correct in stating that by bringing in this additional flow of water -- and I understand, the membrane, of course, you lose the concentrate, is a loss of that process in terms of

water production.

A Correct.

Q What is that approximate loss on a percentage basis?

A We look at plant as an 85% recovery plant, meaning 85% of the total feed is product and 15% is concentrate.

Q Now, you did say the total capacity is the 1.8 million gallons a day?

A Yes.

Q Of which raw water makes up a portion of that 1.8?

A No.

Q So it's in addition to the 1.8?

A Yeah.

Q Excuse me, one second.

Does the 57,600 sound right, gallons? That doesn't sound -- is that right? Okay.

COMMISSIONER DEASON: Mr. Reilly, you may want to get the witness to confirm that for the record.

Q (By Mr. Reilly) Could you confirm that that's an approximate figure?

A In my head, 40 times 1,440, that sounds about right.

Q Okay, thanks. If could you turn to Page 7 of your rebuttal testimony?

A I'm there.

Q On this page you mention that $21,000 per year is needed to maintain and repair lift stations and manholes; is that correct?

A That's correct.

Q And on your rebuttal testimony on the same page, Line 19, you state on a weekly basis the preventive maintenance includes a whole list of items. My question is -- aren't these part of the routine jobs of existing staff that they would perform? And my question is why would then the $21,000 be required?

A I guess it's a two-part question. The first part would be, yes, these are routine maintenance items. As I said in here, conducted on all lift stations, preventive maintenance conducted on lift stations. In conducting preventative maintenance, you will find things wrong. Lift stations are operated in a very harsh environment, outside, they are not covered. There are maintenance costs, repair costs that relate to maintaining lift stations.

Q And you are saying that 21,000 figure does not really include the labor then? This is just the -- are we talking about materials only?

A Yes. The labor is provided by utility employees.

Q And that's not part of your 21,000?

A That's correct.

Q On Page 10 of your rebuttal testimony, you disagree with Mr. Biddy's adjustment on facility land for Three Oaks wastewater treatment. From Line 6 you state, "By way of background in the 1988 rate case, Order 20272, when only Phase 1 was in service, the Commission found 50% of the land to be used and useful. Since that time in 1991, Phase II was constructed, and in 1995 Phase 3 was constructed."

Can you tell us more about the relationship between these three phases? Was Phase I a 250,000 gallon capacity?

A Phase I was 250,000 gallon capacity, Phase 2 was 251,000 gallons per day capacity.

Q And when Phase 3 came in, were both Phase I and 2 phased out?

A Well, they were used for Class 1 reliability, and we used Phase 3 which has a capacity of 750,000 gallons per day.

Q Now, according to the master plan the Three Oaks wastewater treatment plant will have 6 million gallons a day capacity?

A I believe that's true.

Q And wouldn't it be correct that the current open land is held for the future 5.25 million gallon a day expansion?

A There is land for that, yes.

Q On Page 12 of your rebuttal testimony, you also disagree with Mr. Biddy's adjustment on facility land for Corkscrew water treatment plant. This would be -- I direct your attention to Line 17. You again state by way of background: The Commission in 1991 rate case, Order 24735, found the land to be 100% used and useful.

My question to you is how familiar were you with that case and what degree of review might have been conducted by Staff in that particular docket? Are you aware whether the used and useful of the facility then was even at dispute?

A I'm not aware that it was in dispute at that time. I was just providing background in my rebuttal.

Q And have you reviewed the language of the particular order? And would you believe me if I told you there was no such expressed statement, but that there was no adjustment made to facility land in that particular order?

A I'd have to go back and check that.

Q And, in fact, the plant at that point in time was itself 100% used and useful. And the issue of facility land was not visited. Is that a yes, the nod?

A Is that a question? I don't understand.

Q Do you have any knowledge that would indicate that what I've said was not the case?

A No, I would have to go back and review that.

Q It's just your understanding that there was no adjustment made at the time?

A Yes.

Q And that your feeling is that the Commission should be bound by that and not conduct an independent used and useful analysis in this proceeding?

A Well, my feeling is that the land has remained 100% used and useful.

Q All right. Well, wait one second, please. I want to hand something to you. This is -- what you're being handed, I don't have extra copies, but it's so big we can probably put it up and have people see it. What we're handing you is a document given to us in response to OPC Document Request 46 where we had asked for site plans. And my reading of this particular diagram shows -- let's see. Is this, in fact, the Corkscrew site?

A It appears to be.

Q And what does that document indicate to you in terms of planned facility expansions and the location of those various facilities? If all that is built, would that constitute the 6 million gallon -- no, I'm sorry, I'm getting -- would that constitute the full build out of that particular site?

A It appears so, yes.

Q And so, it will ultimately be 6 million gallons a day?

A No.

Q I didn't think so. All right, would you explain then what would be the total build out of that particular plant?

A At build out of this plant in existing process building, there will be six, what we call, membrane skids.

Q Okay.

A At 800,000 gallons a piece or 4.8 million gallons per day.

Q Okay. Now, would you comment, however, from a facility land standpoint, the various other buildings and appurtenances that will be at the ultimate build out of this particular site?

A At this point just about everything is here

with the exception of two storage tanks shown on this print as Phase 4 and Phase 5.

Q Does this show the 12,000 square foot administration building?

A This does show that, yes.

Q Do you know what the plans are concerning that anticipated construction?

A I do not believe there are plans to construct that building.

Q And you did speak of the 2 million gallon reservoir; is that correct?

A Yes.

Q That will come in the future?

A Yes.

Q So this land will accommodate that future expansion?

A Yes.

Q Okay. That would conclude our review of that.

Oh, one other thing. We are going to hand out right now one more handout, and if I could possibly get a number.

COMMISSIONER DEASON: 42.

(Exhibit 42 marked for identification.)

MR. REILLY: Thank you.

Q (By Mr. Reilly) No. 42, this is short titled Gulf Utility Company's response to Staff request for late-filed exhibits dated December 20, 1996. Now, my reading of this handout -- I think was prepared by you.

A Yes.

Q -- indicates that there are 1,990.5 square feet of nonused and useful structure. For Skid Units 2 and 3, the additional used area, is 857 square feet. Therefore, there's 1,133.5 square feet left for future expansion; is that correct?

A I believe so, yes.

MR. REILLY: No further questions at this time.

COMMISSIONER DEASON: Staff.

CROSS EXAMINATION

BY MS. O'SULLIVAN:

Q Hello, Mr. Messner.

A Good afternoon.

Q Does Gulf provide fire flow in its area?

A Yes, it does.

Q Does Gulf Utility have any responsibility for the fire hydrants in terms of maintenance?

A We own the fire hydrants but maintenance is provided -- performed by the two local fire

departments.

Q And that would be the Estero fire department and San Carlos Park?

A Yes.

Q Do those two fire departments routinely fire flow test the hydrants in their areas?

A On an a needed basis, yes.

Q Do you have a requirement that the fire department give the utility a notice when they test the flows?

A Yes, we do.

Q And how much notice is required?

A 24 hours, perferably 24 hours.

Q And what's the purpose of that notice requirement?

A So that we could have a Utility rep accompany the fire department on that test.

Q And generally, what's the purpose of that person accompanying the fire department?

A When anybody is working within our system or doing anything within our system, it is good management of that system to have a utility rep on site should a problem arise, should any questions come up, should there be other things going on at the time of the test. For example, other tests from the other

fire department, main breaks, things of that nature, we would be able to discuss those with the fire department and coordinate those with the fire department.

Q Do you generally preflush any of the hydrants before the fire department conducts the fire flow tests?

A Not generally, no.

Q Are there some areas where you do and some areas where you don't?

A Yes.

Q Okay. What areas do you generally preflush before the fire flow tests?

A There's a seasonal -- parts of our system have seasonably low flows. In those areas we may, during the season of low flow time, we may decide to go and preflush those so as to not to create any inconvenience to our customers.

Q And what would the inconvenience be? Would it be water quality concerns?

A Could be.

Q Is the Utility required to maintain prescribed minimum pressure and flows at those hydrants?

A The Utility is required to maintain a

minimum of 20 psi throughout the system.

Q And those are the DEP requirements?

A Yes.

Q Are you informed of the test results when the fire department makes those tests?

A Not as a general rule, no.

Q Do all the hydrants in Gulf Utility's service area meet or exceed the minimum flow requirement?

A I'm not sure what the minimum flow requirement is.

Q I'll ask a different question then. Are you aware that in the Utility's MFRs they've estimated fire flow based upon 1,500 gallons per minute?

A Yes.

Q Do all the fire hydrants meet that 1,500 gallons per minute flow?

A Do all fire hydrants? No, not all fire hydrants.

Q Could you give us an estimate of how many do percentage-wise?

A No, I couldn't do that.

Q Has the Utility performed fire flow tests on all the hydrants in its service area?

A Not on all the hydrants, no.

Q In the Utility's annual report, the materials in the water mains in the Gulf system are listed at PVC and DIP which is ductile iron pipe. With no reference to which is which or the amount of each and the use, do you know how much of each comprises which material?

A Percentage-wise?

Q Yes.

A The greater percentage is PVC. The much greater percentage is PVC. According to our technical specifications ductile iron pipe is only used when we are crossing roads or for hard packed, or hard surfaces.

Q If a hydrant is tested and does not meet a flow of 1,500 gallons per minute, or whatever you would consider to be an acceptable flow, what could cause it to be less than the expected or design flow rate?

A Well, there are several parameters that can come into play there. Just the location of the hydrant, meaning where he's located it in relation to size of the line or the line's looped or an area of our system.

Q Would mineral buildup on the interior of the walls cause reduced fire flow?

A Mineral buildup could cause low fire flow. We have a minimum buildup, what we call just an eggshell coating. It would not in our system, but in some systems it might.

Q When you say eggshell coating, does that imply a very thin layer of mineral buildup?

A Yes, it does.

Q Would that be in both the PVC pipes and the ductile iron?

A Yes.

Q In your rebuttal testimony, you state that pressure throughout the system is higher today than in the past, and also that Gulf's water distribution system of today exhibits greater pressures and consequently higher sustained flows than in previous years.

Do you have any documentation of the pressures and flows from past years to support this statement?

A My testimony was based upon improvements that have been done to the system, as well as the pump, the main entry points to the system. That meaning the two water treatment plants over the last several years.

Q So you don't have documentation of the

pressure and flows, instead you are basing it upon the improvements of the system?

A That's correct.

Q On Page 6 of your rebuttal testimony, you state or you reiterate, that Mr. Elliot states in his rebuttal testimony that for existing developments approved prior to Lee County code, there are no requirements for Gulf to provide fire service; is that correct?

A That's correct.

Q Is fire protection service a tariffed charge in Gulf's tariff?

A I believe it is. I would have to review the tariff.

Q I'm going to give you a copy of a page from the MFR Schedule F-3, Line 5. And the entire MFRs have already been admitted into the record. Why don't you take a look at that. That's Page 157 of the MFRs.

Looking at the bottom of that page, Line 5, would you agree that fire flow as reflected in this MFR page is embedded in the water rate through the used and useful calculations and paid by all water customers?

A I'm really not familiar with the MFRs. I didn't -- that's beyond what I do.

Q Okay. Turning to a different subject just for a second, what is the life expectancy of the lift station coding performed last year?

A I'm sorry, could you repeat that?

Q Certainly. What is the life expectancy of the lift station coding performed last year? There was approximately $10,000 spent on it.

A Approximately five years.

Q You stated that on February 18, 1997, two fire flow tests were conducted by a state certified fire sprinkler contractor; is that correct?

A Yes.

Q Do you know if the person conducting the test was also a certified fire safety inspector or certified firefighter?

A I don't know that.

Q Would you know if a license to install sprinkler systems authorize one to inspect fire hydrants?

A I don't know that either.

Q Would you accept, subject to check, that it doesn't?

A Subject to the check, sure.

Q Were you present during those tests?

A Yes, I was.

Q Were there more than two people there during those tests?

A Yes.

Q Was anyone assigned to open the other hydrants during the tests?

A I'm sorry, could you repeat that?

Q Certainly. During the fire flow tests, I take it that sometimes more than one hydrant is opened during the test?

A Well, during the fire flow test you flow one hydrant and what they call, you residual, another hydrant. So you don't open the other one, but you put a pressure gauge on an upstream hydrant.

Q Was that done during those tests?

A Yes, it was.

Q I'm going pass out an exhibit. This is a copy of Page 42 of the AWWA manual No. 17 of water supply practices. I'd like to have that identified as an Exhibit, I guess, No. 43?

COMMISSIONER DEASON: Yes, No. 43.

(Exhibit 43 marked for identification.)

Q (By Ms. O'Sullivan) I assume you have that in front of you now. And this is a copy of Page 42 and refers to Chapter 6, Paragraph 4D. Could you please read the sentence beginning with "For

reasonably"?

It's at the bottom of the page. I'm sorry.

A I'm there, I've got it.

Q Would you read that out loud, please?

A Yes.

For reasonably accurate test results, the pressure drop between the static and the residual pressures should be at least 10 psi. If the distribution system is strong, as it should be near a supply main, in parenthesis, and the pressure drop is less than 10, an additional flow line should be added the test.

Q Your exhibit indicates that there was not a 10 pound drop in either test; is that correct?

A I don't have it right in front of me, I'm sorry.

Q Do you have a copy of your testimony and exhibits nearby? If not, we can give you a copy.

A Okay. I have that in front of me.

Q Okay, thank you. Just one moment, thank you. I'm going to pass out another exhibit entitled Kleinschmidt Hydrant Test. I believe this may already be part of another exhibit. I'll just double check.

COMMISSIONER DEASON: I don't recall this most recent as being included in a prior exhibit, but

I might be mistaken.

MS. O'SULLIVAN: That's correct. I think Mr. Kleinschmidt referred to it, but did not make it an exhibit. So I would ask for it to be identified as an exhibit then.

COMMISSIONER DEASON: Yes. Exhibit 44.

(Exhibit 44 marked for identification.)

Q (By Ms. O'Sullivan) Mr. Messner, would you refer to your additional rebuttal testimony, the last two pages, and also refer to the two-page handout we just gave you. Let me know when you have both of those in front of you.

MR. GATLIN: What was the page reference?

MS. O'SULLIVAN: The last two pages of his additional rebuttal testimony.

Q The first page of the handout I just passed out, what is the address of the hydrant on the eighth line of that handout?

A Which handout are we referring to?

Q It's the first page of Mr. Kleinschmidt's hydrant test dated 2/28/97.

A Okay. I've got that.

Q Would you agree that that address is 20950 South Tamiami Trail?

A Yes. Yes, I would agree to that.

Q Would you agree that subject to check that's the same hydrant you tested and have shown on Page 3 of your testimony as US41 and Corkscrew?

A Yes.

Q Going back to that handout, would you read starting on Line 10 the -- what is the static pressure there?

MR. GATLIN: Line 10 of what?

MS. O'SULLIVAN: The tenth line of the handout, first page, two lines below the address.

WITNESS MESSNER: Static pressure is listed here as 71.

Q (By Ms. O'Sullivan) And the residual pressure is 60; is that correct?

A That's what it says here, yeah.

Q Okay. And the pitot pressure is 40?

A That's what it says, yes.

Q And what is the flow permitted on that document?

A It's 24 -- 2,429 gallons per minute at 20 psi.

Q Right. And what is the flow permitted on the line above that?

A 1,061 gallons per minute.

Q Referring to Page 2 of that handout, would

you agree that that's the same hydrant that you've listed as is Pensacola Circle in your testimony?

A Yes.

Q And reading those same lines again, the static pressure of 70, the residual pressure of 60 and the pitot pressure of 38, would you agree that your test results for the same locations were substantially higher?

A Yes, they were.

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

COMMISSIONER DEASON: Redirect.

MR. GATLIN: Yes.

REDIRECT EXAMINATION

BY MR. GATLIN:

Q Why do you flush water lines?

A We flush water lines to maintain quality within our system.

Q Is that lining that's in the water lines at Gulf, is that harmful in any way?

A No, it's not. It's just a calcium carbonate scale, minor scale that has been forming over the years. It would create an esthetic problem, not a health problem.

Q Does the fire department furnish you with

copies of their tests of the -- (inaudible) --

A I'm sorry?

Q Does the fire department furnish you with tests they make of the fire hydrants' pressure?

A No, they don't.

Q Have they contacted you recently about any problems with the fire hydrants.

A No, they have not.

Q Isn't it true that the water plant can produce 1,500 gallons per minute?

A Yes. The high service pumping in place at either water plant can produce that.

Q So the problem is in the lines someplace if it's lower than that, isn't it?

A Yes.

Q And you don't know of any requirement that requires Gulf to replace those lines, do you?

A No, I do not.

MR. GATLIN: That's all I have. Thank you.

(Witness Messner excused.)

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COMMISSIONER DEASON: Exhibits.

MR. GATLIN: Exhibit 41, I'd move admission of that.

COMMISSIONER DEASON: Without objection,

it's admitted.

(Exhibit 41 received in evidence.)

MR. REILLY: I'd like to move Exhibit 42.

COMMISSIONER DEASON: Without objection, Exhibit 42 is admitted.

(Exhibit 42 received in evidence.)

MS. O'SULLIVAN: Staff moves Exhibit No. 43 and 44.

COMMISSIONER DEASON: Without objection Exhibits 43 and 44 are admitted.

(Exhibits 43 and 44 received in evidence.)

COMMISSIONER DEASON: We're going to take a 10-minute recess at this time.

(Brief recess)

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COMMISSIONER DEASON: Call the hearing back to order.

MR. GATLIN: Call witness Andrews.

CAROLYN B. ANDREWS

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

DIRECT EXAMINATION

BY MR. GATLIN:

Q You testified earlier today and were sworn, isn't it true?

A Yes, yesterday.

Q Have you prepared some rebuttal testimony in this proceeding consisting of 18 pages?

A Yes.

Q In the form of questions and answers?

A Yes.

Q If I were to ask you the same questions today, would your answers be the same?

A Yes, they would.

MR. GATLIN: Mr. Chairman, we ask that this be inserted into the record as though read.

COMMISSIONER DEASON: Without objection, it shall be so inserted.

Q (By Mr. Gatlin) And you have some five exhibits attached to that testimony, do you not?

A That's correct.

Q Exhibit Number CBA-1 is an exhibit

showing -- an exhibit dated December 6, 1996, Gulf Utility response to the audit report.

A Correct.

Q Let me just read all those out to you. No. 2 is the test year net operating income as adjusted; CB-3 is the depreciation expense and reserve for depreciation; CB-4 -- CBA-4 is the capacity charges, and CBA-5 is the 1996 capital budget.

A Yes.

Q Is that correct?

A Yes.

MR. GATLIN: May we have those identified, Mr. Chairman?

COMMISSIONER DEASON: Yes; composite Exhibit 45.

(Exhibit 45 marked for identification.)

GULF UTILITY COMPANY

REBUTTAL TESTIMONY OF CAROLYN B. ANDREWS

STAFF AUDIT REPORT

Q. Have you reviewed the Gulf Utility Company Audit Report prepared by Yen Ngo, Audit Manager and Kathy L. Welch, Regulatory Analyst Supervisor and submitted November 12, 1996?

A. Yes, I have.

Q. Has Gulf Utility Company responded to the Florida Public Service Commission Audit Report dated November 12, 1996?

A. Yes, we have. Exhibit_(CBA-1) is Gulf's response to the Audit Report dated December 6, 1996. Gulf's response explained Gulf's differences between the Staff Audit.

Q. And have you likewise reviewed the testimony and exhibits of Kimberly H. Dismukes of the Office of Public Counsel?

A. Yes, I have.

Q. And what are your general observations on these studies?

A. I have substantial differences with both Staff and OPC in that their studies do not reflect the underlying economics of Gulf.

NET OPERATING INCOME

Q. Would you outline how you have organized your rebuttal testimony as it relates to the income statement?

A. Neither Staff nor OPC found the expenses during the test year ended December 31, 1996, but generally used expenses during the period September 1995 and August 1996, then never completed their studies by finding a rate base - operating income - rate of return for the test period.

I am therefore using Schedule B-1, page 1 and B-2, page 1 of the MFR's and pointing out major differences with Staff and OPC. These revised schedules have been identified as Exhibit_(CBA-2).

Q. Turning to Exhibit_(CBA-2), Schedule 1 for water would you explain this exhibit?

A. Column 2 is the requested annual revenue requirements shown on Schedule B-1 of the MFR. Column 3 is a summary of adjustments where the Company agrees with Staff or OPC, and column 4 is the revenue requirement of the water operations for the test year 1996, as adjusted.

Schedule 2 is for the wastewater operations and is comparable to Schedule 1.

Column 5 is a reference to the details supporting the adjustments.

As the schedules show, $138,471 of additional cost is added to the water operations and $28,504 to the wastewater operations.

Q. Turning to operating and maintenance expenses detailed on Schedule 3 of Exhibit_(CBA-2), would you describe the adjustments for both the water and wastewater operations?

A. Most of the adjustments proposed by Staff and OPC relate to both operations, therefore most references also relate to both the water and wastewater operations. A discussion of the adjustments follow.

Note A: The payroll related adjustments are in these broad categories:

(1) Level of wage increase in 1996

(2) Cost of service Gulf provides to Caloosa

(3) Salary of Randall Mann

(4) Added payroll for staffing Corkscrew Water Plant

Mr. Moore, on page 25 of his rebuttal testimony supported the Company's existing level of salaries and wages and the proposed adjustment should be rejected. Mr. Cardey on page 10 of his rebuttal testimony sets forth the errors in Staff's and OPC's attempt to allocate more cost to Caloosa and these proposed adjustments should be rejected.

Mr. Moore, on page 27 of his rebuttal testimony, supported the salary of Mr. Mann as reasonable and proper and necessary in the business.

The increased cost for labor in the water operations is for increased staffing of the Corkscrew Water Treatment Plant in accordance with Chapter 17-699. See Steve Messner's rebuttal testimony, page 1. This adjustment was recognized by Staff in their audit (Exhibit_(KLW-1).

Note B: Chemical Cost - Corkscrew Water Treatment Plant.

With the additional looping of the water system and the mixing of water from the two water plants, there was some discoloring of water. The added chemicals solve this problem as set forth in Steve Messner's rebuttal testimony, page 2.

The chemical adjustments were recognized by Staff in their audit report.

Note C: Material and Supplies.

The Staff audit entry removing the non-recurring cost for lightning damage and relocating meter at Mariner's Cove is correct, but Gulf did not include it in its MFR. No adjustment is necessary to the MFR's.

Note D: Contractual Services.

Staff's proforma adjustments were for the period

September 1995 through August 1996, and do not reflect test year 1996 cost. Staff's adjustments are set forth in page 43 of the audit report, and comments on the specific adjustments are:

Adjustments

6,7,8,9,11	Out of the test year period, therefore not applicable to 1996 test period.
10	Agree with Staff Audit already in MFRs.
12	Agree with Staff Audit already in MFRs.

OPC made an adjustment to amortize the $16,000 pond cleaning expense over 2 years and Gulf will agree with that adjustment and a $8,000 adjustment should be made. Gulf does not agree with an adjustment for repair and maintenance of lift stations. See Mr. Messner's rebuttal testimony, pages 7-9.

Note E: Rental of Building.

The proposed adjustments include two items, first the rental charges and second the amount of common expenses reimbursed by Caloosa to Gulf.

Mr. Moore in his rebuttal testimony, starting on page 10, has shown the charges are reasonable.

Mr. Cardey on page 8 of his testimony disagrees with

the proposed adjustments by Staff and OPC but has recommended $1,400 a year additional cost, primarily for higher rental charge for Calcasa to reimburse Gulf for added costs incurred.

Water	$ 924
Wastewater	476
	$1,400

Note F: Transportation Expense.

Staff's proforma adjustment were for the period September 1995 through August 1996 and is not the cost for the test period ending December 31, 1996.

Note G: Insurance - General Liability.

At the time Gulf's MFRs were prepared Gulf used estimates from their insurance agency.

Note H: Miscellaneous Expenses.

Agree with Staff's adjustment to add the amortization of CRSW and CKDC Corkscrew disposal permit and Gulf's MFRs include this cost. As to customers survey cost a portion of the cost was included in the MFR. OPC's adjustments that Gulf agrees with are set forth below.

	Water	Wastewater
Remove NAWC lobby related dues	<550>	< 283>
Rotary dues	<163>	< 84>
Interest on operating account	<2640>	<1360>
	<3353>	<1727>

As for charitable contributions, none were included in test year expenses so audit exception No. 3 is not applicable to the MFR's.

As for Mr. Moore's business and office expenses, he stated on page 16 of his rebuttal testimony that Ms. Dismukes allocations are not factual. Mr. Cardey on page 10 of his rebuttal testimony also demonstrated Ms. Dismukes was in error. Her testimony should not be considered by the Commission.

OPC's "Unanticipated Expenses" is a misnomer. The Company must allow for miscellaneous expenses that occur year in and year out, not itemized specifically. These expenses occur in the normal course of business. OPC's proposal should be rejected.

As for director's fees, Mr. Moore in his rebuttal testimony starting on page 28, indicate they were normal and reasonable for a Company such as Gulf. Ms. Dismukes suggestion should be rejected.

DEPRECIATION

Q. Returning to Schedules 1 and 2 of Exhibit 6 (CBA-2), would you comment on the adjustments in depreciation?

A. As a general observation, all parties are using the same depreciation rates. Therefore the difference lies in the investment in property being depreciated and

in the Company's computation of depreciation, namely reducing depreciation expense for retirements. Gulf agrees with Staff and for the test year ending December 31, 1996, the adjusted depreciation expense and Reserve For Depreciation are shown on Exhibit_(CBA-3). The adjustments are:

	Water	Wastewater
Depreciation Expense	$78,338	$42,770
Depreciation Reserve	$87,458	$42,770

I do want to point out an error by Staff in the computation of depreciation in the wastewater operations. In December 1995 Gulf put into service Three Oaks WWTP. Since the test year is 1996, Gulf depreciation of this plant includes 12 months of depreciation. Staff on the other hand used the twelve month period of September 1995 through August 1996. In Staff's depreciation, they included the depreciation of the plant for 10 months of December 1995 through August 1996 but excluded the 2 months of October and November of 1995.

This illustrates the problem of not all parties using the test year approved by the Commission, namely the calendar year 1996, in reviewing the operations of the Company.

AMORTIZATION OF CIAC

Q. Ms. Welch has proposed the Company change its procedure on amortization of CIAC. What are your comments?

A. The Company amortizes CIAC using a composite amortization rate that is the same as the composite rate of utility plant, excluding common plant. This is one of the alternative methods permitted under Commission Rule 25-30.140 Florida Administrative Code. Gulf has been doing this for a number of years.

Ms. Welch has proposed that CIAC be amortized by functions, which is a change from the Company's present permitted practice. In discussions with Staff, we differ on some of the underlying procedures of implementing Ms. Welch's proposal, and we think a rate case is the wrong forum for settling these differences. We will be happy to sit down with Ms. Welch after this case, and work out a program acceptable to both of us, then implement that program in the future. This case should use the Company amortization practice now in effect which is permitted by rule and has been accepted by the Commission historically.

On Staff audit, which is audit exception 2 of the audit report dated November 12, 1996, Gulf has these

comments on the study as it relates to "cash" CIAC.

(1) Staff's proposal is for a period other than the test year ended December 31, 1996. Staff used a period from September 1995 through August 1996 which fails to reflect plant additions, plant retirements and additional CIAC in the last four months of 1996.

(2) The test year is a 13 month average, and Staff used "the plant at 8/96..." to determine average rates (page 5, 4th paragraph, line 2 on Audit Report). This is inconsistent with the MFR requirements for developing a test year.

(3) On the water operations, the capacity fees are $800/ERC at existing rates and $550/ERC at proposed rates. The development of these charges includes the investment in accounts set out on Exhibit_(CBA-4).

In the proposed capacity changes, these costs were $990/ERC, which was reduced to $550/ERC to keep the level of CIAC within the 75-25% rule. When Staff developed an average amortization rate for cash CIAC they omitted some of the functions used in computing the capacity charge in the first instances, which introduces an error.

(4) On the wastewater operations, the existing

capacity fees are $550/ERC which were increased to $800/ERC, and at this level keeps CIAC within the 75-25% rule.

Exhibit CBA-3, again compares the accounts the Company used in developing the capacity charges. I believe Staff used all accounts, except land, in developing the amortization rate applicable to cash CIAC.

It is my recommendation to the Commission that the Company's existing practice of amortization of CIAC be used in this case.

TAXES, OTHER THAN INCOME

Q. Staff in their audit made three adjustments to taxes, other. Please comment on these adjustments.

A. The adjustments are:

The Company's computation of Regulatory assessment tax did not equate to 4.5% of revenues.

	Water	Wastewater
Gulf agrees with Staff and the adjustment is	$< 715>	$<1,051>
The second adjustment is allocating payroll taxes on a payroll rather than a customer basis and Gulf agrees with Staff.	$<3,850>	$ 3,850
	$<4,565>	$ 2,799

The tax bill for 1996 is higher than estimated by Gulf on its Schedule B-15, by $7,500 for water and $14,800 for wastewater. The Company's MFR's have not been changed to reflect the higher taxes.

RATE BASE

Q. Staff in their audit, indicated the wastewater plant account was overstated by $2,765. Do you agree with that adjustment?

A. Yes, I do.

Q. In one of Staff's data requests, the Company furnished the latest cost on various construction projects. What is the Company proposing in this docket?

A. The Company is proposing to use the cost included in the MFR's, even though the later costs are somewhat higher.

Q. Would you comment on the $300,000 grant under the South Florida Water Management District Alternative Water Supply Grant Program?

A. The grant was not included in the MFR. Gulf requested funding under the South Florida Water Management District's Alternative Water Supply Grants Program in the amount of $375,000 for preservation of potable water through the development of alternative sources of irrigation water.

On November 14, 1996, the Governing Board of the

District approved a grant of $300,000. The $300,000 grant will be recorded in CIAC and this is reflected in the "test year rate base, as adjusted" (Exhibit_KRC-7).

The grant will fund the cost of constructing and installing a portion of the control system and instrumentation for monitoring flow and quality parameters at the three effluent reuse disposal sites.

AUDIT DISCLOSURES

Q. Do you have additional comments on specific audit disclosure that were in Staff's Audit Report dated November 12, 1996?

A. My comments on specific audit disclosures are as follows.

Audit Disclosure No. 5: Included in the test year operating expenses is the amortization of the San Carlos water line project. This project was to serve an area with individual wells, and without mandatory hook-up, the project was not economically feasible. The project was abandoned and is being amortized over 5 years. Audit Disclosure No. 5 has not proposed any adjustment.

Audit Disclosure No. 6: Audit Disclosure No. 6 summarizes the capital expenditures included in the test year. While later cost estimates show higher

cost, the amounts shown in the MFR's are reasonable, and Gulf has made no adjustments to cost.

Audit Disclosure No. 7: The MFR's for 1996 use the proposed capacity fees while the general ledger reflects present capacity fees. Only 8 months of 1996 was audited and at present rates.

	Per ERC	
	Water	Wastewater
Present	$800	$550
Proposed	$550	$800

Audit Disclosure No. 14: The statement that Gulf's forecast of expenses uses a zero base budgeting approach is not the method Gulf used in estimating 1996 test year expenses.

BUDGET METHODOLOGY

Gulf started by reviewing 1995 operations, and adjusted it for known changes in 1996. The annual budget is compiled in the ordinary course of business. The process begins in July or August with a meeting of management. The previous year expenses are reviewed and adjusted for known changes--such as unit price changes of supplies, changes in treatment process, changes in number of units required, and changes in number of employees--during numerous meetings with management and their support staff before submittal to

the CEO for approval at the beginning of December, with the final budget submitted to the Board of Directors for final approval at the year end board meeting. The 1996 budget was adjusted for known changes at the time of preparation of MFRs.

Comments on specific items of the financial statements follow.

REVENUES

The projected revenues in 1996 were determined by first projecting customer growth by classes of service, including meter size within each class. Monthly customers for 1996 is shown on Exhibit 3 and Exhibit 4 of the MFR.

Within each class of service, m gal usage/bill was determined based upon 1995 operations. The annual usage/bill times the number of bills in 1996, for each meter size in each class of service, established the annual volumes.

Next the bills and volumes were multiplied by the present rates to determine revenues in 1996. This information is shown in Schedule E-13 of the MFRs and further explained on page 16-18 of Cardey's direct testimony.

Operating expenses for 1996 test year were calculated by reviewing the 1996 budget. Illustrations of

estimates for the 1996 test year are:

Salaries & Wages: This is based upon the actual employees at their 1996 wage rates.

Purchased Power-Water: 1995 average cost/m gal times estimated flow of 743,213 thousand gallons in 1996

Purchased Power-Sewer: The Three Oaks WWTP-Expansion went into operation in 1995. The power cost in March 1996 was representative of the level of cost of operating the new plant and was annualized for 1996. San Carlos WWTP-Actual power cost for January through March 1996 was annualized for 1996.

Lift Stations: - based upon 1995 average power cost per lift station, adjusted for additional lift stations added in 1996.

Chemicals-Water: The cost is based upon current price of chemicals, expressed as $/mgd times 1996 flows.

Chemicals-Sewer: Known usage of chlorine and hydrogen peroxide was priced at current cost per pound. Hydrated lime usage is related to amount of sludge removal (estimated sludge of 720 loads per year is based upon projected 1996 flows times pounds per load times price of chemicals per pound).

Sludge Hauling: Number of loads per year was based on estimated flows for 1996.

Depreciation: The Company uses depreciation rates

provided for in Commission rule, applied monthly to plant balance.

Taxes, Other Than Income: Property taxes are based upon 1995 taxes and estimated changes for 1996. The estimates for 1996 are based upon discussions with local tax authorities plus additions to plant projected for the year.

Payroll taxes are based upon 1996 payroll and the effective tax rates for 1996.

Construction: The capital expenditures used in 1996 was made in the normal course of business and includes estimates for meters, small main extensions plus major items. These estimates are the product of field personnel, professional engineers, and management with final approval by the Board of Directors of the Company.

Attached as Exhibit_(CBA-5) is a copy of detailed capital expenditures included in the Company's MFR's. This same schedule was provided to both Staff and OPC. Exhibit_(CBA-5), which includes the actual expenditures in the first 3 months of 1996 and estimates for the remaining 9 months. A summary of this budget is:

Water	$1,423,976
Wastewater	$1,229,400

General	$ 55,827
	$2,709,203

The general plant is allocated 66% to water and 34% to wastewater.

On site facilities that are installed by developers and contributed are not included, nor are meter cost that are again off-set by fees.

Retirements are based upon the original cost of the property after reflecting the cost of removal.

Working Capital: The Company working capital forecast was based on the balance sheet method required by present Commission rules, with the details set forth on Schedule A-17, page 1 of the MFR'. Staff in their exception 5 indicated the Company did not provide the "forecast methodology" for the projection.

The foundation of a balance sheet is the following financial estimates that were all given to Staff, who in turn discussed these documents with the Company personnel, therefore they have a good working knowledge of the methodology used by the Company.

Monthly projected income statement

Monthly projected construction budget

Monthly projected cash flow

Monthly projected debt service

Monthly financing schedule

Monthly projected deferred income 1-A & C.

These documents provide the basis of developing the balance sheet shown on Schedule A-18 of the MFR, and cover major assets and liabilities shown on Schedule A-18. Smaller items, such as prepayment, that are paid quarterly, are reviewed separately. Separate reviews were done on other items.

Staff in Audit Exception No. 5 of the Audit Report dated November 12, 1996, compared their determination of working capital with the Company's. Except for 2 or 3 items, the major difference is due to different time periods, not in items to include in the determination of cash working capital.

Mr. Nixon, in his rebuttal testimony will discuss the items he agrees or disagrees with Staff.

Q. Does that conclude your testimony?

A. Yes, it does.

Q (By Mr. Gatlin) Do you recognize this black book in front of me?

A Yes, I do.

Q What is that?

A That's the binder that we keep the working papers which were used to prepare the MFRs in, and also any additional faxes or things that we may have received since we have prepared the MFRs.

Q Was a copy of that furnished to OPC and the PSC Staff?

A Yes.

MS. O'SULLIVAN: Commissioners, it's being admitted as an exhibit? And I would have to object.

MR. GATLIN: No.

MS. O'SULLIVAN: It's additional testimony, then?

MR. GATLIN: Yeah, I guess so, or additional rebuttal testimony to Ms. Welch. The witness is available for questions.

COMMISSIONER DEASON: Mr. Reilly.

MR. REILLY: We're going to hand out an exhibit. If I could possibly get a number for identification purposes.

COMMISSIONER DEASON: Yes, 46.

MR. REILLY: And the short title for this

exhibit is Response to OPC Document Request 23, Leasehold Improvement Amortization.

(Exhibit 46 marked for identification.)

CROSS EXAMINATION

BY MR. REILLY:

Q Ms. Andrews, I've arranged to be handed to you a document that was provided to OPC in response to our Document Request No. 23. If you flip to the first page, you'll see that this is where we've asked for a copy of all audit requests of the Commission's Staff and the Company's response to these requests.

The second page of this exhibit, not including the cover page, contains questions that were asked by Staff auditors and Gulf's response; so of course this is just a very partial listing of what you did provide to Staff. Are you with me?

A Yes.

Q And if you could look at the text with the No. 2 next to it, am I correct that this indicates that Gulf spent $52,855.98 on leasehold improvement for the leased office space we've been talking about?

A Yes.

Q That they are leasing from Caloosa?

A Yes.

Q And that the Utility is proposing to collect

an amortization of 10,571.20 per year?

A That is the duration of the lease.

Q Okay. Thank you. Did you assist in the preparation of the 1996 budget that was used for the projected 1996 test year in this case?

A Yes.

Q Am I correct that the '96 budget was developed by reviewing '95 operations and adjusting '95 expenses for known changes in '96?

A Yes.

Q And such known changes might be unit price changes of supplies, changes in number of employees and the addition of plant capacity?

A Yes.

Q At the top of Page 7 of your rebuttal testimony, you state that charitable contributions were not included in the projected test year; is that right?

A Yes.

Q Do you have a copy of the MFRs with you? And would you look at Page 76. On this Page 76 there is a total listed for miscellaneous expenses of $71,289; is that correct?

A One moment. Let me get there.

Q Okay. I would give you a numbered line, but

there isn't one.

A You said miscellaneous?

Q Yes. It's a total. Apparently a total of miscellaneous.

A Yes, I see that.

Q 71,289?

A Yes.

Q Okay. Now, on August 22nd, 1996, Gulf provided the Staff of the Commission with some additional information concerning the MFRs. Are you familiar with this information? I'm handing it out right now. It's an appendix C, which gave more detailed information concerning projected expenses; is that correct?

A Yes.

Q Do you have that information before you?

A Yes, I do.

MR. REILLY: If I could possibly get another number of this exhibit for identification purposes.

COMMISSIONER DEASON: Yes, Exhibit 47.

(Exhibit 47 marked for identification.)

MR. REILLY: Thank you.

Q (By Mr. Reilly) Now if I could direct your attention to Page 2 of this appendix, not again including the cover page, I believe, it has

miscellaneous expenses there near the bottom. It says Total General Miscellaneous Expenses, 71,289?

A Right.

Q And that, I guess, provides the additional support for that MFR number?

A That is correct.

Q Okay. Thank you. Now we're going to hand out one last exhibit, and this is -- did I give a short title to that No. 46? I'm not sure.

COMMISSIONER DEASON: Detailed description, Schedule B-3 notes.

MR. GATLIN: And the exhibit number is 46?

COMMISSIONER DEASON: That was 47.

MR. GATLIN: Okay.

COMMISSIONER DEASON: And the exhibit which is just being distributed will be Exhibit 48.

MR. REILLY: Now, this short title for this exhibit is Response to OPC Document Request No. 32, 1996 Budget.

(Exhibit 48 marked for identification.)

Q (By Mr. Reilly) Now, this exhibit contains the Company's 1996 budget; is that correct?

A Yes.

Q Could I have you please turn to the numbered Page 11, circled number 11? Am I correct that this

shows miscellaneous expense again to be 71,289, the same exact number that continues to flow through each of these documents?

A That's correct.

Q So all three items tie together, and we're basically talking about the same collection of expenses, are we not?

A The same amount, but not the same makeup.

Q Okay. Well, that's what we're going to get to. On this exhibit there is a listing of items included in miscellaneous expenses. The third item down on the list is charitable contributions of $2,000; is that correct?

A Yes.

Q And the fourth item down on the list is political contributions of $1,200; is that correct?

A Yes.

Q Would you agree with me that your budget includes 3,200 of charitable and political contributions and that the total amount of miscellaneous expenses shown in your budget matches the total amount of miscellaneous expenses shown on the MFRs?

A It does match. The totals do match, yes.

Q Now, we've compared the expenses shown on

this exhibit with those shown on appendix C, Page 2 and we've matched every single item except these two items of charitable contribution and political contributions?

A Right; they're not included.

Q Now my question to you is, would you explain to the Commission why your budget included $3,200 for charitable and political contributions, but when the numbers were put into the MFRs, the $3,200 is reflected not as political contributions and charitables, but as customer service questionnaire?

A Well, as you know, you're looking at two different time frames. The budget was prepared obviously for the use for -- by the Company. The MFRs were prepared in order to achieve what we're achieving now.

The questionnaire which we sent to the customers, I believe in the middle of summer or late summer of this past year, 1996, was going to cost approximately $3,200, and actually I think cost a little bit more; and so we felt that it was appropriate that it be included in the MFRs and that we be able to recoup that cost, because it is important to us to know what our customers are thinking of our quality, what types of improvements

they would like to see, any ideas they may have to share with us.

Q Is it possible when tracing the detail to all the support of these MFR numbers that the political contributions and charitable contributions fell out because they would not have been deemed an appropriate purpose to be put into the revenue requirement?

A We would not include them in the MFRs because they're not allowed.

Q And yet --

A We removed anything out of the budget that would not be appropriate to be included in the MFRs.

Q And yet all the backup seems to speak to the fact that it's really political contributions and charitable contributions?

A No. The money was spent for the customer survey and, as a matter of fact, I believe you have the results of that survey. We gave you a summary and you have all that information.

It was requested, I know, in an interrogatory. I can't tell you exactly which one right now, but we did give you a summary of the survey which was prepared and the results of the survey. We gave you a copy of what the survey was and also the

results.

MR. REILLY: Okay. We don't have anything further.

COMMISSIONER DEASON: Staff.

CROSS EXAMINATION

BY MS. O'SULLIVAN:

Q Ms. Andrews, are you saying that the exhibits that Mr. Reilly just passed out support the fact that charitable contributions are not included in the budget?

A They're not in the budget -- they're in the budget. They're not in the MFRs.

Q Okay. But you would agree that the charitable conclusions were in the audited accounts for these expenses for the period 1995 September through August '96?

A You're talking about historic?

Q Right; in the audits period. Would you agree these amounts were in the audited period?

A I'm not following you. I'm sorry. Could you restate the question?

Q Certainly. Would you agree that the charitable contribution amounts were in the audited accounts for miscellaneous expense for the period September '95 to August '96?

A Are you saying did we spend the money that we had in the budget for charitable contributions? Is that what you're asking me?

Q Just a moment. (Pause) I guess I'm referring to Audit Exception No. 3 and the numbers that fell out of that audit.

A Hold on just a moment. I'm looking for that audit report you're referring to. If you just read it to me, I'm sure it will refresh my memory.

Q Okay. Just a moment.

A I found it. Which page?

Q That would be Page 10 of the audit report. Would you agree -- I'll let you get to that page. Audit Exception No. 3 on Page 10 of the audit report, would you agree that the Utility did include an amount of charitable contributions in Accounts 675.8 and 775.8?

A We did. This is the historic information. It was not included in the MFRs, and we would not expect it to be accepted as part of the revenue requirement. What the auditors were doing is they were auditing historic information. They were not looking at the MFRs at this time.

Q Right. Did Gulf rely on the previous year's expense and budget in order to project the budget for

1996?

A We did, as a foundation.

Q Why didn't Gulf file any comments to the exception in its response to the Staff audit report?

A Because this was just a comment made by her and we agreed with it. They were expended. There was no question about it. It was not included in the MFRs. And she was looking at historical information, and we do support local civic organizations, especially the youth leagues that are in the community; and we feel it's very important to do that.

Q I'd like to refer you next to Page 7 of your rebuttal testimony which addresses unanticipated expenses beginning on Line 10. I know you have that in front of you.

A Line 7 -- Line 10; I have it.

Q Why is it reasonable to allow customers to pay for expenses that cannot be identified?

A Well, I think that everyone knows, or most utility companies would agree, that you're always going to have expenses that you can't necessarily anticipate.

In this case what happened to this Utility is we hired a safety consultant which we needed desperately. We do not have anyone on Staff who is

really qualified to manage our safety program and it's becoming more and more important that we meet -- be able to do the training that's necessary in order to meet OSHA standards. Therefore, we did hire a consultant, and I have the cost of that, which was -- hold on a moment.

I'll tell you -- I'm sorry. I don't know where my assistant put the note.

Q Okay. That's fine.

A But I do know that what we did is we hired an outside firm in order to do this training for us, and the cost was even more than what we had for unanticipated expenses, and it happens annually that this occurs. It may not be -- obviously, when we do the next budget we'll include that expense, but it will be something else, if not this, that will come up that we'll need to be spending money for; and in order for us to accurately do a forecast, we need to consider that, and I think the Commission needs to consider that because that's going happen to any utility no matter who they are.

You're going to have expenses that will occur that you do not anticipate that are necessary as a part of the ongoing operations of the Utility.

Q Isn't the whole purpose of a projected test

year to anticipate every expense and budget for it?

A It would be a wonderful world if we could do that, but unfortunately, we're human and we cannot have a crystal ball and know everything that's going to occur within a test year; and being projected, of course, that's -- just like our budget. We do the best we can with the knowledge that we have at the time, and we know for a fact that there will be expenses that occur that we have not -- that have not occurred yet; in other words, there have not been events that have occurred in order to make the expense necessary.

Q How would the Commission be assured that this amount does not include nonutility related expenses if not identified ahead of time?

A I would be happy to show you the bill for the consultant.

Q My question was in general. The Commission does not know when you list unanticipated expenses what they're going to be spent on, so how could the Commission be assured in general that the expenses do not end up being used for nonutility related expenses?

A Well, I don't know that you would know that. I know that it is not an unreasonable amount of money, and it is probably too low, actually. It's going to

be much greater than that, of course.

Q Moving to Page 8 of your testimony, you identify the Utility's suggested adjustments to depreciation and -- accumulated depreciation, and you list amounts for water and wastewater. Do you have any work papers or documentation which indicate how you arrived at these proposed adjustments?

A Yes, I do.

Q Could you provide those as a late-filed exhibit entitled Utility's Proposed Adjustments to Depreciation Expense and Accumulated Depreciation?

A Yes.

Q If I could give -- let me make sure you could provide the information. That would reflect detailed calculations of depreciation expense by primary account with columns for 13-month average projected plant with any plant adjustments included in the filing, each depreciation rate used, and the resulting depreciation expense?

A Yes.

MS. O'SULLIVAN: Commissioner Deason, I believe that would be Late-filed Exhibit No. 49.

COMMISSIONER DEASON: Yes, that's correct.

(Exhibit 49 marked for identification.)

MS. O'SULLIVAN: Thank you.

Q (By Ms. O'Sullivan) Next line of questioning addresses Audit Exception No. 2, composite amortization rates for CIAC. Does the Utility currently maintain records of CIAC by function such as line main extension fees, hydrants, DOT permits?

A We do now. When -- I know when I originally came to the Utility the records were not as detailed as they are now, and they were using the composite rate at that time, and we've continued to do so. As I mentioned in my rebuttal testimony, this is one of the acceptable methods and we would be happy to sit down with Commission Staff and discuss, you know, whatever is -- you feel is more appropriate, but we were trying to follow the guidelines that we had at that time.

Q Okay. You mentioned that previously the Utility had not had the records maintained by function. Approximately when did they switch over to maintain them by function?

A I cannot give you the definite date. It was an evolution. I came to work for the Utility in the '80s, and it was over a period of time that I was able to accomplish that.

Q All right. But during -- at the time that the Utility filed its rate case in this docket, they were broken down by function; is that correct?

A Correct.

Q And referring to your testimony on Page 9, Lines 5 through 10, you discuss the Utility's current practice of amortizing CIAC using a composite rate, and you state that this is one of the alternative methods permitted under the rule, which is Rule 25-30.140; is that correct?

A Yes.

Q I'm going to give you a copy of that rule and have you take a look at it. I assume you've reviewed the rule before?

A Yes, I have.

Q I'm referring to subsection 8(a). You would agree this is the section that outlines the appropriate method of amortizing CIAC; correct?

A Correct.

Q Okay. Could you point out where in this rule it says that it's all right to -- or that it's optional to amortize CIAC using composite rate? I know it's a long paragraph there.

A It says on the last line "Otherwise, a composite rate amortization -- I only have part of the page. Excuse me. The copy is cut off. "Otherwise, the composite plant -- looks like "amortization rate should be used".

Q That's the sentence you referred to is --

A Right.

Q Okay. If you -- read out loud the previous sentence before that one.

A Oh, I understand what you're saying. Once you do have the CIAC broken out by function, then I guess there are other methods that are applicable to do the amortization rather than the composite method. We acknowledge that.

Q Okay. So is it your testimony that if the accounts are broken down by appropriate function, it's still optional the Utility may wish to use the composite rate?

A I'm saying we did use the composite rate in the MFRs.

Q Even though the rules says that the amortization rate shall be that of the appropriate account function where documentation is available?

A Yes.

Q So you believe -- do you believe that there are two options? The Utility can choose to use the composite rate, or use the appropriate account function rate?

A I didn't say that. I said we used the composite rate in preparing the MFRs. We continue

using the type of amortization that we had been using in the past. We also said we would be willing to meet with Staff to discuss what method would be appropriate for the Utility.

Q Do you believe that a rate proceeding would be the appropriate time to determine what the appropriate rate should be?

A You mean in this forum?

Q Yes.

A I don't think so.

Q Why wouldn't a rate proceeding be the appropriate time to determine the appropriate rate of amortizing CIAC?

A I'm not sure I understand what you're asking. Ask you saying that we should decide right now how to amortize it?

Q As a result of the outcome of the case.

A I'm not sure I understand your question.

Q I'll withdraw the question.

COMMISSIONER CLARK: What she means is would now be a good time it clarify it, so from this point forward that you're complying with the rule?

WITNESS ANDREWS: I thought I had said that. I said we would be willing to sit down with Staff and discuss the appropriate method that we feel is right

for the Utility.

COMMISSIONER CLARK: And that probably should be accomplished as a result of this proceeding?

WITNESS ANDREWS: That's what I said, yes. That's in my rebuttal testimony.

Q (By Ms. O'Sullivan) So you think a rate proceeding wouldn't be the appropriate forum to determine the appropriate composite -- or the appropriate rate of an element of the rate case?

COMMISSIONER CLARK: Maggie, I think she's interpreting what you're saying is, should we sit right down and all of us figure it out now.

MS. O'SULLIVAN: Okay. I'll withdraw the question.

Q (By Ms. O'Sullivan) In your rebuttal on Pages 9 and 11 you state that staff Witnesses Welch -- Staff Witness Welch's calculations regarding amortization of CIAC are wrong because she used the period from September '95 through August '96, and that this period fails to recognize -- or reflect plant additions, retirements, and additional CIAC for the rest of 1996; is that correct?

A Yes.

Q If the Commission finds that the Utility's methodology for amortizing CIAC is incorrect and that

an adjustment is necessary in this case, what dollar adjustment do you believe is appropriate to correct a 13-month average balance included in the MFRs?

A I couldn't tell you that right now.

Q Could you provide the information at a later date as a late-filed exhibit?

A I would try.

MS. O'SULLIVAN: I would request that be identified, I guess, as Late-filed Exhibit No. 50.

COMMISSIONER DEASON: Yes, 50. Could we have a short title, please?

MS. O'SULLIVAN: Certainly. Dollar Adjustments Necessary to Correct 13-Month average Balance Included in the MFRs if the Commission Finds that the Utility's Methodology for Amortizing CIAC is Incorrect.

COMMISSIONER DEASON: I'm just going to entitle it Adjustments Necessary for CIAC Amortization.

(Exhibit 50 marked for identification.)

MS. O'SULLIVAN: That sounds better.

Q (By Ms. O'Sullivan) Referring one more time to your testimony on Page 9, Lines 13 through 20 -- I'm sorry. Strike that question. I've already asked that.

MS. O'SULLIVAN: Staff has no further questions. Thank you.

COMMISSIONER DEASON: Redirect.

REDIRECT EXAMINATION

BY MR. GATLIN:

Q Is the Lee Hospital in the remainder of the building where Gulf is situated?

A Yes.

Q Didn't they spend over $200,000 in leasehold improvements?

A Yes.

MR. GATLIN: That's all I have.

COMMISSIONER DEASON: Exhibits.

MR. GATLIN: 45, I move that exhibit.

COMMISSIONER DEASON: Without objection, 45 is admitted.

(Exhibit 45 received in evidence.)

MR. REILLY: I would move 46, 47 and 48.

COMMISSIONER DEASON: Without objection Exhibits 46, 47 and 48 are admitted.

(Exhibits 46, 47 and 48 received in evidence.)

COMMISSIONER DEASON: 49 and 50 are late-filed. Thank you Ms. Andrews.

(Witness Andrews excused.)

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COMMISSIONER DEASON: Perhaps now would be an appropriate time to review the exhibits. According to my record, all exhibits that have been identified have been admitted with the exception of Exhibit 2, Exhibit 7, which is late-filed, Exhibit 11, which is late-filed, Exhibits 13 and 14, Exhibits 16 and 17 which were withdrawn, Exhibit 25, which was withdrawn, and Exhibits 49 and 50, which are late-filed.

MS. O'SULLIVAN: Commissioner, I believe we failed to address 13 and 14. As you recall, yesterday there were documents presented by the Utility that Staff hadn't had a chance to look at, Exhibits No. 13 and 14.

Staff has no objections to Exhibit No. 13, and if I can verify that Exhibit No. 14 addresses Audit Exception No. 11, I believe, then I would not have an objection to that either.

COMMISSIONER DEASON: Okay. You have no objection to Exhibit 13. Mr. Reilly, is there an objection to Exhibit 13?

MR. REILLY: No objection.

COMMISSIONER DEASON: All right. Show then that Exhibit 13 is admitted.

(Exhibit 13 received in evidence.)

COMMISSIONER DEASON: Ms. O'Sullivan, can you clarify what clarification you need for Exhibit 14?

MS. O'SULLIVAN: Certainly. It appears -- we were not able to ascertain when they were being admitted what they were related to exactly; and we believe it's Audit Disclosure No. 11, which is the engineering costs for the new university. If that's correct, we have no objection.

(Miscellaneous inaudible conversation.)

COMMISSIONER DEASON: Let me remind everyone we're still on the record, so don't get too casual here.

MS. O'SULLIVAN: Those are the engineering -- the engineering receipts.

COMMISSIONER DEASON: Ms. O'Sullivan, do you need to go off the record?

MS. O'SULLIVAN: Certainly.

COMMISSIONER DEASON: All right. We'll go off the record until we can get this clarified.

(Discussion off the record.)

COMMISSIONER DEASON: We'll go back on the record.

MS. O'SULLIVAN: Yes. Staff has no objection to Exhibit 14.

COMMISSIONER DEASON: Very well. Show that Exhibit 14 is admitted.

(Exhibit 14 received in evidence.)

COMMISSIONER DEASON: What is the status of Exhibit 2? I show that it is a 2/26/97 letter from Butler with contract attached.

MS. O'SULLIVAN: That was an exhibit that we were going make copies for and file as a late-filed for the parties.

COMMISSIONER DEASON: Make copies and what?

MS. O'SULLIVAN: And file as a late-filed. It was presented during the customer testimony from a golf course, San Carlos Golf Course.

COMMISSIONER DEASON: So we're just going to show that as a late-filed? Is there any objection to that?

MR. GATLIN: None.

MR. REILLY: I don't think so.

COMMISSIONER DEASON: Okay. I believe that addresses all exhibits. Any other matters to be brought up at this time?

MR. REILLY: No matters.

MS. O'SULLIVAN: No matters.

MR. GATLIN: None.

COMMISSIONER DEASON: Okay. I've been

handed a copy of the CASR and it indicates that transcripts are due March the 19th with briefs due April the 3rd, and if there's nothing else, we will stand in recess until 6:30 p.m.

(Brief recess)

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COMMISSIONER DEASON: Call the hearing back to order. Let me take this opportunity to welcome the members of the public who have come out and joined us this evening for this phase of the hearing.

For your information, we just concluded what we refer to as the technical phase of the hearing, and we're convening this session now to hear from customers.

In the way of introductions, let me introduce myself. My name is Terry Deason. I'm a member of the Public Service Commission. I'll be chairing the hearing this evening. With me this evening and seated to my immediate left is Commissioner Susan Clark.

To the table in front of me and to my left are representatives of Gulf Utility Company and in front of me to my right is Mr. Steve Reilly who is with the Office of Public Counsel, and seated at the table to my left are members of the Staff of the

Public Service Commission.

If any of the members of the public have questions which they would like to have resolved, you can address those to members of the Staff. They would be glad to assist you in any way possible.

Let me review briefly the procedure we're going to follow this evening. Mr. Reilly will be calling members of the public by name. When your name is called, we ask that you come forward to one of the microphones to the table to my right.

This is an official hearing of the Commission. It is being recorded by an official court reporter. Your comments will become part of the record. To enable us to use your comments as evidence, it will be necessary for you to be sworn in as a witness. In just a moment we will take care of that formality.

As you entered the auditorium you were provided a special report printed on green paper. This provides you with the background information on this case. Also, the very last page of this report is designed to be detached for those persons who wish to make comments to the Commission but do not wish to actually formally testify at this hearing. If you choose to do that, you may detach this page and write

your comments, fold it, and mail it to the Commission.

And with that, I'm going to ask the members of the public who have signed up and wish to testify this evening to please stand and raise your right hand.

(Witnesses collectively sworn.)

COMMISSIONER DEASON: Thank you. Please be seated. Mr. Reilly, you may call your first witness.

MR. REILLY: Romeo Antoniazzi.

COMMISSIONER DEASON: Sir, if you will begin by giving us your name and your address, and you may wish to spell your name for the benefit of the court reporter, and then proceed with your statement; and when you conclude your statement, wait for just a moment because there may be some questions.

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ROMEO ANTONIAZZI

appeared as a witness and, having been duly sworn, testified as follows:

DIRECT STATEMENT

WITNESS ANTONIAZZI: My name is Romeo, R-O-M-E-O, Antoniazzi, A-N-T-O-N-I-A-Z-Z-I. I live at 20730 Horse Hame Hollow, Estero, Florida. That's in the Villages of Country Creek. Now, it's -- what I'm only concerned most of all is I don't understand the

increase in rates. Right now my water bill, it costs me $2.00 to take away $1.00 worth of water.

With the increase of 28%, it's going to come to $2.50 take away $1.00 worth of water. Now, if I wash my car, water my plants, that does not go into the sewage. Why is the sewage rate so high? I don't understand that. I could see dollar for dollar maybe, but two and a half to one, I can't calculate that. Maybe you can explain it. That's the only thing I have.

COMMISSIONER DEASON: Okay. Questions?

MR. GATLIN: No questions.

WITNESS ANTONIASSI: Can I get an explanation?

COMMISSIONER DEASON: Well, I'll let Mr. Gatlin or Mr. Moore to address that question, because they are the ones requesting the particular wastewater rate that you are referring to.

MR. GATLIN: Well, we've had two full days of hearings to try to make that determination. The Utility has offered extensive financial information to the Commission such that would support the proposed rates, hopefully.

The Staff of the Commission has done audits on Gulf Utility. The Staff of the Commission

participated fully in this hearing. The Office of Public Counsel, Mr. Reilly, participated, and he presented two witnesses. None of the experts agree on much of anything. So as a result, you know, this issue will be placed before the Commission, and the Commission after appropriate analysis by the Staff and a recommendation by the Staff, the Commission will have to decide what the rates are going to be for the Company.

COMMISSIONER DEASON: Sir, let me -- I don't disagree with what was said, but I think the simple answer to your question is, it's a matter of cost; and some would argue, and I think it probably is generally accepted, that it costs more on a per gallon basis to treat wastewater and dispose of it than it does to provide you water to your home on a per gallon basis.

It is a matter of cost and that is why on a gallonage rate usually -- and this is not just this company, but most of the companies that we regulate in the state of Florida -- the wastewater rate is higher on a per gallon basis than it is for water delivered to your home; and it's simply a matter of cost, the engineering and environmental requirements associated with treating wastewater and disposing of it.

WITNESS ANTONIAZZI: Now, we live at Country

Creek which has a golf course, and we get treated water in there for our lakes. I believe we're charged for that water, aren't we?

MR. GATLIN: Water into the lakes?

WITNESS ANTONIAZZI: Yeah, the -- from effluent.

MR. GATLIN: No.

WITNESS ANTONIAZZI: That's given to us free?

MR. GATLIN: Not treated water, not drinking water.

WITNESS ANTONIAZZI: Not drinking water. I'm taking about for the lakes. Is that charged to the Country Creek or is that --

MR. GATLIN: No, no.

WITNESS ANTONIAZZI: No, what?

MR. GATLIN: No, it's not charged.

WITNESS ANTONIAZZI: It's not charged. All right. Thank you.

COMMISSIONER DEASON: Thank you, sir. I appreciate you coming this evening.

MR. REILLY: Katherine Green.

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KATHERINE GREEN

appeared as a witness and, having been duly sworn,

testified as follows:

DIRECT STATEMENT

WITNESS GREEN: My name is Katherine Green. I'm vice-president of operations for WCI Communities, Limited Partnership. I'd like to read into the record a letter that we have prepared for the Commissioners.

COMMISSIONER CLARK: Would you tell us who you're with again? I didn't catch that.

WITNESS GREEN: WCI Communities, Limited Partnership. We are a community development company, and Pelican Landing, River Ridge, Gateway, several local communities are developed by us.

COMMISSIONER CLARK: Okay.

WITNESS GREEN: Dear Commissioner Deason and Commissioner Clark; on behalf of WCI Communities, LP, I would like to go on tha record as being strongly opposed to the imposition of any fees or charges with respect to reuse water. Last year WCI entered into an agreement with Gulf utilities in Estero, Florida with the understanding that the reuse water they are obligated to provide for our River Ridge community would be free of charge.

This solved a problem for each of us. Gulf has an inexpensive and reliable way to rid itself of the by-product of its sewer and water business, and

WCI has a way to irrigate its golf course and common areas without utilizing scarce ground water resources.

Of necessity and benefit to Gulf, WCI is obligated to receive the water even when we do not require it. This is an obligation we certainly would not agree to if we had to pay a fee for the water.

From an economic standpoint, the imposition of fees or charges could have a significant impact on the development and profitability of River Ridge. This measure will certainly negatively affect the consumer who will live and golf there and ultimately pay the bills.

From an environmental standpoint, with groundwater resources so strained, it seems very shortsighted to erect any barriers to the widespread use of alternative water sources such as reuse water.

Now that the general public seems to have accepted the use of reuse water as an acceptable irrigation alternative, why slow that tide.

Again, we urge you to maintain the status quo and do not enact any fees or charges for reuse water.

Sincerely Katherine Green.

MR. GATLIN: No questions.

COMMISSIONER DEASON: Mr. Reilly, questions?

MR. REILLY: Just a quick one. What is your title with this Company?

WITNESS GREEN: Vice-president of operations.

MR. REILLY: Okay. Thank you.

COMMISSIONER DEASON: Staff.

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

In reference to the River Ridge development, is it true that the communities currently has received some reclaimed water but has not yet used it for irrigation; is that correct?

WITNESS GREEN: Correct. That is correct.

MS. O'SULLIVAN: Okay. Nothing further.

WITNESS GREEN: Would you like me to give you this letter or --

COMMISSIONER DEASON: You can provide that to the court reporter.

Mr. Reilly, may call your next witness.

MR. REILLY: Those are my two witnesses.

COMMISSIONER DEASON: Has anyone else entered the auditorium? I'm indicating that no one else has entered the auditorium.

I want to thank those members of the public who took time out of their schedules to come and join

us this evening. We appreciate your comments, and if there's nothing else to come before the Commission, hearing none, this hearing is adjourned. Thank you all.

(Thereupon, the hearing concluded at 6:50 p.m.)

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STATE OF FLORIDA)
: CERTIFICATE OF REPORTERS
COUNTY OF LEON)

We, ROWENA HACKNEY and RUTHE POTAMI, CSR, RPR, Official Commission Reporters,

DO HEREBY CERTIFY that the Hearing in Docket No. 960329-WS and 960234-WS was heard by the Florida Public Service Commission at the time and place herein stated; it is further

CERTIFIED that we stenographically reported the said proceedings; that the same has been transcribed under our direct supervision; and that this transcript, consisting of 891 pages, Volumes 1 through 5, constitutes a true transcription of our notes of said proceedings and the insertion of the prescribed prefiled testimony of the witness.

DATED this 19th day of March, 1996.

ROWENA NASH
Official Commission Reporter
(904) 413-6736

H. RUTHE POTAMI, CSR, RPR
Official Commission Reporter
(904) 413-6732