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**GULF UTILITY COMPANY
DOCKET NO. 980329-WS
TESTIMONY**

**DOCUMENT NUMBER-DATE
06942 JUN 27 88
FPSC-RECORDS/REPORTING**

GULF UTILITY COMPANY

TESTIMONY OF

KEITH R. CARDEY

Q. Please state your name and business address.

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

Q. What is your occupation?

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

Q. What is your educational background?

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

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

A. Yes, I was.

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

A. Yes, I have.

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

A. Yes, it is.

Q. What is the purpose of your testimony?

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

1 Application for Change in Rates Exhibit __ (KRC-1)

2 Application for Change in Plant

3 Capacity Charges Exhibit __ (KRC-2)

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

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

6 parts of Exhibit __ (KRC-1):

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

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

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

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

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

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

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

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

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

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

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

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

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

7 **% Used & Useful - Skid #3:**
8 0.301 mgd/0.800 mgd = 38%

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

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

14	Membrane:	\$130,000 x .2000	=	\$26,000
15	Balance:	<u>964,455</u> x .0476	=	<u>45,908</u>
16		\$1,094,455		\$71,908
17	Used & Useful @ 38%			27,325

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

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

23	Holding Tank	\$445,455 (col. 4, line 8)
24	Metering, Pumping, & Controls Equip.	<u>254,545</u> (col. 4, line 13)
25		\$700,000

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

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

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

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

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

15 Percent: $1.301 / 3.000 \text{ mgd} = 43\%$

16 Amount: $0.43 \times \$445,455 = \$191,545$ (col. 2, lines 7 & 8)

17 The allocation of investment in Skid #3 of the Corkscrew treatment plant,
 18 and the reject holding tank and associated pumping and control equipment
 19 for the 1996 test year as shown on Schedule A-1, page 3 of Exhibit __
 20 (KRC-1) is:

21		<u>Used & Useful</u>	<u>Non-Used & Useful</u>	<u>Total</u>
22	Investment (line 16)	\$861,980	\$932,465	\$1,794,445
23	Depreciation (line 17)	<u>42,290</u>	<u>50,930</u>	<u>93,220</u>
24	Net Investment (line 18)	<u>\$819,690</u>	<u>\$881,535</u>	<u>\$1,701,225</u>

1 Q. Were you a witness in Docket No. 900718-WW that established the used
2 and usefulness of the Corkscrew well field?

3 A. Yes, I was.

4 Q. Has the Company followed the same procedure of determining the non-
5 used and usefulness of the Corkscrew well field in this proceeding?

6 A. Yes, it has.

7 Q. And does Appendix A of the MFR's Exhibit __ (KRC-1) set forth the
8 procedure used in this proceeding?

9 A. Yes, it does. The Company in 1990 developed a second water supply,
10 namely, the Corkscrew water treatment facilities, consisting of 11 wells,
11 11,000 feet of raw water line, and Skid #1, namely, a 0.5 mgd R.O.
12 treatment plant that has a buildout capacity of 3.0 mgd. In Docket No.
13 900718-WW, Order No. 24735, the Commission found the facilities to be
14 prudently built and, when it established Gulf's Rate Base, recognized the
15 principal of economy of scale. On page 2 of Appendix A, Exhibit __ (KRC-
16 1), column 2 summarizes the \$2,591,894 cost of the facilities and, in
17 column 3, \$379,672 was found non-used and useful in Order No. 24735.

18 Skid #2 with a capacity of 0.500 mgd went into service in 1994 and
19 Skid #3 with a capacity of 0.800 mgd in 1996. The investment allocated is
20 as follows (column 6, line 7 of Appendix A, page 2):

21

22

23

24

25

	Non-Used & Useful (Col. 3)	Allocation	Units	Skids #2 & #3 Used & Useful
Structures, Treat. Eq., Reuse Line	\$127,963	1.3/2.5	mgd	\$66,540
Wells, Raw Water Line	251,709	2/7	wells	71,917
	\$379,672			\$138,457

Referring to Appendix A of the MFR's, page 2, column 3, the amounts shown for structures, treatment equipment and the reuse line relate to 2.5 mgd of future capacity in the R.O. treatment plant. When Skids #2 and #3 with capacities of 1.3 mgd were added, they were allocated 52% of the \$127,963 of cost. Again, when Skids #2 and #3 were added, two of the seven wells were activated and the cost apportioned as shown above.

On page 1 of Appendix A, Exhibit __ (KRC-1) of the MFR's for the test year 1996, I have found the non-used and useful property to be \$241,215 and the 13-month average of Reserve for Depreciation to be \$47,261. These amounts are shown on Schedule A-5, page 1, and A-9, page 1 of the MFR.

Q. Is the investment in the wastewater system all used and useful?

A. Yes, it is. In the wastewater system, the relationship between system capacity and flows is as follows:

1		<u>1996</u>
2	Capacity	0.969 mgd
3	Flows:	
4	Avg Day - peak month	0.851
5	Margin Reserve (3.0 yrs growth)	
6	3.0 x 250 gal/ERC x 400 ERC	<u>0.300</u>
7		1.151
8	%	118%

9 **Source:** Schedule F-6 of Exhibit __ (KRC-1)

10 **Again, the wastewater system is operating at capacity, with plans to expand**
11 **the Three Oaks plant in 1997. Therefore, the wastewater system is 100%**
12 **used and useful.**

13 **Q. Is Gulf's investment in its distribution and collection system used and**
14 **useful?**

15 **A. Yes, it is. The Company's extension policy is for the developer to install the**
16 **on-site facilities and contribute them to the Company. Since there is no rate**
17 **base consideration under this practice, the facilities are considered used**
18 **and useful. This is consistent with prior rate orders of the Commission.**

19 **Q. Would you briefly review service to Florida Gulf Coast University (FGCU)**
20 **and how service to the university is included in this case?**

21 **A. Mr. Moore, in his testimony, stated that Florida Gulf Coast University will**
22 **start operations in 1997. The Company has contracted to supply both water**
23 **and wastewater service to the university and is constructing facilities to**
24 **provide the service. The contract is for 183 ERC of water capacity and 209**
25 **ERC of wastewater capacity. A summary of the service requirements for**

1 the normal operations of the university is as follows:

	<u>Water</u>	<u>Wastewater</u>
2		
3	Gulf's Construction Cost for	
4	Lines, etc.	\$526,936 \$615,701
5		
6	Contributions	\$146,400 \$114,950
7	Meters	1" - 1
8		1½" - 5
9		2" - 3
10		9
11		
12	Annual Usage in M gals.	15,000 10,600
13	Revenues (Proposed Rates)	\$35,018 \$64,030
14	Expenses (incremental)	\$6,150 \$11,650

15 Utility lines will be in service in 1996 and, once the university is in
16 operation, will have a significant impact on the Company's operations.
17 Since rates are designed to cover the cost in the immediate future, the rate
18 case includes the investment, contributions, revenues and expenses of
19 providing service to the university with all the buildings taking normal
20 service requirements. This reflects the normal operations of this customer.

21 Q. Did the Company include an investment in margin reserve in Rate Base?

22 A. Yes, it did. It included 1½ years load growth in the water operations and 3
23 years load growth in the wastewater operations.

24 Including a margin reserve recognizes the Company's obligation to
25 meet the demands of potential customers plus changing demands of

1 existing customers. The recognition of this service obligation is consistent
2 with the Company's prior rate cases and is consistent with the policy of the
3 Commission.

4 Q. Did you impute CIAC associated with the margin reserve you just
5 described?

6 A. No, I did not. The margin reserve reflects the Company's obligation to
7 serve existing and potential customers, and it invests in central plants to
8 meet this service obligation. The Company has included the investment in
9 margin reserve in used and useful investment.

10 If CIAC were imputed, the net effect would be to negate the
11 Company's capital investment in plant and to have the stockholders absorb
12 the cost of meeting the growth of the area.

13 The 1996 test period synchronizes or matches the gross revenues
14 of the Company with the operating expenses to produce those revenues
15 and the utility property that provides the service. Imputing CIAC from future
16 customers is out of synchronization with the test year principle.

17 Q. Would you explain the remaining schedules in Section A?

18 A. The remainder of the schedules in Section A are the detail schedules
19 supporting the rate base calculation on Schedules A-1 and A-2. Many of
20 the schedules are cross referenced in column 5 of Schedules A-1 and A-2.
21 Each supporting schedule contains an explanation of the financial data and
22 calculations depicted thereon.

23 Q. Turning to Section B, would you explain this section?

24 A. Section B develops the Company's 1996 test year net operating income at
25 present and proposed rates. Schedule B-1 develops the test year net

1 operating income for the water operations. Column 2 is the operating
2 revenue, operating expenses and net operating income for the 12 months
3 ended December 31, 1996.

4 The Company prepared a 1996 operating budget in the normal
5 course of business, and this budget was used in developing the 1996
6 income statement. The 1996 income statement includes the actual
7 operations for January, February and March 1996, with the remaining nine
8 months from the budget. Ms. Andrews has testified to the development of
9 the 1996 budget, which is set forth in column 2 of Schedule B-1 of the
10 MFR's.

11 Column 5 shows the revenue adjustment to produce an 9.25% rate
12 of return on rate base. In the water operations, this is a \$155,935 rate
13 decrease.

14 Similar data are shown on B-2 for the wastewater operations, where
15 a \$366,340 increase is required to produce an 9.25% rate of return on rate
16 base.

17 Q. As a part of your study, did you review the allocation of expenses to the
18 affiliated company, namely, Caloosa Group, Inc.?

19 A. Yes, I did. The Caloosa Group, Inc. has investments in 33 developed
20 residential lots and an office building. The ownership of the Caloosa Group
21 is the same as in Gulf Utility Company, namely, 80% is owned by Russell
22 B. Newton, Jr. and 20% by James W. Moore.

23 Gulf employees provide general supervision and accounting for
24 Caloosa, participate in selling the lots and in the homeowners association
25 of Caloosa Trace, plus provide administration of the office building.

1 Q. Is your study of the Allocation of General Office Expenses to Caloosa
2 Group, Inc. shown in Exhibit __ (KRC-3)?

3 A. Yes, it is.

4 Q. Would you describe the procedure used in making this study shown in
5 Exhibit __ (KRC-3)?

6 A. The procedure with reference to payroll (lines 1 through 6) was first to
7 determine the service Gulf provided to Caloosa, then review the time
8 required by each person who performed that service.

9 Caloosa is not an active company. It does not require an elaborate
10 set of books. Two people maintain the books and necessary record
11 keeping, with an estimate of 9 hours per month. The Federal and State
12 income tax filings are prepared by outside accounting firms.

13 Caloosa owns 33 developed lots which it estimates will be sold in 18
14 months. It does not own any additional land nor is it involved in any other
15 development. One employee of Gulf handles the selling of these lots and
16 does administrative work for the homeowners association, with an
17 estimated time required of 16 hours per month for these functions.

18 With no employees and an inactive company, the administrative time
19 is minimal. The administrative time of Mr. Moore and his secretary is
20 estimated to be 5% of each of their time.

21 In costing out these services, I used current payroll costs of each
22 employee and added payroll taxes and health insurance cost. As Exhibit __
23 (KRC-3) shows, the time varies from 2 to 10%, depending upon the service
24 performed, with a total payroll cost of \$12,468.

25 During 1995, these five employees were reimbursed by Caloosa

1 **\$12,142, which approximates the above cost.**

2 **Q. Turning to the cost identified as rent, office supplies, etc., on lines 7**
3 **through 13, please explain the method of allocating these costs to Caloosa.**

4 **A. The largest item is rent in the amount of \$4,986 per month. The Company**
5 **moved into a new office in late 1995. The previous office was located**
6 **adjacent to the water plant, in a building owned by the Company. In**
7 **addition to the rent, there is security, cleaning, power, supplies, etc.,**
8 **totaling \$5,926 per month. As for the rent, the cost per square foot paid by**
9 **Gulf Utility Company is the same as that paid by Lee County Memorial**
10 **Hospital which will occupy the balance of the building.**

11 **The allocation of the above cost was on a square footage basis. I**
12 **determined the square footage of the offices and the customer accounting**
13 **and collecting area. This totalled 1,739 square feet out of a total of 3,964**
14 **square feet of leased office space.**

15 **I then took the square footage of the offices of the five employees**
16 **who perform services for Caloosa (979 square feet) and multiplied it by the**
17 **percentage of time each employee worked for Caloosa, which amounted**
18 **to 49 square feet. The 49 square feet in relation to the 1,739 square feet**
19 **of all office and customer accounting and collecting space is 2.8%, with an**
20 **allocated cost of \$1,991.**

21 **Q. Would you review the cost for computer time?**

22 **A. The computer is used for payroll and general accounting for 3-4 hours a**
23 **month. At December 31, 1995, the investment in the equipment was:**

24

25

1	Cost	\$161,700
2	Acc. Dep.	<u>124,300</u>
3	Net	<u>\$37,400</u>

4 The annual cost is about \$30,900, of which \$26,900 is depreciation
5 expenses. As shown on Exhibit __ (KRC-3), the cost is \$774 and the
6 Company was reimbursed \$600.

7 Since the equipment will be fully depreciated in 1997, and with
8 reduced usage, the \$600 per year is reasonable at this time.

9 Q. And how does Caloosa pay for these services?

10 A. Caloosa reimburses each of the five employees directly for these services,
11 which will total \$12,142 in 1996, and pays Gulf \$600 a year for supplies
12 and \$600 a year for computer time.

13 Q. And from your review, what are your conclusions and recommendations?

14 A. My recommendations are:

- 15 1. Caloosa's reimbursement of employees for services provided by Gulf
16 is adequate and reasonable.
- 17 2. The charges for rent and office supplies be increased from \$600 to
18 \$2,000 which is reasonable.
- 19 3. The charge for computer time was reasonable.

20 Q. Are the calculations and assumptions supporting Schedules B-1 and B-2
21 reflected in the additional schedules shown in Section B?

22 A. Yes, they are.

23 Q. What information is included in Section E of Exhibit __ (KRC-1)?

24 A. Section E sets forth the Company's present and proposed rates. Schedule
25 E-1 summarizes the present and proposed rates for the water operations

1 and the present, interim, and proposed rates for the wastewater operations.
2 Schedule E-2 is a proof of revenues for the year 1995.

3 On the water operations, after a four-year recovery period of rate
4 case expense from the prior rate case, the rates were reduced as provided
5 in Order No. 24735. The lower rates became effective on August 24, 1995.
6 For the proof of water revenues, a billing analysis was made for the period
7 of January 1, 1995 to August 23, 1995, and a second from August 24,
8 1995 to December 31, 1995. Separate analysis is shown for each period.

9 Q. Were there any changes in the sewer rates in 1995?

10 A. No, there were not.

11 Q. Would you continue with your explanation of Section E.

12 A. Schedule E-3 is a monthly summary of customers during the year 1996.

13 Schedules E-4 through E-12 contain factual information required by the
14 MFR's.

15 Q. Would you describe how you estimated the bills and consumption for the
16 test year 1996?

17 A. E-13 is the revenue projections for the test year 1996. The growth in
18 customers, by classes of service, is as follows:

19
20
21
22
23
24
25

	Water		Wastewater	
	Cust.	ERC	Cust.	ERC
Residential	466	466	339	339
General	9	103	16	142
Multi-Family	5	38	5	26
Subtotal	480	607	360	507
Pri. Fire Service	2	-		
Fla. Gulf Coast U.	1	183	1	209
Total	483	790	361	716

The growth in customers by classes of service and months, for 1996, is shown in Schedule E-3.

In the general service, there are 6 - 3" meters to service a shopping center with a contract ERC of 96 for water and 128 for wastewater. Florida Gulf Coast University again is a contracted amount.

The consumption shown in column 6 of E-13 was developed as follows, and using residential water service as an example.

	Meter Size			
Description	5/8"	3/4"	1"	Total
(1) Customers 1/1/96	6,578	3	2	6,583
(2) Bills (12 x 1)	78,936	36	24	78,996
(3) Additional Bills in 1996	2,969	-	-	2,969
(4) Total Bills (2 + 3)	81,905	36	24	81,965
(5) Usage/Bill-Mgals	6.25	15.47	17.17	
(6) Mgals (4 x 5)	511,974	557	412	512,943

The projection factor shown in column 5 is the end result of dividing column 6 by column 5.

Q. Did you recommend the rate design to the Company?

A. Yes, I did.

Q. And what were your recommendations?

A. The proposed rate design generally parallels the cost of providing service. Since the prior rate cases, operating expenses have increased in both water and wastewater, while the unit investment of water has decreased and the unit investment in wastewater has increased. The table below compares these changes in cost.

	<u>% of Increase from Prior Rate Case</u>		
	Water	Wastewater	
	<u>1991/1996</u>	<u>1989/1996</u>	
4	Operating Expense		
5	Power, Chemicals, &		
6	Sludge Removal	8%	245%
7	Payroll & Benefits	10	277
8	All Others	32	275
9	Total	16	267
10	Unit Investment (\$/mgd)	(3)%	66%

11 With these changes in cost, my recommendation in the water operations
 12 is to apply any proposed reduction across the board. With this proposal, all
 13 customers receive some benefit from the rate reduction.

14 In the wastewater operations, there is a general increase across the
 15 board, including the treatment and disposal of wastewater. Because of the
 16 increase in both the capital and operating cost of treatment, 80% of the
 17 proposed increase would apply to volume charges and 20% to the base
 18 facility charges.

19 Q. With reference to the water operations, would you comment on the
 20 decrease in the unit capacity charge of producing water?

21 A. The investment in producing water has decreased since the 1991 rate
 22 case. Using net investment (Gross Plant less Depreciation and Net CIAC),
 23 the table shows a reduction of 3% in unit investment.

24

25

	1991	1996
Plant Capacity - mgd	2.915	4.215
Gross Plant	\$5,735,000	\$8,113,000
Depreciation	<u>(873,000)</u>	<u>(1,948,000)</u>
Net Plant	4,861,000	6,165,000
CIAC (Net)	<u>(2,834,000)</u>	<u>(3,281,000)</u>
Net Investment	<u>\$2,027,000</u>	<u>\$2,884,000</u>
Net Investment		
Per mgd	\$0.70	\$0.68
% Reduction	-	3%

The decrease in cost is from the cumulative effect of both depreciation and CIAC, with depreciation being the more pronounced of the two.

Q. Regarding the wastewater operations, would you comment on the increase in treatment cost compared to that which you just testified to with reference to water?

A. In 1991, the Company treatment facilities included the San Carlos plant plus the first phase of the Three Oaks plant, which had a 250,000 gallon per day capability. In February of 1992, a second 250,000 gallon per day addition was placed in service at Three Oaks, and a third 250,000 gallon per day addition in 1995. The net investment (Gross Plant less Depreciation and Net CIAC) is as follows:

	1991	1996	1997
Plant Capacity - mgd	0.720	0.969	1.719
Gross Plant	\$2,772,000	\$5,777,000	\$7,652,000
Depreciation	<u>(504,000)</u>	<u>(1,162,000)</u>	<u>(1,426,000)</u>
Net Plant	2,268,000	4,615,000	6,226,000
CIAC (Net)	<u>(950,000)</u>	<u>(1,674,000)</u>	<u>(1,898,000)</u>
Net Investment	<u>\$1,318,000</u>	<u>\$2,941,000</u>	<u>\$4,328,000</u>
Net Investment			
Per mgd	\$1.83	\$3.04	\$2.52
% Increase	—	66%	38%

The addition of a 750,000 gallon per day plant in 1997 reflects the economy of scale of larger units but, on the negative side, will have excess capacity for a few years with the loss absorbed by the stockholders.

Q. Would you review the schedules, starting with Schedule F-1, Exhibit ___ (KRC-1)?

A. Schedules F-1 and F-2 show the monthly flows for 1995 for the plants, while F-3 and F-4 show peak flows for 1995.

Schedules F-5 and F-6 develop the used and usefulness of the property. The growth in 1996 was based upon the following:

	<u>Water</u>	<u>Wastewater</u>
1		
2	Customer Growth	480 360
3	ERC Growth	607 507
4	FGCU - ERC	183 209

5 1996 includes two substantial additions to the systems, namely, a shopping
6 center requiring six 3" meters. Their contract demand is for 96 ERC for
7 water and 128 ERC for wastewater, which are included in the amounts
8 shown for ERC Growth in the above table.

9 The ERC's for Florida Gulf Coast University (FGCU) are again
10 contract amounts.

11 Schedule F-7 sets forth the Company extension policy, namely, the
12 developers install the on-site facilities and contributes them to the
13 Company. Since there is no rate base component, the distribution and
14 collection system were considered 100% used and useful, consistent with
15 prior Commission orders.

16 Schedules F-9 and F-10 set out data on growth, but as Mr. Moore
17 indicated in his testimony, the Company estimates more growth in the
18 future than in the past. A comparison is as follows:

	<u>ERC</u>	
	<u>Water</u>	<u>Wastewater</u>
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20		
21	Company Estimates	500 400
22	Schedules F-9 & F-10	358 339
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Interim Rates

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Q. What is the Company proposing with reference to interim rates?

A. The Company is proposing interim rates only for the wastewater operations.

The request for interim wastewater rates is based upon the calendar year 1995 operations. It includes a 13-month average rate base. Since the Three Oaks plant went into service in December 1995, the investment was annualized for the full year.

Operation and maintenance expenses were the actual expenses for 1995. Depreciation expenses were annualized for the Three Oaks plant addition.

Q. Are the rate base, operating income, and rate of return supporting an interim rate increase set forth in Appendix B of Exhibit __ (KRC-1)?

A. Yes, they are. The adjustments in column 3 are the annualizing amounts for the Three Oaks WWTP as above described. The adjustment in column 5 is for increased revenues and taxes.

1995 is not a typical year for wastewater operations. Based on 1995 operations, Appendix B (KRC-1) shows \$409,167 of interim rate relief is needed, while Schedule B-2 of the MFR shows the need for permanent rate relief of \$366,340.

Q. What rates are you proposing?

A. The Company is proposing interim rate relief of \$300,000, which is 82% of the requested amount of permanent rate relief. The interim rates are 96% of the proposed rates and are set forth in Schedule E- ;, page 2 of 2, of Exhibit __ (KRC-1).

1 **Comments on Order No. PSC-96-0501-FOF-WS**

2 **Issued April 11, 1996**

3 **Q. Mr. Cardey, have you reviewed Commission Order No. PSC-95-0501-FOF-**
4 **WS?**

5 **A. Yes, I have.**

6 **Q. And what are your general observations relating to that Order?**

7 **A. In broad terms, the Order fails to assure the Company of adequate**
8 **earnings so that it can continue to enlarge and expand its facilities to meet**
9 **the demands of the area.**

10 **The Order used the year ended June 30, 1995 for reviewing the**
11 **Company's operations, and in that period the net income was \$156,137.**
12 **Staff proposed a reduction of water revenue of \$353,492, producing a loss**
13 **of \$197,355.**

14 **The Company is not opposed to adjusting rates. If water rates are**
15 **high and wastewater rates low, the Company proposed they both be**
16 **adjusted at the same time so as not to be detrimental to the Company.**

17 **Q. In Docket No. 960234-WS, what is the Company proposing?**

18 **A. The Company is requesting permanent decrease in water rates and both**
19 **interim and permanent wastewater rates as follows:**

	<u>1995</u>	<u>Permanent</u>
Water	\$<141,708>	\$(155,935)
Wastewater	<u>256,855</u>	<u>366,340</u>
Increase Revenues	<u>\$115,147</u>	<u>\$210,405</u>

24 **The permanent rates are designed to produce a 9.25% rate of return in**
25 **both operations.**

1 Q. On page 2 of the MFR's (Exhibit ___ [KRC-1]) is shown the doubling of the
2 water rate base in an 18-month period. Did Staff consider any of these
3 projects in their June 30, 1995 study?

4 A. No, they did not.

5 Q. Have you made periodic reviews of the Company's earnings on its utility
6 operations?

7 A. Yes, I have for the years 1992, 1993 and 1994, as one of the financial
8 statements the Company submitted to the trustee of the Industrial
9 Development Revenue Bonds. A 1995 study has not been made.

10 The results show the earnings from water above average and
11 wastewater below average, but overall a reasonable rate of return.

12	1992	11.2%
13	1993	9.4%
14	1994	11.2%

15 Q. Did the Company pay dividends in that period?

16 A. No. The Company has never paid a dividend, and all earnings were
17 reinvested in the system.

18 Q. Have the water consumers benefited from the Company's construction
19 programs?

20 A. Yes, they have. For example, the looping of mains increases the reliability
21 of service as well as maintaining stable pressures.

22 Then again, the expansion of the Corkscrew plant also improved the
23 quality of water. In the prior rate case (Docket No. 900718-WU), the
24 Commission said this on page 4 of the Order.

25

1 Due to the depletion of pure water in the
2 southwest coastal underground of Florida, the utility
3 has to use a poor quality source water to meet its
4 service demands. Therefore, the ability to treat the
5 total dissolved solids becomes an important factor in
6 the design of the water plant. Dissolved minerals,
7 gases, and organic constituents may produce an
8 aesthetically displeasing color, taste, or odor. Some
9 chemicals may be toxic, and some dissolved organic
10 constituents are carcinogenic. An advantage of
11 membrane treatment is its high removal of total
12 dissolved solids from the raw water.

13 Membrane softening adopted at the Corkscrew
14 water plant is a typical alternative to conventional lime
15 softening plants. Membrane softening will reduce
16 hardness, organics, bacteria, and viruses. Many of the
17 customer complaints about white color sediments are
18 caused by the high content of hardness in the finished
19 water from the lime softening treatment plant. This can
20 be improved by using the membrane softening
21 process.

22 Q. Going to the schedule that is attached to Order No. PSC-96-0501-FOF-WS,
23 what are your comments?

24 A. As to the schedule, I have these comments:

25 Rate Base: The non-used and useful plant is overstated.

1 **Cost of Capital:** The schedule is not consistent with the prior case in that
2 it failed to include acquisition adjustment in equity capital.

3 **Operating Expense:** Overstated the cost of services provided to an
4 affiliated company; and second, no cost was included for defending
5 itself against this action by the Commission.

6 **Rate Base Overstatement of Non-Used and Useful:**

7 The non-used and useful property for the test year ending June 30,
8 1995 is:

	Non-Used & Useful	
	Plant	Dep.
Corkscrew Well Field	\$318,121	\$39,566
Skid #2 \$502,806 x 19%	95,533	3,869
Total	\$413,654	\$43,435

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15 Staff had a non-used and useful adjustment of \$881,729 in the water
16 operations compared to \$370,219 shown above. This understates
17 rate base by \$511,509.

18 **Cost of Capital:** In both the 1988 wastewater rate case (Order No. 20273)
19 and the 1991 water rate case (Order No. 24735), plant acquisition
20 adjustment was included in equity capital. At June 30, 1995 it was
21 \$121,080.

22 On page 3 of Order PSC-96-0501-FOF-WS, the Order states:
23 "Using the high-end of the range to calculate any potential over-
24 earnings, we have established an overall rate of return of 9.82% for
25 interim purposes."

1 The 9.82% uses an average of the return on equity (13.11%),
 2 not the high-end (14.11%). Correcting Schedule 2 for the above
 3 items, the rate of return is 9.94%.

4 **Affiliated Transactions:** Five of Gulf's employees provide accounting and
 5 administration services for the Caloosa Group, an affiliated
 6 company. I reviewed the services provided and the cost of such
 7 services, and my testimony on this matter is included in this
 8 testimony. My conclusions are that the reimbursement for the cost
 9 of the five employees by Caloosa is reasonable, the cost for the
 10 computer use is reasonable, but the cost for supplies and rent
 11 should be increased, due primarily for rent on the new office
 12 building. There should be an adjustment of \$1,286, not the \$27,358
 13 adjustment made by Staff.

	<u>Water</u>	<u>Wastewater</u>
Staff: Payroll	\$(16,143)	\$(7,597)
Office rent	<u>(11,215)</u>	<u>(5,278)</u>
	(27,358)	(12,875)
Cardey adjustment	<u>1,286</u>	<u>605</u>
Add back as an operating exp.	<u>\$26,072</u>	<u>\$12,270</u>

20 For an inactive company, Staff's allocation of payroll and office
 21 space is in error. A comparison of my allocation and Staff's is shown
 22 in the following table:

	<u>Staff</u>	<u>Cardey</u>
Allocation of payroll	12.67%	2.6%
Allocation of office space	25.94%	2.8%

1 In addition, the cost of reviewing and defending the Company's rights against
2 revenue adjustments is a proper and necessary cost of doing business and should
3 be included in operating expenses. Assuming one-half of the cost included in the
4 MFR's (Sch. B-3 of Exhibit __ (KRC-1)), the cost would be $1/2 \times \$20,209 =$
5 \$10,104.

6 Q. Does Exhibit __ (KRC-4) adjust the rate base and income statement for the
7 water operations set forth in Order No. 960234-WS?

8 A. Yes, it does. It shows a decrease in rates of \$256,752 in contrast to a
9 decrease of \$353,492 in the above order.

10 As I have previously stated, the June 30, 1995 period is not
11 representative of the Company's operations, and any adjustment to water
12 rates should be based upon the 1996 test period.

1 **Plant Capacity Charges**

2 **Q. What is the Company requesting as it relates to Plant Capacity charges?**

3 **A. The Company is requesting the Plant Capacity charge for residential**
4 **wastewater service be increased from \$550/ERC to \$800/ERC and the**
5 **charge for residential water service be decreased from \$800/ERC to**
6 **\$550/ERC.**

7 **The increased charge for wastewater is due to the higher cost of**
8 **increased Capacity in its treatment plants. The decrease in the charge for**
9 **water brings the level of CIAC within the guidelines of the Commission**
10 **Rules.**

11 **Q. Who will the proposed Capacity charges be applicable to?**

12 **A. The charges will be applicable only to customers connecting to the system**
13 **after the effective date of the proposed charges.**

14 **Since most future developments will take both water and wastewater**
15 **service from the Company, they will pay \$1,350 per ERC both before and**
16 **after the change. The main difference is the Company will record more**
17 **CIAC in the wastewater and less in the water operations under the**
18 **proposed plant Capacity charges than before.**

19 **Q. Would you state what is the basic economic consideration behind the**
20 **proposed Capacity charges.**

21 **A. In broad terms, the charges represent a partial recovery of the capital the**
22 **Company has invested or will be investing in its central plants. This**
23 **includes treatment plants, major transmission facilities, force mains and**
24 **distribution reservoirs.**

25 **Q. Please identify Exhibit ___ (KRC-2).**

1 A. Exhibit __ (KRC-2) is the application for changes in Plant Capacity charges.

2 Q. Does Exhibit ____ (KRC-2) contain the data required under Rule 25-30.565?

3 A. Yes, it does. The Rule sets out information required when applying for
4 approval of new service availability charges, and Exhibit ____ (KRC-2)
5 contains the information required under the Rule.

6 Q. Was Exhibit ____ (KRC-2) prepared by you or under your direction and
7 supervision?

8 A. Yes, it was.

9 Q. Turning to the wastewater operations, please describe the method of
10 determining the \$800 proposed Capacity charge.

11 A. The Capacity charge was computed as follows on page 35 of Exhibit __
12 (KRC-2):

	<u>Amount</u>
13	
14	
15	
16	
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Investment in treatment, effluent disposal, force mains	\$4.74/gal
Usage/ERC	250 gals
Investment	\$1,185/ERC

19 The usage of 250 gals/ERC is in the present tariffs. The \$800/ERC charge
20 results in a ratio of 74% net CIAC to net plant in year 2005.

21 Q. Turning to the water operations, please describe the method of determining
22 the \$550 proposed Capacity fee.

23 A. The Capacity fee was computed as follows on page 79 of Exhibit __ (KRC-
24 2):

1		<u>Amount</u>
2	Investment in water supply, treatment	
3	and storage	\$2.50/gal
4	Usage/ERC	396 gals
5	Investment	\$990/ERC

6 The usage of 396 gals/ERC is in the present tariffs. The \$550/ERC charge
7 results in a ratio of 72% net CIAC to net plant in the year 2005.

8 Q. What Capital expenditures were included in the period 1995 to 2005?

9 A. The Company's 5-year construction estimates were used for major capital
10 expenditures. The plant expansions are:

11			Increase
12		<u>Year</u>	<u>mgd</u>
13	Wastewater	1997	0.750
14	Water	1996	0.800
15		2000	0.600

16 In the wastewater operation, large expenditures for mains, force mains, and
17 lift stations are being made in 1996 and 1998, and in the water operation,
18 for mains in 1996.

19 Q. Did you make any estimation for minor additions to the system?

20 A. No, I did not. In a utility operation, there are hundreds of small projects that
21 occur year in and year out, and are normally included in construction
22 forecast. These include small main extensions, raising manholes, replacing
23 motors, etc., but no estimates were made for these items. The net effect
24 on the study would be to lower the percent CIAC to net plant.

25 Q. And did you retain the present usage per ERC?

1 A. Yes, I did. The usage is 250 gallons per ERC in wastewater and 396
2 gallons per ERC in water. The average usages have not changed.

3 Q. In estimating the on-site investment within a development, what costs were
4 used?

5 A. The average cost is \$895/ERC for water and \$1,106 for wastewater. These
6 were based upon costs of projects within the Company's service area in
7 1994 and 1995. No adjustment was made for future inflation.

8 Q. With reference to the proposed Capacity charges, what will be the
9 Company's policy with reference to those who have prepaid Capacity
10 charges?

11 A. When an applicant applies for service, they reserve Capacity by paying the
12 charges in effect at that time. The proposed charges are \$550/ERC for
13 water and \$800/ERC for wastewater. They will be credited for any amounts
14 previously paid.

15 On Exhibit __ (KRC-5) is a summary of the prepaid charges as of
16 December 31, 1995 and how the proposed charges affect each party.
17 Overall, there will be a \$33,502 refund.

18 Q. Does the Company's Developer Agreements provide for collecting the then-
19 effective Capacity charges when connections are made to the system?

20 A. Yes, they do, and a copy of the provision in the Developer Agreements is
21 shown on Exhibit __ (KRC-6).

22 I am also advised by legal counsel that the program outlined above
23 is in conformity with the Florida Public Service Commission's policy.

24 Q. Does that conclude your testimony?

25 A. Yes, it does.

Appendix A

KEITH R. CARDEY

SUMMARY OF BUSINESS EXPERIENCE

Address:

460 Oriole
Elmhurst, IL 60126

Occupation:

Management Consulting in the public utility field.

Education:

Graduate of the University of Wisconsin with a Bachelor of Science degree in electrical engineering; and of the University of Kentucky with an LLB degree.

Business Experience:

Associated with the public utility industry for over forty years. For ten years, with Kentucky Utilities Company and then Illinois Power Company in work involving commercial and industrial sales, budgets, rates, rate administration, load research, rate case preparation and presentation, economic and feasibility studies, cost studies and various industrial and area development programs.

For two years, Executive Vice President of Consolidated Water Company with responsibility for the overall operations of the Company and its subsidiaries, including acquiring properties, construction, financing, policy and other matters.

For thirty years, engaged in consulting for a number of public utility companies. Have testified before the Florida Public Service Commission and commissions in North Carolina, Ohio, Indiana, Michigan, Missouri, Illinois, Colorado, Arizona, and California and accepted as an expert on all areas of rate making including rate base, used and usefulness of property, revenue requirements, service availability charges, allocation of expenses and other matters.

For five years during this period, was also President of Florida Water and Utilities Company and its various subsidiary companies, and for twenty years during this period, President of Will County Water Company.

**GULF UTILITY COMPANY
ALLOCATION OF GENERAL OFFICE EXPENSES
TO COLOOSA GROUP, INC.**

Line No	Description (1)	Time		Allocated to Coloosa (4)	Coloosa Paid (5)
		Hours (2)	% (3)		
Service By Employees					
1	Accounting	6	4	\$ 1,231	
2	Accounting	3	2	1,037	
3	Administrative	16	10	3,749	
4	Secretarial	8	5	1,133	
5	Administrative	8	5	5,318	
6	Total		<u>2.8</u>	<u>\$ 12,468</u>	<u>\$ 12,142</u>
Rent, Office Supplies, Etc					
		<u>Monthly</u>			
7	Rent	\$ 4,988			
8	Security	52			
9	Cleaning	338			
10	Power	340			
11	Office Supplies	200			
12	Pest Control	12			
13	Total	<u>\$ 5,926</u>	2.8	<u>\$ 1,991</u>	<u>\$ 600</u>
14	Computer	<u>\$ 2,580</u>	2.5	<u>\$ 774</u>	<u>\$ 600</u>

GULF UTILITY COMPANY
WATER OPERATIONS
RATE BASE, OPERATING INCOME, RATE OF RETURN
ADJUSTMENTS TO SCHEDULE NO. 1-A & 3-A IN ORDER NO. 980234-WS
6/30/95

Description	Staff Adj. Average Balance	Company's Adjustments	
		Adjustments	As Adjusted
1 Rate Base			
2 Utility Plant	\$ 14,992,725	\$	\$ 14,992,725
3 Dep. Reserve	(3,360,730)		(3,360,730)
4 Net Plant	<u>11,631,995</u>		<u>11,631,995</u>
5 Non Used & Useful	(881,728)	511,509	(370,219)
6 CIAC (Net)	(8,722,970)		(8,722,970)
7 Advances for Const.	(21,394)		(21,394)
8 Working Capital	<u>147,085</u>	<u>4,522</u>	<u>151,587</u>
9 Rate Base	\$ <u>2,152,968</u>	\$ <u>516,031</u>	\$ <u>2,668,999</u>
10 Operating Revenues	\$ <u>2,089,347</u>	\$ <u>(256,752)</u>	\$ <u>1,832,595</u>
11 Operating Rev. Deductions			
12 Operating Expenses	1,178,521	36,178	1,212,697
13 Depreciation	161,823		161,823
14 Taxes Other Than Income	187,100	(11,554)	175,546
15 Income Taxes	<u>143,639</u>	<u>(126,409)</u>	<u>17,230</u>
16 Total	<u>1,669,083</u>	<u>(101,787)</u>	<u>1,567,296</u>
17 Operating Income	\$ <u>420,264</u>	\$ <u>(154,865)</u>	\$ <u>265,299</u>
18 Rate of Return	19.52 %		9.94 %

GULF UTILITY COMPANY
PREPAID CAPACITY CHARGES
12/31/95

Contract	Prepaid REC'S		Water(a)		Wastewater(a)		Difference Proposed Less Present
	Water	Wastewater	Present Charges	Proposed Charges	Present Charges	Proposed Charges	
Alco 44 - Industrial Park		47.00	\$	\$	\$ 25,850	\$ 37,600	\$ 11,750
Aloha Road Extension	5.95		4,760	3,273			(1,488)
Biscayne Verruure Assoc.	36.00		28,800	19,800			(9,000)
Coastline	0.50		400	275			(125)
Country Oakes	7.00	8.00	5,600	3,850	4,400	6,400	250
Estero Ranch Gardens	14.00		11,200	7,700			(3,500)
First Communities	164.00		131,200	90,200			(41,000)
Florida Gulf Coast University	183.00	209.00	146,400	100,650	114,950	167,200	6,500
Harboruge	52.00	52.00	41,600	28,600	20,440	41,600	8,160
IPW Inc./Wagtenway Bay	29.41		23,528	16,176			(7,353)
Partridge	21.00	21.00	16,800	11,550	11,550	16,800	0
Pick Kwick		2.00			1,100	1,600	500
Pine Glen	10.00	10.00	8,000	5,500	5,500	8,000	0
Shannon Pines	13.00	13.00	10,400	7,150	7,150	10,400	0
Southwind-Charleston Development	56.00	56.00	44,800	30,800	30,800	44,800	0
Terreverde	56.00		44,800	30,800			(14,000)
The Groves Browdway Land Trust	41.00		32,800	22,550			(10,250)
The Island - SW FL Capital	62.00	62.00	49,600	34,100	34,100	49,600	0
The Vines(c)	26.00	26.00	20,800	14,300	11,260	20,800	3,040
Three Oaks Town Center	0.29	0.29	229	160	158	232	5
Tidewater Island	52.00		41,600	28,600			(13,000)
Villages(b)	219.00	219.00	139,511	120,450	120,450	175,200	35,689
Wood Briar(d)	2.00	2.00	1,600	1,100	760	1,600	320
	<u>1,050.15</u>	<u>727.29</u>	<u>\$ 804,428</u>	<u>\$ 577,583</u>	<u>\$ 368,488</u>	<u>\$ 581,832</u>	<u>\$ (33,502)</u>

(a)	Present	Proposed
Water	\$800	\$550
Wasterwater	\$550	\$800

- (b) 50 ERC @ \$505.05
(c) 19 ERC @ \$390.00
(d) 2 ERC @ \$390.00

GULF UTILITY COMPANY

DEVELOPER AGREEMENT PROVISION
ON PREPAID CAPACITY CHARGES

J. Subject to the provisions of paragraph 6C and 3S and in addition to the transfer of the On-Site/Off-Site Facilities by Developer to Utility as CIAC in accordance with paragraph 3I, Developer shall pay to Utility the following sums as CIAC:

A total of [connection fees/CIAC tax] shall be paid to Utility concurrently with the execution of this Agreement. [Total connection fees] of this sum is a Reservation of Capacity Charge for the reservation of capacity for the total water and waste water ERC's to be furnished in the first Phase of the Property, [Total CIAC tax] of this sum represents the Tax Impact Amount on such Reservation of Capacity Charge, and \$-0- represents the amount due Utility as an allowance for funds prudently invested pursuant to Utility's Water and Sewer Tariffs filed with the FPSC. [Water Connection Fee] of the Reservation of Capacity Charge shall be for the reservation of [#] water ERC's and [Sewer connection fee] of the Reservation of Capacity Charge shall be for the reservation of [#] waste water ERC's. As Developer commences development of each subsequent Phase, if any, and provided Utility has unreserved capacity available, Developer shall pay to Utility as a Reservation of Capacity Charge an amount equal to Utility's applicable System Capacity Charge for water and waste water service then in effect for the total amount of ERC's required for such phase, plus the applicable Tax Impact Amount. Developer expressly acknowledges and agrees that the Reservation of Capacity Charges and Tax Impact Amounts are for reservations of capacity, that the Reservation of Capacity Charges and Tax Impact Amounts are non-refundable and are fully earned upon Utility's reservation of capacity, and that the Reservation of Capacity Charges do not necessarily reflect the actual amount of System Capacity Charges for which Developer is liable. At such time as the System Capacity Charge is determined, the Reservation of Capacity Charge will be applied toward the actual System Capacity Charge. The actual amount of the System Capacity Charge will be determined at the time when the customer connection is made and the customer (other than the Developer or its agents or subcontractors) begins to take service. At such time, Developer and Utility agree to make adjustments, if any, between the sums paid as a Reservation of Capacity Charge and the actual amount of the System Capacity Charge.

1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
2 GULF UTILITY COMPANY
3 APPLICATION FOR CHANGE IN WATER AND WASTEWATER RATES
4 DOCKET NO. 960329-WS

5 DIRECT TESTIMONY OF ROBERT C. NIXON, C.P.A.

- 6 Q. Please state your name and professional address.
- 7 A. Robert C. Nixon, C.P.A., a partner in the accounting firm
8 of Cronin, Jackson, Nixon & Wilson, P.A., 2560 Gulf-To-Bay
9 Boulevard, Suite 200, Clearwater, Florida 34625.
- 10 Q. Have you been retained by Gulf Utility Company to provide
11 documentary information and testimony in that Company's
12 application to change water and wastewater rates?
- 13 A. Yes.
- 14 Q. Will you please provide a brief resume of your training
15 and experience as it relates to this case?
- 16 A. Attached as the last three pages of this testimony is a
17 brief resume of my education and training. The resume
18 also includes a list of the companies I have represented
19 in rate and other proceedings before the Florida Public
20 Service Commission.
- 21 Q. Did you provide schedules and other documentary evidence
22 which were employed by the Commission in each of those
23 cases listed on your resume in setting the rates and
24 charges found by the Commission in those Orders?
- 25 A. Yes, I did.

1 Q. Did you and persons of your firm, working under your
2 supervision and direction, prepare documentary evidence
3 for use by the Commission in establishing rates in this
4 proceeding?

5 A. Yes. Those documents are contained in the Income Tax
6 Section (C-Section) of the Financial, Rate and Engineering
7 Minimum Filing Requirements (MFRs), filed in this case as
8 Exhibit No. (KRC-1).

9 Q. Briefly describe the types of information contained in the
10 Income Tax Section of the MFRs.

11 A. The Income Tax Section contains calculations of the income
12 tax provisions for the historic test year and the
13 projected test year ending December 31, 1996. Other
14 supporting schedules for these years include interest in
15 the tax expense calculation, deferred income tax expense
16 and timing differences, and detailed schedules of
17 accumulated deferred income taxes since the last rate
18 case.

19 Q. Why was your firm engaged to prepare this section of the
20 MFRs?

21 A. My firm prepares the state and federal income tax returns
22 of the Company. In addition, we represented Gulf Utility
23 Company in its application for approval of gross-up
24 authority and prepare the annual gross-up reports filed
25 with the Commission.

1 Q. What was the source of the information used to prepare the
2 income tax schedules?

3 A. The tax returns filed by Gulf Utility Company and its
4 books, records, and audited financial statements.

5 Q. You mentioned the fact that Gulf Utility Company grosses
6 up CIAC. How has this been recognized in the MFRs and
7 rates proposed by the Company?

8 A. In accordance with Commission Order No. 23541, the
9 deferred tax benefits resulting from tax depreciation of
10 contributed plant have been included in the capital
11 structure as zero cost capital.

12 Because customers and developers served by the Company
13 have paid the tax impact on CIAC since 1987, no rate
14 recognition of the deferred tax asset has been included in
15 the proposed rate base shown in the MFRs. Rather, the
16 deferred tax liability, which includes the cumulative
17 deferred benefit of tax depreciation on CIAC, has been
18 recognized as zero cost capital to reduce the revenue
19 requirement requested by Gulf.

20 Q. Do you have anything further to add at this time?

21 A. Not at this time. As issues and questions are developed
22 during the course of this proceeding, we will respond with
23 additional testimony and exhibits as may be required.

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Resume

Robert C. Nixon

Robert C. (Bob) Nixon has a Bachelor of Science Degree in Business Administration from the University of Florida and a Bachelor of Arts Degree in Accounting from the University of South Florida. He was employed by the City of Tampa as an accountant for two years and by the Florida Public Service Commission as an auditor for two years.

Bob is Vice President and Secretary of Cronin, Jackson, Nixon & Wilson and has been with the firm since 1981. He is responsible for the firm's regulated utility services practice. He is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants. Bob was a Director of the Florida Waterworks Association from 1986 through 1993.

Bob's practice currently provides various services to approximately 55 investor-owned utilities regulated by the Florida Public Service Commission. Such services include rate, service availability and original certificate applications; assistance with over earnings investigations, CIAC gross-up applications and reports; preparation of Annual Reports and financial statements; utility valuations and tax services.

Bob's experience in rate and other proceedings before the Florida Public Service Commission includes representation of

1 the following companies:

2	<u>Name of Company</u>	<u>Order No.</u>	<u>Date</u>
3	Clay Utility Company	14305	04/22/85
4	Twin County Utility Company	14380	05/17/85
5	Sanlando Utilities Corp.	15887	03/25/86
6	Park Manor Waterworks, Inc.	15831	03/12/86
7	Forest Utilities, Inc.	14557	07/10/85
8	Eagle Ridge Utilities, Inc.	14133	02/17/85
9	Martin Downs Utilities, Inc.	17269	03/10/87
10	Ocean Reef Utility Co.	17532	05/08/87
11	Rolling Oaks Utilities, Inc.	17760	06/06/87
12	St. Johns Service Company	18551	12/15/87
13	Limited investigation into		
14	rate settling procedures and		
15	alternatives for water and		
16	sewer companies	21202	05/08/89
17	Radnor Plantation Corp. DBA		
18	Plantation Utilities	21415	06/20/89
19	Hydratech Utilities, Inc.	22226	11/27/89
20	Martin Downs Utilities, Inc.	22869	04/27/90
21	Request by Florida Waterworks		
22	Association for investigation		
23	of proposed repeal of		
24	Section 118(b) IRC (CIAC)	23541	10/01/90
25	Southern States Utilities, Inc.	24715	06/26/91

	<u>Name of Company</u>	<u>Order No.</u>	<u>Date</u>
1			
2	FFEC-Six, Ltd.	24733	07/01/91
3	East Central Florida Services	PSC-92-0104-FOF	03/27/92
4	Aloha Utilities, Inc.	PSC-92-0578-FOF-SU	06/29/93
5	Mad Hatter Utility, Inc.	PSC-93-0295-FOF-WS	02/24/93
6	Lehigh Utilities, Inc.	PSC-93-0301-FOF-WS	02/25/93
7	Jasmine Lakes Utility Corp.	PSC-93-1675-FOF-WS	11/18/93
8	Gulf Utility Company	PSC-93-1207-FOF-WS	08/18/93
9	Key Haven Utility Company	PSC-94-1557-S-SU	12/13/94
10	JJ's Mobile Homes, Inc.	PSC-95-1319-FOF-WS	10/30/95

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
2 **GULF UTILITY COMPANY**
3 **APPLICATION FOR CHANGE IN WATER AND WASTEWATER RATES**
4 **DOCKET NO. 960329-WS**

5 **DIRECT TESTIMONY OF JAMES W. MOORE**

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

8 A. James W. Moore, 19910 S. Tamiami Trail, Estero, Florida
9 33928-0350. I am and have been President and CEO of Gulf
10 Utility Company since 1982.

11 Q. What is the Company requesting in these proceedings?

12 A. The Company has a program that we hope will keep it on a
13 sound financial basis and requests in these proceedings
14 the following:

15 1. We are requesting an increase in wastewater rates,
16 both interim and permanent rates.

17 2. The Commission has opened a Docket (No. 960329-WS)
18 to determine if there has been overearnings in the
19 Company's water operations. To protect its earning
20 base and financial viability, the Company requests
21 that interim rates for wastewater become effective
22 prior to or concurrently with any decrease in water
23 rates.

24 3. We are proposing to reduce water capacity fees and
25 increase wastewater capacity fees.

- 1 In financial terms, the above program is this:
- 2 (1) an interim rate increase in wastewater of \$300,000
- 3 and a permanent rate reduction in water of \$155,935, both
- 4 effective as of the same date.
- 5 (2) a permanent rate increase in wastewater of
- 6 \$366,340.
- 7 (3) an increase in wastewater capacity fees from \$550
- 8 to \$800/ERC and a reduction in water capacity fees
- 9 from \$800 to \$550/ERC.

10 In total this will add \$210,000 of revenue to the Company

11 and will, in my opinion, provide the right balance

12 between the level of rates and capacity fees that will

13 put the Company on solid financial footing.

14 Q. Before getting into reason for the above program, would

15 you briefly review Gulf's construction program started

16 some six years ago and the status of the program today.

17 A. In Gulf's service area, growth has been 5-6-7% per year

18 and we expect that level of growth in the near future.

19 To meet this growth, the Company constructed a second

20 wastewater treatment plant in 1989 and expanded it in

21 1991 and 1995 with a third expansion to be completed in

22 1997. In the water operation it developed a second

23 supply in 1990, expanded it in 1994 and again in 1996.

24 Coupled with this expansion was the building of a new and

25 looping water transmission main and force main and lift

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

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

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

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

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

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

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

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

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

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

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

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

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

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

13 Major construction work is performed by outside
14 contractors with Company personnel installing services,
15 performing small construction jobs, maintaining and
16 repairing the distribution and collection system.

17 We have two water plants, the San Carlos plant with a
18 capacity of 2.415 mgd, and the Corkscrew plant with a
19 capacity of 1.000 mgd. Future expansion will be at
20 Corkscrew plant. The water system is fully
21 interconnected.

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

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

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

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

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

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

1 took place. This plant was expanded again in 1991 and a
2 third expansion took place in 1995.
3 With these expansions there were corresponding increased
4 requirements for power and chemicals. In 1987 with only
5 the San Carlos Plant in operation we employed two
6 operators. Today six are required to staff both plants.
7 Changes in regulation coupled with the increased
8 treatment requirements has caused us to haul sludge in
9 greater quantities and more frequently. Regulatory
10 change has also caused us to increase the number and
11 frequency of lab tests required.

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

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

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

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

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

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

4 Completion dates and estimated cost are:

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

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

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

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

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

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

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

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

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

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
2 **GULF UTILITY COMPANY**
3 **APPLICATION FOR CHANGE IN WATER AND WASTEWATER RATES**
4 **DOCKET NO. 960329-WS**

5 **DIRECT TESTIMONY OF CAROLYN B. ANDREWS**

- 6 Q. State your name, business address, and position with the
7 Company.
- 8 A. Carolyn B. Andrews, 19910 S. Tamiami Trail, Estero,
9 Florida 33928-0350. I am the Chief Financial Officer of
10 the Company.
- 11 Q. What are your duties?
- 12 A. My duties as Chief Financial Officer include maintaining
13 Gulf Utility Company's accounting books and records,
14 supervision of accounting department, internal and
15 external financial reporting including financial
16 statements, cash management and budgeting.
- 17 Q. How long have you been employed by Gulf Utility Company?
- 18 A. 11 years.
- 19 Q. Then the books and records of the Company are maintained
20 under your direction and supervision?
- 21 A. Yes, they are.
- 22 Q. Does the Company file annual reports with the Commission?
- 23 A. Yes, it does.
- 24 Q. Does the Company maintain books and records in accordance
25 with the Uniform System of Accounts prescribed by the

1 Florida Public Service Commission?

2 A. Yes, it does.

3 Q. Does the Company have its books and records audited
4 annually by an outside accounting firm?

5 A. Yes, it does.

6 Q. And what procedure does the Company use in maintaining
7 its property accounts?

8 A. The Company maintains Utility Plant, Reserve for
9 Depreciation, Contributions in Aid of Construction, and
10 Advances for Construction separately for the water and
11 wastewater divisions. The Company utilizes a CWIP system
12 for all property additions. By that method, all costs
13 associated with a construction project are assigned to
14 the appropriate CWIP account, and, when completed, closed
15 to the property accounts.

16 Q. Briefly describe the accounting procedures for operating
17 costs.

18 A. With respect to operating costs, the cost of power, most
19 labor for operations and maintenance of central plants
20 and for the distribution and collection system are
21 identifiable costs and are charged directly to the water
22 and wastewater operations, and therefore no allocation of
23 cost is necessary. The cost of billing, customer
24 accounting and general and administrative expenses are
25 assigned on a customer basis.

1 Q. Have Customers been used as a basis of allocation between
2 water and wastewater in the past?

3 A. Yes, they have. The Company serves primarily residential
4 and commercial customers, and the work schedule of
5 employees relates primarily to the number of customers
6 served. Using Customers also has the advantage of being
7 readily available and of being consistent from year to
8 year. Because of this, it is my opinion using the number
9 of customers is an appropriate method of allocation.

10 Q. And what is the percentage allocation for 1996?

11 A. The allocations are based upon the year-end customers.
12 The 1996 allocation is 66% water and 24% wastewater.

13 Q. What have you been asked to do in the preparation of this
14 case?

15 A. I am responsible for the financial statements of Gulf
16 Utility Company that are used by Mr. Cardey and Nixon in
17 preparation of the minimum filing requirements (MFR's).
18 In addition, I supplied to Mr. Cardey and Mr. Nixon all
19 the data for the historical year 1995, and the budgeted
20 amount for 1996. The 1996 budget was prepared in the
21 normal course of business.
22 This budget was reviewed considering current operating
23 conditions in order to prepare the projected 1996
24 operating expenses for the MFRs.
25 In preparing the operating budget, the operating and

1 accounting personnel jointly reviewed 1995 operations and
 2 anticipated operations for 1996, and based on these
 3 reviews, the 1996 operations were projected by month.
 4 In Schedule B-3 of the MFR's, are details of changes in
 5 cost from 1995 to 1996 and pages 1 and 2 summarize the
 6 changes with supporting details on pages 3 to 6. A
 7 summary of the changes are:

8 Increases In Operating Expenses From 1995 to 1996

	<u>Water</u>	<u>Wastewater</u>
9		
10 Payroll & benefits	\$17,639	\$30,899
11 Power, chemicals, sludge	30,485	40,917
12 hauling		
13 Material & supplies	< 5,146 >	4,552
14 Contractual services	28,830	12,975
15 Rent	34,177	17,843
16 Rate case expense	10,270	10,526
17 All others	<u> 9,072</u>	<u> 434</u>
18	\$125,327	\$118,146

19 An explanation of some of the larger changes in cost are:

20 (1) Wage increases of 6.5% were granted effective
 21 January 1, 1996. One operator was transferred from water
 22 to wastewater to meet regulatory requirements.

23 (2) The increases in power, chemicals, etc. are due to
 24 customer growth, a new operations center, administrative
 25 office, and increased flows and treatment required in

1 wastewater.

2 (3) Increases in Contractual services are due to
3 amortization of permitting costs, costs associated with
4 CIAC Gross-Up and Refund Dockets, and an 8% increase of
5 general legal and engineering costs due to growth and
6 inflation. Other increases were incurred due to the new
7 Operations Center and administrative offices, in
8 telephone, cleaning, pest control; regulatory
9 requirements, additional water and wastewater sample
10 analysis, and rate increases from service providers.

11 (4) The rent is for the new administrative office.

12 (5) The rate case expense is a four (4) year write off
13 of the cost of this proceeding.

14 Q. Does that conclude your testimony?

15 A. Yes, it does.