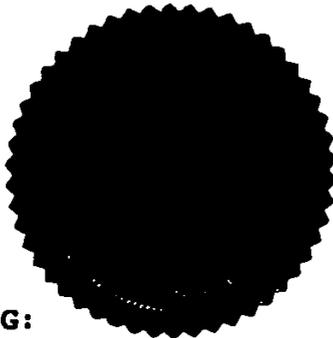


BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
TALLAHASSEE, FLORIDA

IN RE: Application for increase in rates and service
availability charges in Lee County by Gulf Utility Company.
DOCKET NO. 960329-WS

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



BEFORE:

COMMISSIONER J. TERRY DEASON
COMMISSIONER SUSAN F. CLARK

PROCEEDING:

AGENDA CONFERENCE

ITEM NUMBER:

45

DATE:

June 10, 1997

PLACE:

4075 Esplanade Way, Room 148
Tallahassee, Florida

JANE FAUROT, RPR
P.O. BOX 10751
TALLAHASSEE, FLORIDA 32302
(904) 379-8669

DOCUMENT NUMBER DATE

JANE FAUROT - 904-379-8669 07812 AUG-1997

FPSC-RECORDS/REPORTING

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COMMISSIONER DEASON: Item 45.

COMMISSION STAFF: Commissioners, Item 45 is staff's recommendation regarding Gulf Utility Company's application for an increase in wastewater rates, a decrease in water rates, and a change in service availability charges. We do have one typographical error we would like to bring to your attention. It's on Page 175 of the recommendation, which is the wastewater rate schedule. Again, it's just a typographical error, and it does not affect the rates. I believe that Ms. Galloway has highlighted the area that is in error. We are ready to proceed with any questions you might have.

COMMISSIONER DEASON: Commissioner Clark, how do you wish to proceed?

COMMISSIONER CLARK: I saw this, but I did not go through and sort of mark the ones I had questions on, so why don't we just go issue-by-issue, and I will tell you if I have any questions. If not, I will move staff.

COMMISSIONER DEASON: Okay.

COMMISSIONER CLARK: I can move Issue A.

COMMISSIONER DEASON: Show that Issue A is approved. Issue 1.

1 COMMISSIONER CLARK: I can move staff.

2 COMMISSIONER DEASON: Show that Issue 1 is
3 approved. Issue 2.

4 COMMISSIONER CLARK: I move staff.

5 COMMISSIONER DEASON: Show that Issue 2 is
6 approved. Issue 3.

7 COMMISSIONER CLARK: I move staff.

8 COMMISSIONER DEASON: Show that Issue 3 is
9 approved.

10 COMMISSIONER CLARK: I can move staff on Issue 4.

11 COMMISSIONER DEASON: Okay. I have a question on
12 Issue 4. Part of staff's rationale is that the cost of
13 the various plant components are not separately
14 identified in the accounting system and, therefore, the
15 information is not even available if it were
16 appropriate to make such an adjustment. Is that
17 basically correct?

18 COMMISSION STAFF: Yes, Commissioner, this is
19 true.

20 COMMISSIONER DEASON: Okay. Now, is it your
21 recommendation -- is it your recommendation that no
22 adjustment be made because the information is not
23 available, or is it that no adjustment should be made
24 because it's inappropriate to make the adjustment?

25 COMMISSION STAFF: Well, actually, I guess both of

1 those are true, but mostly because the account is just
2 -- it's all one lump sum, and the information isn't
3 available if we didn't take it out.

4 COMMISSIONER DEASON: Okay. I understand that is
5 the case here. I guess my concern is that I would not
6 want our vote in this case to be an interpretation that
7 it never will be appropriate to make such an adjustment
8 if the information were available. And the reason I
9 say that is that utilities may have subaccounts where
10 the information can be developed. And there may be a
11 case where for some individual component of the plant
12 there may be some unusual circumstances that it should
13 receive some different treatment than just applying an
14 overall percentage to the total investment in the
15 plant.

16 COMMISSION STAFF: Yes, sir.

17 COMMISSIONER DEASON: Does staff disagree with
18 that concept or not?

19 COMMISSION STAFF: No, sir, I agree with that
20 concept. My original recommendation would have been
21 that it is necessary as part of their class one
22 reliability for their backup.

23 COMMISSIONER DEASON: But we don't have the
24 information.

25 COMMISSION STAFF: We don't have the information.

1 Even if we wanted it, we don't have it. But my
2 original recommendation would have been it's necessary
3 as part of the DEP requirement for class one
4 reliability.

5 COMMISSIONER DEASON: So if we had a segregated
6 investment amount, it could get different treatment and
7 perhaps a higher used and useful percentage?

8 COMMISSION STAFF: Depending on the circumstances,
9 sir, yes.

10 COMMISSIONER DEASON: But we don't have it in this
11 case?

12 COMMISSION STAFF: We don't have it.

13 COMMISSIONER DEASON: Okay.

14 COMMISSION STAFF: We could have the order reflect
15 that statement if you wish, if it does move staff.

16 COMMISSIONER DEASON: The reason I'm asking the
17 question is that we had a lot of discussion this
18 morning concerning used and useful rules, and basically
19 the burden being on the company to make their case.

20 And if part of the company's case is trying to
21 identify a portion of a plant, or an addition to a
22 plant, or whatever the case may be, and if they have
23 the information to show what the investment was and
24 that a certain size of an improvement, or an addition,
25 or a replacement was made because of the economies of

1 scale or whatever, and they want a different treatment
2 for that portion of the plant, I think that's part of
3 their burden. And if they can make that showing, so be
4 it.

5 I understand we don't have the information here.
6 I just don't want our decision here to be interpreted
7 that we would never entertain such information being
8 brought to us, because I think that that is part of the
9 company's burden, and if they can demonstrate that they
10 perhaps are entitled to that. But that would be on an
11 individual case-by-case basis.

12 COMMISSION STAFF: Right. I would check with
13 staff. I believe in this case on Issue 4 that another
14 party raised this besides the utility. I'm not sure.
15 I would say that any movant, any movant who moved to
16 have this considered would have the burden.

17 COMMISSIONER DEASON: Well, I don't disagree with
18 that, either. I just wouldn't want it to be a blanket
19 statement that a plant is always -- the investment in a
20 plant is treated as one lump sum, and you never can
21 identify any subaccount or separate part of the plant
22 which should receive some type of different treatment.
23 Marshall, you --

24 MR. WILLIS: Commissioner, that's normal practice.
25 If any utility believes that they can come in here and

1 actually look at a subaccounting of something or look
2 at an asset on its own on a component-by-component
3 method, they are perfectly at their right to do that.
4 Public Counsel can do that, any intervenor can do that.
5 We have done it ourselves through the discovery
6 process. It's true that the Uniform System of Accounts
7 takes the chlorine contact chambers and combines them
8 with the treatment facilities, and that's how we are
9 looking at it in this case, on a total basis. But that
10 doesn't mean that we can't look at it on a
11 component-by-component. In this case, the company
12 might have done that and got a better treatment on it,
13 but it's to their detriment if they didn't do it.

14 COMMISSIONER DEASON: Well, I just wanted to
15 clarify that I thought that was the case, and a company
16 should be allowed to make that argument, or Public
17 Counsel or anybody else make a showing that it should
18 receive some treatment perhaps in another direction.

19 MR. WILLIS: You're correct, it's always that
20 case. I don't know that we need to include that
21 anywhere in any order or anything, but it always has
22 been the case and the practice for anybody to be able
23 to come in and prove that.

24 COMMISSIONER DEASON: Well, when I read the issue,
25 it appeared like it could have been interpreted that

1 this information is not available, it is never
2 available, and we don't even want to look at it,
3 because we just want to look at plants in their total.
4 And I didn't think that was our position or our policy,
5 and I just wanted to clarify that's not what we are
6 saying here.

7 MR. WILLIS: That is correct, it's not.

8 COMMISSIONER DEASON: Okay. We have a motion on
9 Issue 4.

10 COMMISSIONER CLARK: Move staff.

11 COMMISSIONER DEASON: Show that staff's
12 recommendation on Issue 4 is approved.

13 COMMISSIONER CLARK: Move staff on 5.

14 COMMISSIONER DEASON: Show staff approved on 5.

15 COMMISSIONER CLARK: Move staff on 6.

16 COMMISSIONER DEASON: Show staff approved on 6.
17 Issue 7.

18 COMMISSIONER CLARK: What in this case makes it
19 different from what we adopted in the rule?

20 COMMISSION STAFF: Commissioner, in this case the
21 Commission took evidence from the utility and the
22 parties and it was handled on a case-by-case basis. I
23 think the utility demonstrated a higher margin of
24 reserve than we have done in the past.

25 COMMISSIONER CLARK: On what basis?

1 COMMISSION STAFF: I will perhaps let technical
2 staff summarize that.

3 COMMISSION STAFF: As far as the 36-month
4 recommendation, Witness Elliott testified to the many
5 things that are necessary, starting when they have a
6 capacity analysis report. If it indicates that they
7 have five years or less capacity --

8 COMMISSIONER CLARK: Maybe I should just interrupt
9 you. It seems to me that what the argument here is is
10 the policy considerations that would apply anywhere,
11 that it isn't specific to this case. And my concern is
12 that a two-member panel would make a determination that
13 is different than the policy we just adopted, not on
14 the basis of the unique circumstances in here. And I
15 thought it was just sort of a general policy statement
16 backing up the 36 months. And I'm somewhat reluctant
17 to do that. I mean, you know, perhaps what we did here
18 would have been different if the vote had been
19 different, but certainly there was a majority of the
20 Commission that was uncomfortable with that kind of
21 policy.

22 MR. WILLIS: I think one of the major reasons in
23 this one, why we went 36 months is because they had to
24 actually going into some land acquisition, they had to
25 actually put money out a little bit above and beyond

1 what they normally would for expansion.

2 And because of that reason, it's on Page 24 down
3 towards the bottom, they actually had to get permits,
4 go in for bidding, financing, and some construction.
5 Where normally a lot of this is done in the 18-month
6 time frame. This particular case, we thought -- they
7 had asked, in fact, in some of their testimony they
8 asked for five years, which we agreed, like the
9 discussion this morning, five years was too much.

10 COMMISSIONER DEASON: Well, Commissioner, let me
11 say that I share your concern. I think what we had
12 here was evidence, similar evidence to what we received
13 concerning planning horizons and what is required by
14 other permitting agencies and things of that nature.

15 What I think is lacking here is justification for
16 the size plant that is built that is in rate base or is
17 being asked to be put in rate base right now. Why it
18 was sized the way it was, what the economies of scale
19 were at the time that plant was built, what the growth
20 has been, why that was a prudent decision at the time.
21 And I don't think there is anything in the record
22 concerning that. If I'm wrong, please correct me, but
23 I don't recall anything concerning that.

24 That's the type of information I want to see in
25 the record. Because what we are talking about here is

1 including in rate base dollars associated with plant in
2 the ground that is capable of providing service. And
3 we are trying to include a part of that in the rate
4 base because they are saying it takes a certain amount
5 of time to plan and build another plant. But we are
6 talking about putting a percentage on dollars of
7 investment, of a large amount of investment of plant
8 that is already there in the ground, and it should be
9 justified on its own means, that is, at the time that
10 plant was designed and built, these were the
11 projections, this is the reason it was built in this
12 size because it was the most economic thing to do.

13 Not just rely upon, well, it takes 12 months to
14 get this permit and five months to do this and all of
15 that. Because you're not -- the company is not
16 investing the dollars at the same level when you have
17 got a completed plant in the ground and you are
18 applying that percentage to that. The amount of
19 investment during the first 18 months, or three years,
20 or whatever is not as great as when you've got a final
21 plant sitting in the ground capable of providing
22 service. And it seems to me that we are going to have
23 to get a handle on the concept of economies of scale
24 and why a decision was made to size a plant the size
25 that it was, and why that was a prudent decision. If

1 it was prudent, include it in rate base. And if it
2 wasn't, it stays out of rate base. That's the type of
3 information I want to see.

4 COMMISSIONER CLARK: You know, Commissioner
5 Deason, I have been struggling for a while in trying to
6 decide -- it concerns me that we do an after-the-fact
7 review on these sorts of things. And this isn't to
8 argue the particular issue in this case, but it's the
9 notion of trying to establish a policy that sends the
10 right signals. And I guess maybe what we ought to
11 consider, and I will just throw this out for staff to
12 consider, is what we do in electrics, is that we do a
13 certificate of need so that they know on the front end
14 that here is what -- here is what they looked in in
15 making these plans, and they are planning on going
16 ahead, and do we, in fact, conclude they need it. I'm
17 just throwing that out as a way for staff to look at
18 it, because I have concerns that the after-the-fact
19 review doesn't -- make some skiddish, I think, in terms
20 of appropriate economic planning. That's not to say I
21 disagree with -- I'm not prepared to move staff on the
22 36 months here.

23 COMMISSION STAFF: Commissioners, if I could point
24 out one thing. Later on in Issue 19, we have imputed
25 the full amount of CIAC associated with this, because

1 they have prepaid CIAC. So if you went with the 18
2 month, they have got enough CIAC that wipes out that 18
3 months of plant. If you go with 36 months, it wipes
4 out the 36 months worth of plant that they have in
5 their margin reserve because of the prepaid CIAC. I
6 just wanted -- you haven't on that issue, and it's
7 actually 18 and 19, but that is the rate base impact on
8 this issue.

9 COMMISSIONER DEASON: Well, I mean, you have
10 raised the Issue 19, we might as well discuss it to
11 some extent. You are indicating that since CIAC is
12 paid in advance, they have enough prepaid CIAC to
13 basically negate any margin of reserve up to 36 months.

14 COMMISSIONER CLARK: If that is the case why are
15 we deciding this? Why is it an issue at all?

16 COMMISSION STAFF: I need to make a correction. I
17 was just talking about water, and I beg your pardon,
18 this is wastewater for the 36 months. It does not wipe
19 it out in wastewater.

20 COMMISSIONER CLARK: Commissioner Deason, I'm
21 trying to be careful that we don't have a split
22 decision on this. What do we have to do on -- what is
23 the recommendation on CIAC if we do an 18 month?

24 COMMISSION STAFF: For the water system, it's 18
25 months. Water treatment is 18 months, it wipes all the

1 prepaid CIAC, it zeros it out. For the wastewater
2 system, they don't have enough -- we have limited them
3 to 50 percent, which is consistent with your vote this
4 morning, too.

5 COMMISSIONER CLARK: That's what you have
6 recommended in 7?

7 COMMISSION STAFF: That's correct, in 19.

8 COMMISSIONER DEASON: Now, there is no prepaid
9 CIAC for the wastewater system?

10 COMMISSION STAFF: Yes, there is, but it's not all
11 the way up to 50 percent. So there is a portion that's
12 prepaid and a portion that brings them up to the 50
13 percent.

14 COMMISSIONER CLARK: And I move staff with the
15 exception that the margin of reserve on wastewater
16 system be 18 months and it include a 50 percent
17 imputation of CIAC.

18 COMMISSIONER DEASON: Yes. Show that that motion
19 is approved unanimously.

20 COMMISSIONER CLARK: I move staff on 8.

21 COMMISSIONER DEASON: Issue 8 is approved. Issue
22 9.

23 COMMISSIONER CLARK: I guess I don't have any
24 problem with Issue 9. Move staff.

25 COMMISSIONER DEASON: Well, first of all, let me

1 try to get an understanding to distinguish between
2 Issues 9 and 10. Issue 9 is a more generic issue;
3 Issue 10 is more specific because it addresses specific
4 treatment plant components?

5 COMMISSION STAFF: Yes, sir.

6 COMMISSIONER DEASON: Okay. And it is staff's
7 position that there is no evidence on economies of
8 scale in either 9 or 10.

9 COMMISSION STAFF: Right, that's correct.

10 MR. WILLIS: We do try to consider economies of
11 scale if they present evidence to show why they built
12 the size they did.

13 COMMISSIONER DEASON: Okay. You're moving staff
14 on Issue 9, Commissioner Clark?

15 COMMISSIONER CLARK: Yes.

16 COMMISSIONER DEASON: Show staff recommendation on
17 Issue 9 approved.

18 COMMISSIONER CLARK: 10, I move it on 10.

19 COMMISSIONER DEASON: Issue 10 is approved. 11.

20 COMMISSIONER CLARK: I move staff.

21 COMMISSIONER DEASON: Show Issue 11 approved.
22 Issue 12.

23 COMMISSIONER CLARK: Move staff.

24 COMMISSIONER DEASON: Show Issue 12 approved.
25 Issue 13.

1 COMMISSIONER CLARK: I have a note, but I can't
2 understand my note. Just a minute.

3 COMMISSIONER DEASON: If you need to take moment,
4 that would be fine.

5 COMMISSIONER CLARK: Oh, I guess I had trouble
6 understanding -- is the difference between what Gulf is
7 suggesting and what staff is recommending is they just
8 combined it and came up with 88 percent? What is the
9 relative difference between those two?

10 COMMISSION STAFF: I really can't tell you how
11 they came up with their 88 percent. I mean, it was --
12 he combined several different things.

13 COMMISSIONER DEASON: But we are doing it on an
14 individual basis because they are not connected, is
15 that the wells are not -- don't supply the same area?

16 COMMISSION STAFF: You have two totally separate
17 well fields that are not connected and we treated them
18 separately, looking at each individual well field.

19 COMMISSIONER CLARK: I move staff on 13.

20 COMMISSIONER DEASON: Show staff recommendation
21 approved on Issue 13. Issue 14.

22 COMMISSIONER CLARK: Move staff.

23 COMMISSIONER DEASON: Show Issue 14 approved.
24 Issue 15. Now, this is impacted by a previous
25 decision, correct?

1 COMMISSION STAFF: This is on the bottom of Page
2 41 there we gave you the option if the Commission
3 decides to grant an 18-month margin reserve in the
4 wastewater treatment plant, then the used and useful is
5 only 72.11.

6 COMMISSIONER DEASON: Versus 87.15?

7 COMMISSION STAFF: Exactly.

8 COMMISSIONER CLARK: I move staff with that
9 modification.

10 COMMISSIONER DEASON: Show Issue 15 as modified.
11 Issue 16.

12 COMMISSIONER CLARK: We don't have to decide that,
13 right?

14 COMMISSIONER STAFF: That's correct.

15 COMMISSIONER CLARK: So I would not move 16.
16 Issue 17.

17 COMMISSIONER DEASON: Are you moving 17?

18 COMMISSIONER CLARK: Yes, I can move it. This is
19 the issue of the donated lines or the lines for equity?

20 COMMISSION STAFF: Yes.

21 COMMISSIONER CLARK: I move staff.

22 COMMISSIONER DEASON: Show staff recommendation
23 approved on 17. Issue 18.

24 COMMISSIONER CLARK: Move staff.

25 COMMISSIONER DEASON: Show staff approved on Issue

1 18. Issue 19.

2 COMMISSION STAFF: Commissioners, Issue 19 would
3 be a fallout based on your change to the used and
4 useful margin reserve. Also, staff would also
5 recommend that the amount of prepaid wastewater CIAC be
6 accounted for first, then any additional amount to take
7 them up to the 50 percent would be imputed, because
8 they do have prepaid CIAC. So the second part of this
9 adjustment would be the fallout.

10 COMMISSIONER CLARK: I move staff.

11 COMMISSIONER DEASON: Show staff's recommendation
12 as just explained is approved. Issue 20.

13 COMMISSION STAFF: Commissioners, Issue 20 is
14 staff's recommendation that approximately \$66,700, and
15 approximately \$134,000 are included as plant costs
16 related to the South Florida Water Management District.
17 We are recommending that 15,385 and 30,769 for water
18 and wastewater respectively should be imputed as CIAC
19 related to these funds. And an additional small amount
20 there for test year amortization and accumulated
21 amortization.

22 COMMISSIONER CLARK: Commissioner Deason, I just
23 had trouble understanding this issue relative to what
24 the parties' positions were. I guess I had trouble
25 reconciling the amounts in the recommendation with what

1 the parties were recommending.

2 COMMISSION STAFF: I could probably clarify that
3 for you, Commissioner Clark.

4 COMMISSIONER CLARK: Okay.

5 COMMISSION STAFF: Let me just grab the briefs.
6 If that what you're referring to, the positions in the
7 briefs?

8 COMMISSIONER CLARK: Yes. I could not -- it says
9 the amount included in the rate base -- it just seemed
10 that the amounts in the recommendation, I could not
11 reconcile them with what the other parties had
12 suggested.

13 COMMISSION STAFF: Exactly. Let me refer you
14 first to the page in the MFRs where the amounts were
15 included. Page 67.

16 COMMISSION STAFF: I think what we can do is --
17 they used different methodologies. They included
18 things that we removed out of rate base and other
19 places, for at least the company's perspective, they
20 included the reject holding tank which we did not
21 include in rate base, so their number is going to be
22 off. And OPC calculated their number --

23 COMMISSION STAFF: They used net plant for the
24 holding tank and we used gross to gross when we
25 performed that calculation. Because we threw the

1 holding tank and we are recommending disallowing that
2 adjustment --

3 COMMISSIONER CLARK: Let me back up. I thought
4 this issue had to do with how we accounted for the
5 amounts from the South Florida Water Management
6 District grant.

7 COMMISSION STAFF: They have not received the
8 money yet.

9 COMMISSIONER CLARK: Okay. And what are we
10 telling them in this issue, how to allocate it between
11 rate base and CIAC?

12 COMMISSION STAFF: How much of this grant that
13 they will be receiving should be considered in rate
14 base. Because they have got some of the plant included
15 in rate base, so we believe that you should match the
16 CIAC that will cover that plant at the same time.
17 Since you are including plant, the grant is going to
18 cover that cost of the plant, then we will match what
19 they will receive.

20 COMMISSIONER CLARK: Will receive from whom?

21 COMMISSION STAFF: The South Florida Water
22 Management District. It's money that they -- you know,
23 it's a grant. It's not a loan, so we are going to
24 account for it as CIAC. I believe we have a
25 stipulation that it will be accounted for when they do

1 receive it as CIAC.

2 COMMISSIONER CLARK: Okay.

3 COMMISSION STAFF: So we are just going to offset
4 the plant that they have already included in rate base
5 with the CIAC that will be received in the future. The
6 differences between our numbers are -- if you will look
7 at the recommendation paragraph, the 66 and the 133,
8 those are year-end amounts. They didn't actually --
9 they included the 13-month average amounts, that's why
10 our amounts are different.

11 COMMISSIONER CLARK: Let me ask it a different
12 way. What is the utility recommending? They came up
13 with a total rate base and then they -- are they
14 indicating that the 446,000, then you would subtract
15 the 185 to get the amount that should be included as
16 investment?

17 COMMISSION STAFF: I honestly think they were
18 mistaken and confused on the issue as to how much plant
19 was actually included, and it's really complicated when
20 you start looking into their briefs, and the MFRs, and
21 what amount of plant was included in the MFRs. We just
22 basically analyzed it dollar-for-dollar and both OPC
23 and the company were wrong in staff's opinion.

24 COMMISSIONER CLARK: Well, the objective here is
25 to say you have certain plant for which you got a grant

1 and that plant is in service, and to the extent you
2 have a grant covering that plant, you would treat it as
3 CIAC, not rate base. And that's what you're doing?

4 COMMISSION STAFF: That's right. We are matching
5 the plant that's in the rate base with the CIAC they
6 will be receiving.

7 COMMISSIONER CLARK: I agree with that concept.
8 And if the numbers are right, then I can move Issue 20.

9 COMMISSIONER DEASON: Show Issue 20 is approved.
10 Issue 21.

11 COMMISSION STAFF: Commissioners, Issue 21 is
12 staff's recommendation that the Commission should
13 reduce accumulated amortization of CIAC for both
14 systems because of the use of -- the utility's use of a
15 composite rates and amortizing total contributions. A
16 composite rate should only be used to amortize cash
17 contributions.

18 COMMISSIONER CLARK: Move staff.

19 COMMISSIONER DEASON: Show staff recommendation
20 approved. Issue 22.

21 COMMISSION STAFF: Issue 22 addresses staff's
22 recommendation regarding working capital, whether or
23 not the projection was reasonable. And we recommend
24 that the projection -- some of the components were
25 reasonable and that some were not. And accordingly we

1 are recommending a \$106,000 reduction.

2 COMMISSIONER DEASON: Now, does this issue capture
3 the effect of your recommendation concerning accrued
4 interest payable and accrued interest receivable?

5 COMMISSION STAFF: Yes, sir. It encompasses
6 Issues 23, 24, 25, and 33, which are unamortized debt
7 discount and issuance expense, the accrued interest,
8 the interest receivable, and interest income.

9 COMMISSIONER DEASON: Now, Issue 23, it's your
10 recommendation that the unamortized discount and
11 issuance expense just be incorporated in the cost of
12 debt and, therefore, be captured in the capital
13 structure and the overall rate of return.

14 COMMISSION STAFF: Yes, sir.

15 COMMISSIONER DEASON: Okay. Now, I have a
16 question concerning -- I need to kind of move ahead,
17 Commissioner Clark, to some of these other issues.

18 On Issues 24, 25, and 33, as I understand your
19 recommendation, it's basically that you want to remove
20 all accrued interest, the effect of all accrued
21 interest as far as working capital is concerned, that
22 being both interest payable and accrued interest
23 receivable. You do not want to recognize the interest
24 income in the income statement above the line, but we
25 are allowing as a cost of service, legitimately so, the

1 interest expense on the debt. Is that basically where
2 we are?

3 COMMISSION STAFF: No, sir. We are not allowing
4 the accrued interest payable.

5 COMMISSIONER DEASON: Not in working capital, but
6 in cost of service as a component of the capital
7 structure and the overall rate of return. Interest
8 expense, interest costs are a part of that calculation,
9 is that right?

10 COMMISSION STAFF: That's correct.

11 COMMISSIONER DEASON: I mean, it has got to be.

12 COMMISSION STAFF: I'm sorry?

13 COMMISSIONER DEASON: Okay. I guess the concern
14 that I'm having is if we are including in cost of
15 service the debt costs, the interest on the debt, why
16 are we not also capturing the effect of the accrued
17 interest payable in working capital, putting above the
18 line the accrued interest in the income statement,
19 recognize that, and recognizing as an offset in working
20 capital the accrued interest receivable? Why don't we
21 recognize everything? What you're recommending is that
22 we not recognize -- that we not recognize three of
23 those components, but we recognize one component. We
24 recognize the cost of debt in the capital structure and
25 the overall rate of return. We do not recognize the

1 accrued interest payable in working capital, we do not
2 recognize the accrued interest receivable in working
3 capital, and we do not recognize interest income above
4 the line in the income statement. Why do we do it that
5 way?

6 COMMISSION STAFF: I think one thing is that this
7 company has a large balance of -- an investment account
8 that has -- an interest bearing investment account that
9 they use to pay their debt, and that has been removed
10 as an asset in the working capital calculation. And I
11 believe that Witness Nixon has testified that these
12 items, those specific items that you're talking about
13 deal with that account or are associated with that
14 account. So if you are going to remove that large
15 item, you should also remove these smaller items that
16 relate to it.

17 COMMISSIONER DEASON: Well, I guess what I'm
18 saying is that whatever the financial arrangement that
19 they have concerning their debt and the fund that they
20 have set aside to pay the interest or whatever, why
21 don't we recognize the whole ball of wax because it is
22 part of utility service?

23 COMMISSION STAFF: They are earning interest on
24 that account.

25 COMMISSIONER DEASON: That's fine. Put the income

1 above the line. Is it required, is it part of their
2 debt structure that their debt requires them to have
3 this fund set aside to pay the interest on the debt?

4 COMMISSION STAFF: I'm not sure about that,
5 honestly.

6 COMMISSIONER DEASON: Well, why else are they
7 doing it?

8 COMMISSION STAFF: A low interest rate, I believe.
9 Debt cost and -- I guess there is other --

10 COMMISSIONER DEASON: I don't know what the
11 outcome is, whether it affects revenue requirements up
12 or down. It just seems to me that what we are doing is
13 that we are recognizing one component of this, the
14 interest cost on the debt in the capital structure, and
15 we are eliminating everything else. And it seems to me
16 we are not capturing the true cost of providing service
17 to customers if this is their financing arrangement and
18 we have deemed it to be appropriate that this is the
19 best way for them to finance their operations.

20 COMMISSIONER CLARK: I'm not sure if this issue is
21 covered completely in this record, but I know that in
22 other instances where we have had large investment
23 accounts, we have basically said that the investment
24 account, the risk of whether the -- if they don't earn
25 enough on their investment, or if they earn more on

1 their investment, that those amounts are removed from
2 the balance sheet and any costs associated with that in
3 determining what the working capital calculation would
4 be. So basically it's the company, the shareholders'
5 risk, and also possibly their gain that those other
6 investments are off the balance street for regulatory
7 purposes and out of the revenue requirement
8 calculations.

9 COMMISSIONER DEASON: I guess my concern is that
10 if this is something that's required by their indenture
11 agreement or whatever it is, it's a cost of providing
12 service to customers and it should be calculated. And
13 I don't know what their relative return is on this
14 investment account, whether it enhances revenue
15 requirements or diminishes them, but it seems to me
16 that if it is required for them to provide service,
17 it's a part of cost of providing service and we need to
18 account for it. Do we have any evidence in the record
19 concerning the nature of this investment account and
20 why it's required, and why it was determined to be an
21 appropriate way of financing this company?

22 COMMISSION STAFF: It's just that it is related to
23 the IDRBs.

24 COMMISSIONER DEASON: Do we have anybody here from
25 AFAD that has looked at this?

1 **COMMISSION STAFF:** They were not involved in the
2 case. But it was low interest debt, and I don't
3 believe that we took issue, staff took issue with the
4 fact that the company was able to give this low
5 interest debt. It's sitting out there, the majority of
6 it is available to be used when they need it. And at
7 this point in time they aren't in need of it, so its
8 sitting side until that point when it brings it into
9 the ratemaking scheme.

10 They also have large amounts of prepaid CIAC that
11 fund their plant, so I don't really think that we took
12 issue with it because we looked at it and thought that
13 was a reasonable thing. It's not 11 percent debt.
14 Right off the bat I don't know what the cost of debt
15 is, but I think it's lower than debt you can get, prime
16 plus two or whatever, and that was the reason why staff
17 didn't take issue with it in that manner.

18 **COMMISSIONER DEASON:** Well, normally if you have a
19 company that has debt and they just pay the interest on
20 it and you don't have some type of an investment fund
21 or whatever, the interest cost is included in the
22 capital structure, and the accrued interest is part of
23 the working capital calculation which has the effect of
24 reducing working capital requirements. Because they
25 only have to pay the interest every three months and

1 customers are paying through their rates every month to
2 help cover that interest payment. So there is a
3 prepayment from the customer, so to speak, of the
4 interest requirement, so the accrued interest is an
5 offset to working capital. We are not getting that
6 benefit here because we have eliminated accrued
7 interest receivable and accrued interest payable and we
8 are not recognizing the income on the investment
9 account.

10 COMMISSION STAFF: The dollar amount of the
11 special deposits are \$3.5 million, and the accrued
12 interest is \$239,000. So that is the impact of -- if
13 you were to include that in, that's a significant rate
14 base impact of \$3.5 million.

15 COMMISSIONER DEASON: Well, I'm sure it is. And
16 my concern is that if that is necessary to provide
17 utility service, why we are not looking at, capturing
18 that. I guess the company didn't ask for it, for one
19 thing.

20 COMMISSION STAFF: Right.

21 COMMISSIONER DEASON: I'm not going to make an
22 issue out of it, I guess, in this case. It just
23 concerns me when we have this type of type of situation
24 that perhaps we need to look at the impact of these
25 investment accounts and what effect that they have. It

1 seems to me that if they are required, that it is part
2 of perhaps getting a lower debt cost, and that the
3 whole shooting match should be included in the
4 calculation of the rates. It seems to me we have got
5 one component, we have eliminated three, and what the
6 bottom line effect of that is, I don't know. But I'm
7 just raising that as a concern. And I guess I'm not
8 going to suggest that we change what we have here. For
9 one thing, apparently the company didn't even take
10 issue with it. But do we run into these situations
11 often or is this unique?

12 COMMISSION STAFF: I think this is very unique,
13 and normally we do include accrued interest, and it's
14 not even questioned except to the extent -- and a lot
15 of times we have the situation where we have accrued
16 interest that is really high, and it brings a negative
17 rate base -- I mean, a negative working capital
18 allowance, and that's quite common. But to have a
19 company that has such a large special deposit, and they
20 also have a large amount of debt that is off, you know,
21 off the regulatory side. I mean, we looked at it and
22 we thought that it appeared to be reasonable, and
23 that's why we didn't pursue that as an issue, and OPC
24 did not pursue it as an issue.

25 COMMISSIONER DEASON: What is the amount of the

1 accrued interest payable that we are not recognizing?

2 COMMISSION STAFF: \$239,000.

3 COMMISSIONER DEASON: Accrued interest payable.

4 Now, what is the accrued interest receivable?

5 COMMISSION STAFF: \$114. Excuse me, \$78,000.

6 COMMISSIONER DEASON: And what is the amount of
7 interest income for the year?

8 COMMISSION STAFF: Are you talking on the special
9 deposits?

10 COMMISSIONER DEASON: Yes.

11 COMMISSION STAFF: I don't believe we have that
12 information.

13 COMMISSION STAFF: \$4,000 is what OPC is
14 requesting that it be increased by.

15 COMMISSION STAFF: That interest income is, I
16 believe, just on the operating. We are actually --

17 COMMISSIONER DEASON: Are you saying they have a
18 3.5 investment in a fund and they get \$4,000 interest
19 on it?

20 COMMISSION STAFF: No, it's on the operating,
21 operating and other cash accounts. It's the only
22 interest income that OPC took issue with. Then any
23 interest on the --

24 COMMISSIONER DEASON: I'm talking about the
25 interest income, interest receivable on this special

1 fund that is required for their industrial revenue
2 bonds.

3 COMMISSION STAFF: It's not in the record.

4 COMMISSIONER DEASON: Oh, you don't have it?

5 COMMISSION STAFF: No, sir.

6 COMMISSIONER DEASON: Okay.

7 MR. WILLIS: Commissioner, the problem we have
8 here is we didn't take issue with it due to Public
9 Counsel.

10 COMMISSIONER DEASON: Okay.

11 COMMISSION STAFF: And, therefore, nobody did
12 discovery on it and there is nothing in the record to
13 give you that information.

14 COMMISSIONER DEASON: Well, the next time we have
15 one, let's get some discovery on it and see what the
16 impact is.

17 COMMISSIONER CLARK: Commissioner Deason, don't
18 you ever wish you had just said one-eighth --

19 COMMISSIONER DEASON: Then we wouldn't have all of
20 this theoretical discussion.

21 COMMISSIONER CLARK: You started this, as I
22 recall, with the balance sheet. Wasn't that your
23 recommendation?

24 COMMISSIONER DEASON: That's right. It's the
25 right thing to do. Issue 22.

1 COMMISSIONER CLARK: I just want to point out that
2 I had to defend the balance sheet in front of the court
3 one time.

4 COMMISSIONER DEASON: Did you win or lose?

5 COMMISSIONER CLARK: We won.

6 COMMISSIONER DEASON: Good.

7 COMMISSIONER CLARK: I have to ask on the working
8 capital, I recall that there was an issue on working
9 capital that in previous cases we have -- the staff has
10 recommended one thing and Commissioner Deason has taken
11 issue with that and dissented on what we have done. Is
12 that an issue here? I thought I remembered it coming
13 up in the hearing, but I couldn't identify it in the
14 issues.

15 COMMISSION STAFF: There was a negative working
16 capital according to Ms. Dismukes, and that is the
17 issue, I believe, that you are talking about where the
18 Commission in the past has put it at zero, and
19 Commissioner Deason --

20 COMMISSIONER CLARK: Right. Is that not an issue
21 here?

22 COMMISSION STAFF: No, ma'am, it's not.

23 COMMISSIONER CLARK: Okay. I just remember
24 hearing it at the hearing and thinking, oh, my
25 goodness.

1 **COMMISSION STAFF:** I'm sure Commissioner Deason
2 would have brought it up.

3 **COMMISSIONER DEASON:** I would have.

4 **COMMISSIONER CLARK:** Well, I just thought that the
5 Chairman might have had something she had to review.

6 **COMMISSIONER DEASON:** Actually, in all honesty, if
7 the case hadn't been here I would have brought it up
8 just to note it in the record. But since we are only a
9 two-member panel, I would not have voted to change the
10 policy in this case. But I realize what the policy is,
11 I just disagree with it.

12 **COMMISSIONER CLARK:** Could I just take a second?

13 **COMMISSIONER DEASON:** Sure.

14 (Pause.)

15 **COMMISSIONER CLARK:** I have forgotten where we
16 are.

17 **COMMISSIONER DEASON:** I think that unless you've
18 got some more questions on working capital, we can move
19 22 through 27, and Issue 33, realizing that 27 is a
20 fallout, and could be affected by our decisions on used
21 and useful.

22 **COMMISSIONER CLARK:** I will move staff on those
23 items.

24 **COMMISSIONER DEASON:** Okay. 22 through 27, and
25 Issue 33. Issue 28.

1 COMMISSIONER CLARK: I can move staff on Issue 28
2 and 29.

3 COMMISSIONER DEASON: Show staff approved on 28
4 and 29. Issue 30.

5 COMMISSIONER CLARK: I move staff on Issue 30.

6 COMMISSIONER DEASON: Show staff approved. 31.

7 COMMISSIONER CLARK: I move staff on Issue 31.

8 COMMISSIONER DEASON: Show staff approved.

9 COMMISSIONER CLARK: And 32.

10 COMMISSIONER DEASON: Show staff approved on 32.
11 We have already dealt with 33. Issue 34.

12 COMMISSIONER CLARK: I can move staff on Issue 34.

13 COMMISSIONER DEASON: Show staff approved. Issue
14 35.

15 COMMISSIONER CLARK: I move staff on Issue 35.

16 COMMISSIONER DEASON: Show staff approved. Issue
17 36.

18 COMMISSIONER CLARK: I guess I wanted to be clear
19 on what we were -- is the staff recommending that there
20 be an increase, that there be an allowance for an
21 increase in salaries in the test year?

22 COMMISSION STAFF: Yes, ma'am, for a 5 percent
23 increase.

24 COMMISSIONER CLARK: 5 percent. And that is
25 consistent with what appears to have been done in the

1 past, right?

2 COMMISSION STAFF: Yes, ma'am.

3 COMMISSIONER CLARK: I move staff on 36.

4 COMMISSIONER DEASON: Show staff approved on 36.
5 37.

6 COMMISSIONER CLARK: I move staff.

7 COMMISSIONER DEASON: Show staff approved. 38.

8 COMMISSION STAFF: Issue 38 is staff's
9 recommendation regarding the common maintenance
10 expenses associated with the building lease. We
11 recommend an adjustment to reduce the common
12 maintenance expenses that Gulf is paying to Caloose.

13 COMMISSIONER CLARK: Move staff.

14 COMMISSIONER DEASON: Show staff approved on 38.
15 39.

16 COMMISSIONER CLARK: Move staff.

17 COMMISSIONER DEASON: Show staff approved. Issue
18 40.

19 COMMISSIONER CLARK: Move staff.

20 COMMISSIONER DEASON: Show staff approved. 41.

21 COMMISSIONER CLARK: Move staff.

22 COMMISSIONER DEASON: Show staff approved. Issue
23 42.

24 COMMISSION STAFF: Issue 42 is our recommendation
25 that no charitable contributions are included in the

1 test year expenses. Therefore, there is nothing to
2 adjust.

3 COMMISSIONER CLARK: Move staff.

4 COMMISSIONER DEASON: Show staff approved. Issue
5 43.

6 COMMISSIONER CLARK: Move staff.

7 COMMISSIONER DEASON: Show staff approved. Issue
8 44.

9 COMMISSIONER CLARK: Move staff.

10 COMMISSIONER DEASON: Show staff approved. Issue
11 45.

12 COMMISSION STAFF: Issue 45 is staff's
13 recommendation relating to the San Carlos water line
14 project cost. The utility has abandoned this project
15 and we are recommending that it should be amortized,
16 the costs that are associated with that.

17 COMMISSIONER CLARK: I can move staff on Issue 45
18 and 46.

19 COMMISSIONER DEASON: Show staff approved on 45
20 and 46. Issue 47.

21 COMMISSION STAFF: Issue 47 is staff's
22 recommendation that staff Witness Welch agrees that
23 there was an error.

24 COMMISSIONER CLARK: I move staff.

25 COMMISSIONER DEASON: Show staff approved. Issue

1 48.

2 COMMISSIONER CLARK: Move staff.

3 COMMISSIONER DEASON: Show staff approved. Issue

4 49.

5 COMMISSIONER CLARK: Move staff.

6 COMMISSIONER DEASON: Show staff approved. Issue

7 50.

8 COMMISSIONER CLARK: Move staff.

9 COMMISSIONER DEASON: I need to take just a

10 moment, I may have had a question on that. What was

11 the effective date of the increase in depreciation

12 expense?

13 COMMISSION STAFF: I'm sorry, what would be the

14 effective date?

15 COMMISSIONER DEASON: Yes. Are we increasing a

16 rate or we just found that there was an error that

17 needs to be made to an increase --

18 COMMISSION STAFF: No, an error.

19 COMMISSIONER DEASON: Just an error, then.

20 COMMISSION STAFF: Yes, a cumulative error, so to

21 speak, and which there would need to be one adjustment

22 made.

23 COMMISSIONER DEASON: Okay. Show staff approved

24 on Issue 50. Issue 51.

25 COMMISSION STAFF: That will be a fallout, income

1 tax expense.

2 COMMISSIONER CLARK: Excuse me, 53?

3 COMMISSIONER DEASON: No, 51.

4 COMMISSIONER CLARK: I move staff on Issues 51,
5 52, and 53.

6 COMMISSIONER DEASON: Show staff approved to the
7 extent that there are any decisions which affect
8 fallout numbers they will be adjusted. Issue 54.

9 COMMISSIONER CLARK: Move staff.

10 COMMISSIONER DEASON: Show staff approved. Issue
11 55.

12 COMMISSIONER CLARK: Move staff.

13 COMMISSIONER DEASON: Show staff approved. 56.

14 COMMISSIONER CLARK: Move staff.

15 COMMISSIONER DEASON: Show staff approved. 57.

16 COMMISSIONER CLARK: Move staff.

17 COMMISSIONER DEASON: Show staff approved. Issue
18 58.

19 COMMISSIONER CLARK: Move staff.

20 COMMISSIONER DEASON: Show staff approved. 59.

21 COMMISSIONER CLARK: Move staff.

22 COMMISSIONER DEASON: Show staff approved. Issue
23 60.

24 COMMISSION STAFF: It's a fallout, too.

25 COMMISSIONER CLARK: Move staff.

1 COMMISSIONER DEASON: Show staff approved. 61.

2 COMMISSIONER CLARK: Move staff.

3 COMMISSIONER DEASON: Show staff approved. 62.

4 COMMISSIONER CLARK: Move staff.

5 COMMISSIONER DEASON: Show staff approved. 63.

6 COMMISSIONER CLARK: Move staff.

7 COMMISSIONER DEASON: Show staff approved. 64.

8 COMMISSIONER CLARK: Move staff.

9 COMMISSIONER DEASON: Show staff approved. I want
10 to compliment staff on what I thought was an
11 outstanding job done on a fairly complicated case,
12 despite my questions on working capital.

13 COMMISSIONER CLARK: Okay. Thank you, staff.

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, JANE FAUROT, Court Reporter, do hereby certify that the foregoing proceedings was transcribed from cassette tape, and the foregoing pages numbered 1 through 40 are a true and correct record of the proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor relative or employee of such attorney or counsel, or financially interested in the foregoing action.

DATED THIS 23 day of June, 1997.

Jane Faurot

JANE FAUROT, RPR
P.O. Box 10751
Tallahassee, Florida 32302
(904) 379-8669