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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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In re: Petition for Interim and
Permanent Rate Increase in
Franklin County, Florida by
ST. GEORGE ISLAND UTILITY
COMPANY, LTD.

DOCKET NO. 940109-WU
Filed: November 29, 1994

MOTION FOR RECONSIDERATION OF
ST. GEORGE ISLAND UTILITY CO., LTD.

Petitioner St. George Island Utility Company, Ltd., in accordance with Rule 25-22.060, Florida Administrative Code, files this Motion for Reconsideration of the Florida Public Service Commission's "Final Order Revising Rates and Charges" that was rendered on November 14, 1994. In support of the motion, SGIU states:

1. SGIU filed an application for approval of interim and permanent rate increases with the Commission on January 31, 1994. In accordance with a schedule set by the

Commission, the final hearing was conducted on July 20 and 21, and August 3, 9, and 10, 1994. After the hearing, SGIU and other parties provided issue statements, post-hearing memoranda of law and proposed orders. The Commission's staff, which participated in the hearing as a party, submitted a proposed order which the Commission reviewed at an agenda conference on October 7, 1994. The Final Order was rendered on November 14, 1994.

2. SGIU is adversely affected by provisions of the Commission's Final Order in that the order sets rates that SGIU can charge its customers that are less than needed to meet operating expenses and to provide a fair return on investment.

3. SGIU has not previously filed a motion for reconsideration regarding the final order.

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4. The Petitioner, St. George Island Utility Company, Ltd. will be referred to herein as "SGIU." The Florida Public Service Commission will be referred to as "the Commission." References to the transcript of the final hearing shall be designated "Tr." followed by the volume and page number. For example the opening of the hearing would be referenced "Tr. v.1, p.5." The Commission's Final Order Revising Rates and Charges, Order No. PSC-94-1383-FOF-WU, will be referred to as "Final Order" followed by the page number.

I.

**STANDARD TO BE APPLIED BY THE
COMMISSION IN CONSIDERATION OF
A MOTION FOR RECONSIDERATION.**

5. The Commission has held that the purpose of a motion for reconsideration is not to evaluate issues and arguments that it has already considered and addressed. In re: Joint Petition to Determine Need for Electric Power Plant to be Located in Okeechobee County, Docket No. 920520-EQ, Order No. PSC-92-1493-FOF-EQ (Fla. PSC 1992). In that proceeding, the Commission equated its role in considering motions for reconsideration to the role of an appellate court considering petitions for reconsideration under Rule 9.330 of the Florida Rules of Appellate Procedure. The Commission cited the following language from State v. Green, 106 So. 2d 817, 818 (Fla. 1st DCA 1958) with approval:

The sole and only purpose of a petition for rehearing is to call the attention of the court some fact, precedent or rule of law which the court has overlooked in rendering its decision. Judges are human and subject to the frailties of humans. It follows that there will be occasions when a fact, a controlling decision or a principal of law even though discussed in the brief or pointed out in oral argument will be inadvertently overlooked in rendering the judgment of the court. It is to meet these situations that the rules provide for

petitions for rehearing as an orderly means of directing the court's attention to its inadvertence.

* * * *

Certainly it is not the function of a petition for rehearing to facilitate a mechanism through which counsel may advise the court that they disagree with its conclusions, to reargue matters already discussed in briefs and oral argument and necessarily considered by the court, or to request the court to change its mind as to a matter which has already received the careful attention of the judges, or to further delay the termination of litigation.

Id. at pp. 2-3.

6. SGIU contends that the Commission has made numerous errors in its Final Order. SGIU contends that the positions SGIU has taken in its Proposed Findings of Fact, Position Statement and Post-Hearing Memorandum of Law are supported by the greater weight of the evidence and by the law. SGIU contends that the Commission's rulings contrary to SGIU's post hearing submittals are factually and legally erroneous. SGIU takes exception to the Commission's rulings that are contrary to SGIU's post hearing submittals. The purpose of this motion is not, however, to address these matters, except insofar as the Commission has overlooked controlling facts or legal principals or has made inadvertent mistakes regarding the facts or law.

7. SGIU contends that the Commission has made inadvertent mistakes or overlooked controlling facts or legal principals with regard to the following:

A. The Commission failed to credit to "Plant in Service" certain improvements that were developed from funds that SGIU received as contributions in aid of construction ("CIAC"). This resulted in an understatement of rate base, an

understatement of operating income, and an understatement of rates that SGIU is entitled to charge its customers.

- B. The Commission failed to credit engineering design fees to SGIU's rate base. This determination was based upon an erroneous conclusion that the record does not support a conclusion that these fees had not previously been recorded. There is competent substantial evidence in the record to support a conclusion that these fees were not recorded, and no evidence from which it could be concluded that they were recorded. This resulted in an understatement of rate base in the amount of \$21,000.00, and an understatement of rates that SGIU is entitled to charge its customers.
- C. The Commission failed to consider travel that employees of SGIU in Tallahassee actually make on behalf of the utility. This will work a hardship on these employees who are frequently required to travel in Tallahassee and between Tallahassee and St. George Island. The failure to recognize actual travel resulted in an understatement of operating expenses and an understatement of rates that SGIU is entitled to charge its customers.
- D. The Commission erroneously applied as comparable legal fees, legal fees that were authorized for a utility that is clearly not comparable to SGIU. There is clear evidence in the record regarding legal fees paid by a utility that can be regarded as comparable to SGIU. This resulted in an understatement of operating expenses and an understatement of rates that SGIU is entitled to charge its customers.

- E. The Commission erroneously received uncorroborated hearsay evidence into the record and based findings of fact upon uncorroborated hearsay. This violation of the Administrative Procedure Act resulted in SGIU not being able to cross-examine evidence used against it. This resulted in an understatement of SGIU's rate base and an understatement of rates that SGIU is entitled to charge its customers.

II.

ISSUES ON RECONSIDERATION

A.

Failure to Credit CIAC to Plant in Service

8. The Commission's final order contains three clear errors regarding calculation of rate base that result in an understatement of rate base and revenue requirements. These mistakes should be corrected on reconsideration. A summary of the calculations correcting these mistakes is shown on Attachment No. 1 to this Motion.

1. Duplication of Proforma CIAC Adjustment.

9. In its Final Order at p. 31, the Commission adjusts SGIU's 1992 average CIAC balance to an average 1993 level. The adjustment of \$263,148 was determined by increasing the 1992 average balance to a year-end balance, determining 1993 additions by subtracting the 1992 general ledger balance from the 1993 general ledger balance, and adding fifty percent of the 1993 additions to the adjusted 1992 year-end balance. The detail of the components of this adjustment are shown on Attachment No. 2 to this Motion.

10. A duplication of CIAC occurs because SGIU's 1992 average CIAC balance already included fifty percent of \$22,220 in CIAC that was received in 1993 and booked in 1993. See: Exhibit 1, MFR Schedule A-3, line 25 and Schedule A-12, column 8. The Commission added the other fifty percent of this 1993 CIAC receipt to the utility's 1992 average CIAC balance to arrive at the 1992 year-end balance, and the Commission then added the 1993 additions, which include the above payment, to its calculated 1992 year end balance. Therefore the \$22,220 CIAC payment has been included in both the 1992 and 1993 CIAC balances.

11. To correct this error, the Commission must remove the \$22,220 from its calculation of the 1992 year-end balance before adding the 1993 additions. It must perform the same exercise with regard to the associated accumulated amortization. Using the 43 year life for mains to amortize CIAC, the adjustment to amortization for one half year is \$258. To correct this error, rate base must be increased by \$21,962.

2. Property Contribution to CIAC Without Matching to Plant in Service.

12. The Commission's adjustment of SGIU's 1992 average CIAC to an average 1993 level has caused an additional understatement of rate base. Final Order at p. 31. The 1993 additions to CIAC included \$137,739 in contributed property composed of \$92,952 for Casa del Mar and \$44,787 for Billy Schultz. Fifty percent of this amount, or \$68,870 was included by the Commission in its adjustment to bring the 1992 test year up to the 1993 level. The adjustment to Plant in Service does not include this cost of contributed property. The result is that rate base is understated by \$68,068 (\$68,870 net of the associated one half year amortization of \$802).

3. Disallowance of State Park Lines Without Removal of Associated CIAC Received.

13. In its Final Order, pp. 11-26, the Commission revisits the determination of the original cost of the SGIU system as of 1988. At p.25, the Commission states:

The costs for the T&D system and its appurtenances within the state park are not included in this calculation.

SGIU's December 1987 ending CIAC balance for the test year in SGIU's prior rate case (Docket no. 871177-WU) includes \$27,873 received from the state park toward construction of lines within the state park. If, for whatever reason, the Commission disallows the cost of lines within the park, it must remove the \$27,873 CIAC received for these lines. Alternatively the cost of the lines should be included as part of SGIU's rate base.

B.

**Failure to Credit
Engineering Design Fees**

14. The Commission determined that \$21,000 in engineering design fees should be removed SGIU's rate base. The Commission supports its conclusion by stating that SGIU has not provided adequate support to establish ". . . that the fees were previously unrecorded." SGIU provided to the auditors who examined its books and records over a period of months every record that it has, including every record from which it could be determined that the engineering design fees were previously recorded.

15. All of the invoices from Coloney Company Consulting Engineers, Inc., for engineering services provided between March, 1988 and December, 1990, totaling \$21,814.24 were provided in SGIU's response to Audit Exceptions 9 and 14. All of the books from which it could be determined that these fees were previously recorded were also

provided. There is no evidence of any kind in the record to establish that the fees were previously recorded. There is ample evidence that they were not. See: Testimony of the witness Frank Seidman (Tr. v. 7, pp. 1001-05) and Exhibits 1 (Volume 1, p. 3) and 29 (Schedule 5, response to Audit Exceptions 9 and 14).

16. The Audit Responses were prepared and sponsored by Mr. Seidman, SGIU's consultant; Ms. Drawdy, SGIU's in house accountant; and Ms. Withers, SGIU's CPA; as well as Mr. Brown, SGIU's manager (Tr. v. 7, pp. 1005). How SGIU could go further to prove the negative that every other party in the case had an opportunity to rebut is a mystery. The Commission's auditors were able to find the fees as accounts payable but were not able to find them as expensed or capitalized items, a clear indication that the fees were not previously recorded. The Commission's removal of \$21,000 in engineering design fees from SGIU's rate base is clearly based upon a mistake and should be corrected on reconsideration.

C.

Failure to Recognize Travel of Tallahassee Employees

17. The Commission disallowed travel expenses that were paid by SGIU to administrative employees who are housed in Tallahassee. The Commission stated:

As for requested allowances for administrative staff, the utility did not provide any evidence to support the requested amounts. . . . We have, accordingly reduced transportation expenses by \$7800.00

Final Order, p. 44. This statement is clearly erroneous. There is ample evidence in the record to support SGIU's travel allowance for administrative employees. See: Testimony of witnesses Gene Brown (Tr. v. 3, pp. 302, 344-59, 367-68; v. 4, pp. 559-560; v. 5, pp. 593-

95, 614; v. 9, pp. 1321-23), Frank Seidman (Tr. v. 1, pp. 59-60; v. 7, pp. 965-68), and Sandra Chase (Tr. v. 7, pp. 895-98, 905-06). It is true that SGIU's administrative employees were not required to maintain travel records regarding their travel. It is not true, however, that there is no evidence to support the set travel allowance that SGIU provides its administrative employees. In fact, the evidence establishes that the set payment is based upon experience, is a conservative estimate of required travel, and is less than would be required as expense if SGIU purchased and maintained its own vehicle.

18. The Commission's determination to deny travel benefits to administrative employees serves only to punish the employees to the ultimate detriment of the operation of the utility and the customers of the utility. There is no Commission rule that requires that travel logs or other detailed travel records be maintained. To the extent that reducing travel benefits is designed to punish the utility for "bad management" because detailed travel records were not maintained, the Commission has already expressed its punishment by reducing management fees. See Final Order, pp. 47-50. It is utterly inappropriate to carry this punishment over to the detriment of the utility's employees.

19. The Commission's determination regarding travel for administrative employees is based upon a mistaken view of the facts regarding travel actually undertaken by these employees. The Commission should reconsider its denial of these expenses, approve them, and increase rates that SGIU is able to charge its customers based upon the adjustment.

D.

**Failure to Consider Legal Fees
Paid by Comparable Utility**

20. The Commission determined that SGIU's request for legal contractual services was not adequately supported. The Commission based a determination of appropriate legal contractual services on the testimony of a witness who admitted that she was not qualified to determine when it is necessary to secure legal services. See Testimony of witness Kim Dismukes (Tr. v. 5, pp. 732-33). Furthermore, the witness Dismukes admitted on cross-examination that the utility which she deemed "comparable" regarding legal fees served a built-out community, which is likely to need less legal assistance and attention than a developing community like St. George Island. Furthermore, the so-called comparable utility purchased its water from a larger utility and had no legal issues regarding the source of its water supply. Ms. Dismukes admitted that a utility that, like SGIU, serves a developing community and maintains its own water well sources had legal fees in the amount of \$11,289 during that utility's relevant test year, an amount strikingly similar to the \$12,000.00 being requested by SGIU. See: Testimony of witness Kim Dismukes, Tr. v. 5, pp. 733-740.

21. SGIU believes that the Commission should base appropriate contractual fees for legal services on the evidence provided by SGIU witness. See: Testimony of witnesses Gene Brown (Tr. v. 3, pp. 297-98; v. 4, pp. 478, 483-95, 521-28; v. 5, pp. 604-05; v. 9, pp. 1280-84) and Frank Seidman (Tr. v. 1, p. 58; v. 7, pp. 943-99). If, however, the Commission is going to base appropriate legal fees on an estimate of fees for a comparable utility, it should at least choose a utility that there is some reason to believe is comparable to SGIU. To do otherwise is a clear mistake of fact and law which should be corrected on

reconsideration. The Commission's allocation for legal fees should be increased to \$12,000.00.

E.

**Basing Findings of Fact on
Uncorroborated Hearsay Evidence**

22. In revising its prior determination regarding the original cost of the SGIU system as of 1988, the Commission relies upon so-called appraisals of the SGIU system conducted by Billy Bishop Engineering in 1978 and 1982. No witness who had anything to do with developing the appraisals was called. The documents are rank hearsay. They were placed in evidence, evaluated by the Commission and relied upon by the Commission in revising an original cost determination that the Commission had previously made. See: Docket No. 871177-WU, Order No. 21122 at p. 75.

23. The Commission in its Final Order has not used the appraisals to supplement or explain other evidence. It has instead used them as a basis for its determination to change its prior decision regarding original cost. Hearsay evidence can be received only for the purpose of supplementing or explaining other evidence. It is not sufficient in and of itself to support any finding of fact. Section 120.58(1)(a), Florida Statutes; Scott v. Department of Professional Regulation, 603 So. 2d 519 (Fla. 1st DCA 1977); Franklin v. District School Board of Hendry County, 356 So. 2d 931 (Fla. 2d DCA 1978).

24. The 1978 appraisal is attached to the prefiled testimony of the witness Dismukes. It was not part of the testimony of any witness who had any knowledge of the document. The 1982 appraisal was not part of the prefiled testimony of any witness. The documents were not presented through any witness who could authenticate them, verify their

accuracy, or be cross-examined with regard to them. Nonetheless, the Commission allowed introduction of the appraisals, but inexplicably denied SGIU the right to present evidence, including Exhibit 21 from the prior rate proceeding, that effectively rebut the hearsay. Because the appraisals are hearsay and not sponsored by any witness who could in any manner corroborate them, SGIU was utterly unable to conduct any cross-examination with regard to them. If SGIU had been able to cross examine witnesses who actually prepared the appraisals, the testimony would have revealed that the appraisals do not accurately state original cost of the SGIU plant at any point in time. See Attachment No. 3 to this Motion.

25. Because the Commission picked and chose elements from various appraisals and financial statements, the Commission's ultimate conclusions regarding SGIU's rate base clearly omitted elements that were included even in the hearsay appraisals. See Attachment No. 3 to this Motion.

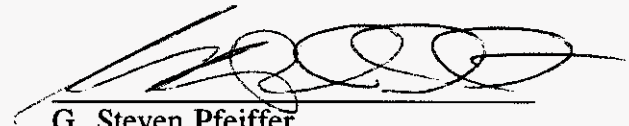
26. The 1978 appraisals clearly did not include all of the "soft costs" that are properly included as part of a utility's rate base under the NARUC standards that are applied by the Commission. See: Testimony of the witness Barbara Withers (Tr. v. 11, pp. 1573-1589). If the Commission had received evidence offered by SGIU, including Exhibit 21 from the prior case, it would be clear that the Bishop appraisals do not fully address soft costs. The United States Internal Revenue Service determined that when soft costs (costs that are properly capitalized to plant under NARUC standards) are included, the overall cost of SGIU's plant as of 1979 was between 1.5 and 2.2 million dollars, using the most conservative approach.

27. The Commission should not revisit the issue of original cost of SGIU as determined in the prior rate proceeding. If the issue is going to be revisited, however, and if the Commission is going to rely on hearsay evidence, it should at least recognize the defects in the evidence, and include as part of SGIU's rate base all of its plant investments, including the soft costs.

CONCLUSION

The Commission should grant reconsideration of its Final Order, revise SGIU's rate base and expenses in accordance with this Motion and revise SGIU's approved rates in accordance with revisions to rate base and expense.

Respectfully submitted this 29th day of November, 1994.



G. Steven Pfeiffer
Florida Bar No. 124400
APGAR, PELHAM, PFEIFFER
& THERIAQUE
909 East Park Avenue
Tallahassee, Florida 32301
Telephone: 904/222-5984

**Attorneys for St. George
Island Utility Company, Ltd.**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by United States mail to Robert Pierson and Suzanne Summerlin, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0863; to Harold McLean, Associate Public Counsel, Claude Pepper Building, Room 812, 111 West Madison Street, Tallahassee, Florida 32399-1400; and to Barbara Sanders, St. George Island Water and Sewer District, Post Office Box 157, Apalachicola, Florida 32320 this 24th day of November, 1994.



Attorney

ATTACHMENT NO.1
 St. George Island Utility Company, LTD
 Correction of Errors – Order No. PSC-94-1383-FOF-WU

CORRECTIONS TO RATE BASE	
1. Remove proforma CIAC adjustment to 1992 year end balance to correct duplication of CIAC. Remove associated CIAC amortization.	22,220 (258)
	21,962
2. Add 50% of 1993 contributed property to Plant in Service to match 1993 adjustment to CIAC. Add associated accumulated depreciation.	68,870 (801)
	68,069
3. Remove CIAC from state park associated with state park lines disallowed in original cost recalculation.	27,873
TOTAL CORRECTIONS TO RATE BASE	117,903

CORRECTIONS TO REVENUE REQUIREMENT	
Addition Rate Base	117,903
Allowed Rate of Return	7.35%
Additional Return	8,666
Additional Depreciation Expense, re #2 above	1,602
Additional CIAC Amort re #1 above	517
Additional Income	10,784
Divide by Regulatory Assess. Fee Factor	0.955
TOTAL CORRECTIONS TO REV. REQUIREMENT	11,292

ATTACHMENT NO. 2
 St. George Island Utility Company, LTD
 Detail of Components of PSC Adjustment of Utility's 1992 CIAC
 Average Balance to 1993 CIAC Average Balance

Line		Amount
1	Utility's Average 1992 Balance	999,852
	PSC Adjustments:	
2	Add 50% 1992 book additions	112,347
3	Add 50% proforma additions	11,110
5	PSC Adjusted 1992 yr end balance	1,123,309
6	12/31/93 G/L CIAC Balance	1,388,470
7	12/31/92 G/L CIAC Balance	1,101,089
8	1993 additions. per PSC	287,381
9	Average 1993 additions	143,691
10	PSC 1993 average balance [1.5 + 1.9]	1,267,000
11	Utility's Average 1992 Balance	999,852
12	PSC Adjustment per Order page 31	267,148

The Utility's average 1992 balance includes a proforma adjustment of \$11,110 which is 1993 CIAC included in line 6.

Line 5 is 1993 CIAC included in line 6.

Both of these amounts need to be removed from the adjusted 1992 year end balance on line 5 to eliminate duplication.

LES THOMAS CONSULTING ENGINEERS

4049 McLeod Dr.

Tallahassee, Florida 32303

Mr. Gene Brown
St. George Island Utility Co., Ltd.
3848 Killearn Court
Tallahassee, FL 32308

November 23, 1994

Re: Valuation of the Utility
St. George Island Utilities

Dear Mr. Brown:

In accordance with your request, we have reviewed the documents being used by the Florida Public Service Commission to establish an estimated incurred cost of the St. George Island water system, including the 1978 Bishop appraisal and the 1982 Bishop report. As you may be aware, I was formerly with William M. Bishop Consulting Engineers, Inc. during the time of the 1978 appraisal and the 1982 report. I was Vice President and Co-Director of Engineering during the 1982 report. The following presents our preliminary findings and recommendations:

General. Most engineering appraisals are intended to document to, or to assist in demonstrating or assuring to, a financial institution, the value of a facility at the time of appraisal. An engineering appraisal is typically not a summation of the actual expense incurred, but rather an estimation of the cost to replace the system at the time of appraisal or a designated point in time - either past or future. Accordingly, appraisals can vary greatly over time as they are influenced by the building market at the time of appraisal. Since an appraisal is normally used in either the financing or the buying/selling of a facility, engineers are usually quite conservative in their valuation. Accordingly, the documents being used by the PSC to establish the "cost" of the St. George Island Water System must be evaluated or "weighted" by their intended use. In other words, the "actual cost" incurred by the Utility is not necessarily the same as that presented in an appraisal. For example, if a utility were constructed during a "boom" period with high demand and high costs and thence it was appraised during a recession period, the actual cost could be considerably higher than the current value - similar to California real estate at this time; and conversely. A review of the Handy-Whitman Index confirms this situation. It does reflect a major economic depression in 1982 preceded and followed by "boom"/recovery periods.

The 1978 "Engineering Appraisal. - Water System of St. George Island Utilities." In my opinion, this appraisal does state a value within the range of the actual value/cost of the utility. The 1988 Wayne Colony appraisal is also within an acceptable range of value/cost of the utility. As stated in the Bishop report of 1982 (pg. 3), the appraisal could be less than the actual cost incurred as it states throughout the report that Leisure Properties, Ltd. had performed numerous elements of the work.

The "Evaluation of Alternative Financial Programs and Engineering Appraisal for the St. George Island Water System for the St. George Island Utility Company, Ltd. January, 1982." In my opinion, this document was created to develop and analyze alternative means for financing. As this report states on page 12, 3.1 Foreword, it is not an "engineering appraisal" per se. Accordingly, it should not be used as a basis for establishing the cost or actual value of the St. George Island utility system for PSC rate making purposes. Use of the unit line costs shown on Exhibit "A" of the 1982 report has the effect of distorting the value/cost of the system because they are significantly lower than the actual cost of installing the lines, including materials, labor, equipment, etc. The unit line prices on Exhibit "A" of the 1982 Bishop report are closer to the cost of the materials alone than to the overall cost of the installed lines.

Omissions. Review of the PSC order shows that several important elements of the St. George Island utility system have been omitted from the 1988 "original cost" set forth in the order. I am very familiar with the system, and I have made considerable inquiry as to the parts of the system that were in place in 1988. Based upon my reasonable investigation and inquiry, I have the following examples of parts of the system omitted from the PSC order:

1) The PSC order gives no credit for several parts of the main plant, including the exterior of the building, such as the wood siding, doors, windows, roof, walkways, etc. It does not include the enclosed storage facilities along the side and back, or the chlorination room, and the generator room which was added after 1978. The actual cost of the generator in 1985 was \$22,668, plus approximately \$4,300 for installation and wiring. These were included in the Wayne Coloney appraisal.

2) The lines within the state park are not included at all, even though the 1982 Bishop report referred to these as part of the system with a value of \$143,000. The utility obtained an easement from the State of Florida in December of 1978 to install, operate, and maintain the first phase of the system within the state park. In connection with this first phase, the utility received \$27,873 as a contribution in aid of construction.

3) Wells #1 and #2 are not the same. Well #1 had a 20 h.p. pump (not a 10 h.p.) and well #2 had a fifty h.p. pump. Well #2 has an 8" meter, check valve and entire 8" assembly, whereas well #1 has a 4" meter, check valve and assembly. Also, well #1 has a 6" main, not an 8" main like well #2. In other words, well #2 cost substantially more than well #1. There seems to be no credit for either pad, site work or well house, all of which should be included as part of the cost of each well.

4) There is no credit for the "Eastpoint tie-in" which is required by the agencies having jurisdiction over the utility. This includes a long run of 6" line and a long run of 8" line, as well as appurtenances.

5) The PSC order does not include all of the land owned by the utility, even to the extent of the land shown by the 1978 appraisal. An additional lot for storage, etc. was added after 1978 and prior to 1988 at a cost of \$20,000. This lot is now within the fenced area of the plant, along with the 6 lots of equal size which are included as part of the 1978 appraisal.

This list does not include all of the omissions. However, in my opinion,

it is clear that the PSC order does not include all of the cost of the St. George Island Utility system as of 1988. It picks out certain parts of the 1978 Bishop appraisal and the 1982 Bishop report, but leaves out important elements for the system as of 1988, which unduly distorts the actual cost of the system as of 1988.

In summary, I recommend that the estimated cost of the St. George Island water system be established using the 1978 Bishop appraisal and adding all the in-ground elements not included therein. This should yield a fair estimation of the cost/value of the system, which would be at least \$400,000 more than the original cost of 1,782,439 as of 1988 set forth in the PSC order no. PSC-94-1383-FOF-WU issued November 14, 1994. Also, we believe that this more realistic approach will be in close agreement with the PSC adjusted 1988 Coloney appraisal.

If you have any questions, please feel free to call.

Sincerely,

A handwritten signature in black ink, appearing to read "Les M. Thomas". The signature is fluid and cursive, with a large initial "L" and "M".

Les M. Thomas, P.E.
President