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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of GULF UTILITY) Docket No. 960329-WS
COMPANY for an increase in Wastewater)
Rates, approval of a decrease in Water) Filed: June 27, 1996
Rates and approval of Service)
Availability Charges in Lee County,)
Florida)

APPLICATION FOR WASTEWATER RATE INCREASE, APPROVAL OF A DECREASE
IN WATER RATES, AND APPROVAL OF SERVICE AVAILABILITY CHARGES

GULF UTILITY COMPANY ("Gulf") files this, its Application for authority to increase its wastewater rates, decrease its water rates, increase wastewater service availability charges, and decrease water service availability for service in Lee County, Florida and states:

1. Commission Order No. PSC-96-0501-FOF-WS, issued on April 11, 1996 in Docket No. 960234-WS combined that Docket with this Docket No. 960329-WS.

2. Applicant operates as a water and wastewater utility under the Commission's jurisdiction in Lee County, Florida.

3. (a) Gulf Utility Company is the exact name of the Applicant, the address of its principal place of business, and where the application is available for customer inspection during the time the rate application is pending is:

Gulf Utility Company
19910 S. Tamiami Trail
Estero, Florida 33928

Applicant is a corporation incorporated in the State of Florida on November 10, 1982.

(b) The name and address of all persons who own five percent or more of the Applicant's stock are:

DOCUMENT NUMBER DATE
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REGISTRATION REPORTING

Russell B. Newton, Jr.
111 Riverside Avenue, Suite 140
Jacksonville, Florida 32201-2898

James W. Moore
19910 S. Tamiami Trail
Lester, Florida 33928

(C)The person authorized to receive notices and communications with respect to this Application is:

B. Kenneth Gatlin, Esq.
Gatlin, Woods & Carlson
The Mahan Station
1709-D Mahan Drive
Tallahassee, Florida 32308
(904) 877-7191

4. The detail showing the necessity of the proposed increase in wastewater rates and the proposed decrease in water rates is set forth in the accompanying document entitled "Financial, Rate and Engineering Minimum Filing Requirements of Gulf Utility Company For The Test Year Ended December 31, 1996, Docket No. 960329-WS" (MFRs). The detail supporting the proposed service availability charges are set forth in the accompanying document entitled: "Gulf Utility Company, Application for Change in Water and Wastewater Plant Capacity Charges".

5. This Application is filed pursuant to Section 367.081, 367.082, and 367.101, Florida Statutes. The Applicant proposes to include in its water and wastewater rate base the cost of investment made in the public interest pursuant to Section 367.081(2), Florida Statutes, which investment is required pursuant to agency regulation and directive.

6. The numbers of the Commission orders which previously considered the Applicant's rates for the systems involved are set forth in the introduction to the MFR's, filed herewith.

7. An affidavit signed by an officer of the utility that states that the utility will comply with Rule 25-22.0407, F.A.C., is filed herewith.

8. A copy of the additional engineering information required pursuant to Section 25-30.440, F.A.C., is submitted herewith.

9. By this Application, the Applicant seeks to have its rate base determined on a 13-month average test year ending December 31, 1996. The detail of the costs are set forth in the MFRs.

10. By this application Gulf is requesting the following:

1. An interim rate increase in wastewater of \$300,000 and a permanent rate reduction in water of \$155,935, both effective as of the same date.
2. A permanent rate increase in wastewater of \$366,340.
3. An increase in wastewater capacity fees from \$550 to \$800/ERC and a reduction in water capacity fees from \$800 to \$550/ERC.

11. The basic reason for this Application is to allow rates that will produce sufficient revenues to insure Gulf's financial integrity, so that it will be able to attract capital sufficient to ensure Gulf's ability to meet its obligation of service as a utility.

12. (A) In Gulf's service area, growth has been 5-6-7% per year and Gulf expects that level of growth in the near future. To meet this growth, Gulf constructed a second wastewater treatment plant in 1989 and expanded it in 1991 and 1995 with a third expansion to be completed in 1997. In the water operation it developed a second supply in 1990, expanded it in 1994 and is expanding it again in 1996. Coupled with this expansion was the building of a new and looping water transmission main, as well as a force main and lift stations in the wastewater operation.

(B) Gulf raised in 1988 \$726,800 in equity capital and raised debt capital of \$10 million by issuing Industrial Development Revenue Bonds (IDRB's), with any surplus net required for construction, from the IDRB's temporarily invested in government securities. By the end of 1995, this source of funds was totally vested in utility plant. Now, Gulf will once again turn to outside sources for additional capital.

(C) There was uncertainty during this period as to whether a \$2.5 million deep well would have to be constructed in conjunction with the 1996 expansion of the water supply, which would result in water rates being increased instead of decreased. Gulf petitioned and was granted in May 1996 by the Florida Department of Environmental Protection (FDEP) an expanded permit to mix the water and wastewater effluent for spraying on golf courses, thus eliminating the need for the deep well at this time.

13. Gulf requests to the Commission is that the reduction in water rates be made concurrently with the requested interim rate for wastewater. Gulf believes its program of concurrently increasing wastewater rates and decreasing water rates is well balanced and permits it to continue to meet the needs of its certificated area in the most economical and efficient manner.

14. It is appropriate to have interim rate relief for wastewater prior to or concurrent with any reduction in water rates for three reasons: First, Gulf will be able to maintain its cash flow necessary to fund its operations and a level of earnings that will support the financing of capital budgets. Second, Gulf's plans are to lower the cost of providing service by refunding the outstanding IDR's. It would also free for Gulf's use the approximately \$1,000,000 currently held as additional collateral in the General Debt Service Reserve Account for the bondholders. Third, bondholders and investors look at the entire company's earnings when making their investment decisions and do not analyze water and sewer operations separately. Lowering water rates without raising wastewater rates at the same time will impair Gulf's ability to attract debt and/or equity that will be necessary in future periods to meet customer service requirements.

15. Operating under the present rates Gulf has not achieved a consistent level of earnings. Gulf should be allowed to achieve and sustain earnings that approximate its allowed rate of return, so that it will be able to attract capital at a reasonable cost.

The cost of supporting growth should not be at the expense of current shareholders.

16. (A) Gulf's capital expenditures from 1996 to 2000 are shown in the following table and will, in total, exceed \$9 million.

1996	\$3,823,722
1997	1,947,500
1998	518,000
1999	35,500
2000	<u>3,000,000</u>
	\$9,324,722

(B) To meet the projected service demands in Gulf's certificated service area and attendant regulatory requirements, construction has begun on a .800 mgd expansion of the Corkscrew Water Plant, which will be completed in December, 1996, and the expansion of the Three Oaks Wastewater Treatment Plant. Completion dates and estimated cost are:

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

(C) Another major project will be the construction in 1996 of both water and wastewater lines to Florida Gulf Coast University (FGCU), at an engineer's cost estimate of \$1,143,000. FGCU is now under construction and will be taking service in 1996, opening to students in August 1997.

(D) In 1996 Gulf will construct an effluent line to dispose of reject water from the Corkscrew WTP, a low pressure membrane treatment facility. This line will also be used to dispose of treated effluent from the Gulf's Three Oaks Wastewater

Treatment Plant. Currently the two effluent streams are mixed and spray irrigated on golf courses in Gulf's service area. The FDEP has just recently approved Gulf's application to expand the quantities of effluent for disposal in this fashion. However, there is little doubt that an injection well will be required at some time in the future. This will be in all likelihood at the time the plant is next expanded. The cost of this deep injection well is estimated to be \$2,500,000 in 1996.

17. Gulf does not request that this Application be processed using the proposed agency action procedure outlined in Section 367.081(a), F.S., but requests that this application be directly set for hearing.

WHEREFORE, Gulf Utility Company requests that the Commission:

1. Take jurisdiction over this application;
2. Grant interim rates for water and wastewater based on the historic year ended December 31, 1995;
3. Grant permanent rates for both water and wastewater based on the test year ending December 31, 1996;
4. That the Commission approve and allow Applicant to place into effect interim rates which will produce revenues for water in the amount of \$1,982,871 and revenues for wastewater in the amount of \$1,431,111 based on the historic base year ending December 31, 1995 which reflects a decrease in water rates and an increase in wastewater rates;

5. Approve and allow Gulf to place into effect on a permanent basis wastewater rates which will produce revenue in the amount of \$1,671,070 and water rates which will produce revenue in the amount of \$2,139,422 based on the test year at December 31, 1996;

6. That the Commission find that a fair and reasonable rate of return on Gulf's water and wastewater rate base for the test year ending December 30, 1996 be 9.25%;

7. That the Commission grant an increase in wastewater capacity fees from \$550 to \$800/ERC and a reduction in water capacity fees from \$800 to \$550/ERC;

8. That the Commission grant such other relief as may be appropriate.

DATED this 27th day of June.

Respectfully submitted,



B. KENNETH GATLIN
Fla. Bar #0027966
Gatlin, Woods & Carlson
1709-D Mahan Drive
Tallahassee, Florida 32308
(904) 877-7191

Attorneys for
GULF UTILITY COMPANY

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by U.S. Mail to Mr. John Albion, Chairman of the Board of County Commissioners of Lee County, 2120 Main Street, Ft. Myers, Florida 33901, and to Mr. Jack Shreve, Public Counsel, Auditor General Bldg., 111 W. Madison Street, Room 801, Tallahassee, Florida 32399-1400, on this 27th day of June.

By this notice, the Chairman of the Board of County Commissioners is hereby informed that a copy of the Minimum Filing Requirements (MFRs) when accepted by the Commission can be obtained from Applicant upon request.



B. KENNETH GATLIN