

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of : DOCKET NO. 960329-WS

Application for increase :
in rates and service :
availability charges in :
Lee County by Gulf :
Utility Company :

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

FIRST DAY - AFTERNOON SESSION

VOLUME 2

Pages 204 through 332

PROCEEDINGS: HEARING

BEFORE: COMMISSIONER J. TERRY DEASON
COMMISSIONER SUSAN F. CLARK

DATE: Wednesday, March 5, 1997

TIME: Commenced at 10:00 a.m.

PLACE: Elks club of Bonita Springs
3231 Coconut Road
Bonita Springs, Florida

REPORTED BY: ROWENA NASH
H. RUTHE POTAMI, CSR, RPR
Official Commission Reporters

APPEARANCES:

(As heretofore noted.)

DOCUMENT NUMBER-DATE

02842 MAR 1997
FLORIDA PUBLIC SERVICE COMMISSION

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P R O C E E D I N G S

(Hearing reconvened at 1:15 p.m.)

(Transcript continues in sequence from
Volume 1.)

COMMISSIONER DEASON: Call the hearing back
to order. Mr. Gatlin.

MR. GATLIN: Mr. Chairman, attached to
Mr. Cardey's testimony is his resume, and I'd like
that to be identified as Page 34 of his testimony and
included in the insertion of the record.

COMMISSIONER DEASON: Would it be simpler
just to identify that as an exhibit?

MR. GATLIN: Be glad to.

COMMISSIONER DEASON: That's basically his
resume; is that correct?

MR. GATLIN: Right.

COMMISSIONER DEASON: Okay. We'll identify
that as Exhibit 12, and that is attached to the
prefiled testimony; and without objection Exhibit 12
will be admitted into the record.

(Exhibit 12 marked for identification and
received in evidence.)

COMMISSIONER DEASON: You may call your next
witness, Mr. Gatlin.

MR. GATLIN: Mr. Nixon.

1 **MS. O'SULLIVAN:** Wouldn't Ms. Andrews be the
2 next on the list?

3 **COMMISSIONER DEASON:** Ms. Andrews is
4 scheduled in the prehearing order.

5 **MR. GATLIN:** That's right.

6 - - - - -

7 **CAROLYN B. ANDREWS**

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

11 **DIRECT EXAMINATION**

12 **BY MR. GATLIN:**

13 **Q** Would you please state your name and
14 address?

15 **A** Carolyn Andrews, 19910 South Tamiami Trail,
16 Estero, Florida, 33912. Excuse me; 33928.

17 **Q** Have you been sworn?

18 **A** Yes, I have.

19 **Q** Have you prepared testimony for presentation
20 in this case?

21 **A** Yes, I have.

22 **Q** Consisting of five pages?

23 **A** Correct.

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

1 **A** Yes.

2 **MR. GATLIN:** May we have this testimony
3 inserted into the record as though read?

4 **COMMISSIONER DEASON:** Without objection, it
5 will be so inserted.

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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

9		<u>Water</u>	<u>Wastewater</u>
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.

1 **MR. GATLIN:** Mr. Chairman, I passed these
2 out today and handed them to the court reporter.

3 **COMMISSIONER DEASON:** Do you wish to have
4 these identified, Mr. Gatlin?

5 **MR. GATLIN:** I do. The first one would be
6 on Keith Cardey's letterhead, and the second is on
7 Gulf Utility Company and its engineering fees.

8 **COMMISSIONER DEASON:** Okay. The series of
9 pages which -- the first page consisting of -- it
10 appears to be an invoice with Keith R. Cardey
11 letterhead, that will be identified as Exhibit 13, and
12 the other set of documents with Gulf Utility Company's
13 name and logo at the top will be identified as
14 Exhibit No. 14.

15 (Exhibit 13 marked for identification.)

16 (Exhibit 14 marked for identification.)

17 **Q** **(By Mr. Gatlin)** Did you prepare or have
18 prepared under your direction Exhibits 13 and 14?

19 **A** Yes, I did.

20 **Q** Would you explain what Exhibit 13 shows?
21 That's the one from Mr. Cardey.

22 **A** Mr. Cardey; okay. When Staff auditors
23 performed the audit involved in this rate case, they
24 selected a *sample of invoices to audit, and one of the*
25 *selections was Mr. Cardey's invoice. This related to*

1 the overearnings docket which was from 1995. This was
2 \$6,183.50, which was a bill from Mr. Cardey regarding
3 this.

4 Staff has said that they are interested in
5 including all of the overearnings rate case costs in
6 addition to the rate case cost for this particular
7 docket.

8 Q And that's what Exhibit 13 shows?

9 A Exhibit 13 includes all the cost. Since
10 they only chose one of the invoices and not all of the
11 invoices, I wanted to present all of the invoices
12 that --

13 Q Exhibit 14 is --

14 A That refers to the audit disclosure Number
15 12.

16 Q And what does that exhibit show?

17 A Well, the first invoice is from Mr. Cardey.
18 This is the one which was audited. The following
19 invoices are from Gatlin, Woods and Carlson and they
20 were also a part of --

21 Q Wait a minute. Which exhibit are you
22 looking at now?

23 A The one you were just talking about.

24 Q Exhibit 14?

25 A Oh, I'm sorry.

1 Q The one that says Engineering Fees on the
2 front of it.

3 A Okay.

4 Q What does that show?

5 A Okay. When Staff also was completing the
6 audit, they were examining engineering bills, and I
7 believe it was just a *simple keypunch error when they*
8 *were entering this information. But in disclosure*
9 *Number 11 in the audit report on Page 34 they have the*
10 *two invoices listed with a total for water of*
11 *\$1,029.36, and for wastewater of \$310.00, which they*
12 *say should be -- should not -- to be expensed -- not*
13 *to have been expensed, but should have been added to*
14 *construction work in progress.*

15 We have written on the invoices the actual
16 coding of these, and if you notice Invoice No. 463,
17 which is dated August the 7th, which is the first one
18 is for \$100.00.

19 Q And what's the purpose of this?

20 A This was an updated estimate for the
21 university, and this was expensed, as you can see, by
22 the account numbers, and it did go to the contractual
23 services, engineering, administrative and general; but
24 this is the only one that was really related. I think
25 that they just needed these broken out for them.

1 Q Back to Exhibit 13 for just a moment.
2 You're presenting this for the bills related to the
3 overearnings investigation; is that correct?

4 A Correct.

5 Q Thank you.

6 MR. GATLIN: Ms. Andrews is ready for any
7 questions.

8 COMMISSIONER DEASON: Mr. Riley.

9 MS. O'SULLIVAN: Commissioner Deason, we've
10 just received a copy of this earlier today. I didn't
11 realize what it was until Mr. Gatlin just said. We
12 may need some time to look at this. This is the first
13 time we've received a copy of this that I'm aware of.
14 I need to check with Staff. We may have an objection
15 to it.

16 COMMISSIONER DEASON: Well, it's just been
17 identified at this point. Are you indicating that you
18 may need additional time, if these exhibits are
19 admitted, to conduct cross-examination?

20 MS. O'SULLIVAN: We may.

21 COMMISSIONER DEASON: Let me make an
22 inquiry. Is Ms. Andrews going to be presenting
23 rebuttal testimony?

24 MR. GATLIN: Yes, she is.

25 COMMISSIONER DEASON: Perhaps when she takes

1 the stand for rebuttal, if it's necessary to do cross
2 on these exhibits, we can do that at that time.

3 MS. O'SULLIVAN: That's acceptable. Thank
4 you.

5 MR. REILLY: I've had an exhibit handed out,
6 and I was hoping I could get a number.

7 COMMISSIONER DEASON: Yes. This exhibit
8 will be identified as Exhibit 15.

9 MR. REILLY: And it is short titled
10 "Response to OPC Document Request No. 38, Time Sheets
11 for Ms. Andrews."

12 (Exhibit 15 marked for identification.)

13 **CROSS EXAMINATION**

14 **BY MR. REILLY:**

15 Q Ms. Andrews, do you work for both the
16 Utility and Caloosa Group?

17 A That's correct.

18 Q And Caloosa Group is an affiliate of the
19 Utility; is that correct?

20 A I don't think it's classified exactly as an
21 affiliate. They have the common owners, yes. Maybe
22 that is an affiliate in your context.

23 Q And the employees of the Utility are the
24 sole employees of Caloosa Group?

25 A No. There are employees with the Utility

1 who are not employees with Caloosa Group.

2 Q But the only employees of the Caloosa Group
3 are also employees of the Utility?

4 A Correct.

5 Q Okay. I've arranged to be handed to you
6 this Exhibit No. 15, and is it not true that this has
7 provided all of the timesheets, and that in this
8 response to our OPC Request 38 that you supplied all
9 the timesheets and that this is just a select portion
10 of your response to OPC Request No. 38 --

11 MR. GATLIN: Thirty --

12 Q (By Mr. Reilly) Yes, 38.

13 A I believe that to be correct. It's just a
14 sampling of them; appears to be.

15 Q In our document request we requested that
16 the Utility provide for the years 1995 and '96 to date
17 any time records of employees of the Utility that work
18 for both the Utility and Caloosa; is that correct?

19 A That is correct.

20 Q And that request can be seen on the first
21 page not including the cover sheet?

22 A (Witness nodding head.)

23 Q If you could just take a look at the time
24 sheets in general, I have a few questions I'd like to
25 ask you. I notice that all of these timesheets show

1 that you work 40 hours a week; is that correct?

2 A That's correct.

3 Q And would your other timesheets, the ones
4 not included in the sample I have given you, show that
5 you work the 40 hours per week?

6 A It may not show that I worked. We may have
7 had holidays, I may have been on vacation; but yes, I
8 am a salaried employee of Gulf Utility Company.

9 Q And the time records in this exhibit do not
10 show how much time you spend working for the Caloosa
11 Group; is that correct?

12 A That is correct.

13 Q And would you agree with me that the rest of
14 the timesheets provided in response to OPC's Document
15 Request No. 38 do not distinguish the time that you
16 spend working for the Utility versus Caloosa Group?

17 A That's correct.

18 Q Is this true for all employees that work for
19 both Caloosa and the Utility? In other words, they
20 also do not keep separate records of time they devote
21 to the Utility operations versus Caloosa?

22 A I believe that's correct.

23 Q And looking at your timesheets, does the 40
24 hours per week that you show here include time that
25 you spend doing work for Caloosa Group?

1 A I can't say exactly. You know, it varies
2 from week to week as to what we have to accomplish for
3 Caloosa Group. We do very little, as you know, for
4 them. I am on salary for Caloosa Group. My hours
5 vary from week to week. I work a lot of overtime, but
6 I can't tell you exactly.

7 Q Ms. Andrews, what is the Company's customer
8 deposit policy?

9 A The deposit policy?

10 Q Uh-huh.

11 A Well, we have in our tariffs a \$35.00 water
12 deposit. We have a \$45.00 wastewater deposit. This
13 would be for a residential customer. And then in the
14 tariffs for various size meters we have deposits
15 outlined --

16 Q So the large -- excuse me. Go ahead.

17 A If there were, for instance, a 1-inch meter,
18 it would be obviously higher than a 5/8th by 3/4 inch
19 deposit.

20 Q Do you know offhand -- you indicated the
21 water and wastewater charge, or deposit for
22 residential. For some of the commercial customers
23 what type of deposit do you collect, given the
24 different size meters?

25 A I'm sorry?

1 Q Turn to Page 127 of the MFRs. Okay. That's
2 just showing gross dollar amounts.

3 A I do have our tariffs with me, but -- are
4 you looking for a particular --

5 Q Well, I just wanted to get a feeling for how
6 they increase as the meter sizes increase. And while
7 I'm on that subject, a large customer like the
8 university, would you collect a customer deposit for
9 each meter that's set on the university per building
10 depending on the size of that meter?

11 A When you have a large customer as the
12 university, that would be negotiated probably in the
13 contract, and -- because they are going to be a large
14 volume user. And it's possible that they will be
15 using more than a normal customer would be using, and
16 the deposit, you know, would -- it may be waived or it
17 may be different from the tariff. The deposit is
18 supposed to be two months' usage, and that's the way
19 it's supposed to be based, I believe, by Staff.

20 Q Now, referring to this Schedule D-7 on Page
21 127, this shows the total dollar amounts of deposits
22 collected by the Utility for the projected test year,
23 or projected to be collected. And there's some actual
24 numbers in here, apparently.

25 A Yes.

1 Q And my question is, are the customer
2 deposits for or associated with the Florida Gulf Coast
3 University reflected in these numbers?

4 A No, they are not.

5 Q But in the MFRs don't you have the plant in
6 rate base?

7 A Correct.

8 Q But you don't reflect in the MFRs any
9 customer deposits collected?

10 A No. I believe those deposits were waived.
11 Mr. Moore could answer that better than I can, because
12 he's more familiar with the contract. He's more
13 familiar with the contract. He would be the best
14 person to ask.

15 Q Okay. We'll do that.

16 COMMISSIONER DEASON: Ms. Andrews, could you
17 get just a little bit closer to your microphone?

18 WITNESS ANDREWS: I know I'm very soft
19 spoken and I have a sore throat, so I have to
20 apologize.

21 COMMISSIONER DEASON: Okay. Thank you.

22 Q (By Mr. Reilly) Final question: If the
23 deposits had not been waived, would you have expected
24 them to be reflected in these numbers?

25 A Yes.

1 Q Okay.

2 MR. REILLY: No further questions.

3 COMMISSIONER DEASON: Staff.

4 CROSS EXAMINATION

5 BY MS. O'SULLIVAN:

6 Q Just a few questions, Ms. Andrews.

7 Referring to the Gulf Coast University, would you
8 agree that the Utility was paid approximately \$419,000
9 for reservation of capacity by the university?

10 A I'll look at my schedule. If you look on
11 Page 43 of the MFRs, under column 3 you'll see that
12 for water there was \$146,400, and for wastewater there
13 was 220 -- excuse me \$114,950 which was collected.

14 Q Was that credited into the Utility's prepaid
15 CIAC account?

16 A That is correct.

17 Q And that amount is still presently in that
18 account?

19 A No, it is not. It was transferred in
20 December when they received service.

21 Q And it was transferred to?

22 A CIAC.

23 Q Turning to Schedule E-13, which begins on
24 Page 151, the growth projections which are contained
25 in column 5 and column 6, would you explain how the

1 Utility calculated the growth projections for each
2 separate class of service generally?

3 A Okay. Those numbers were just backed into.
4 That's the difference between those two columns.
5 That's what it came out to be.

6 Q And you have a different projection factor
7 for each separate class of service; is that correct?

8 A That is correct.

9 Q Did the Utility use past experience and past
10 numbers to come up with those projection factors;
11 right?

12 A Mr. Cardey, I think, covered that in his
13 testimony as to how he developed the projected number
14 of customers and what their usage would be.

15 Q As to projection factors for the university,
16 did you take part in putting those together, or did
17 Mr. Cardey?

18 A No. Mr. Cardey did.

19 MS. O'SULLIVAN: Thank you. We have no
20 further questions.

21 COMMISSIONER DEASON: Redirect.

22 MR. GATLIN: No redirect. And I'll move
23 admission of those exhibits at the late time after
24 Staff has a chance to look at them.

25 COMMISSIONER DEASON: I'll let you move

1 those after Ms. Andrews takes the stand on rebuttal
2 and whether there were any questions concerning those
3 exhibits. Then we'll take up their admission.

4 Mr. Riley?

5 MR. REILLY: I'd like to move 15.

6 COMMISSIONER DEASON: Without objection,
7 Exhibit 15 will be admitted.

8 (Exhibit 15 received in evidence.)

9 COMMISSIONER DEASON: Thank you,
10 Ms. Andrews.

11 (Witness Andrews excused.)

12 - - - - -

13 COMMISSIONER DEASON: Mr. Gatlin.

14 MR. GATLIN: Call Mr. Nixon.

15 - - - - -

16 ROBERT C. NIXON

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

20 DIRECT EXAMINATION

21 BY MR. GATLIN:

22 Q Would you please state your name and
23 address.

24 A Robert C. Nixon. Address is 2560 Gulf to
25 Bay Boulevard, Suite 200, Clearwater, Florida.

1 Q Have you been sworn?

2 A Yes, I have.

3 Q Have you prepared testimony for presentation
4 in this proceeding consisting of six pages including
5 your resume?

6 A Yes.

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

9 A Yes.

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

12 COMMISSIONER DEASON: Without objection, it
13 will be inserted.

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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.

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>1</u>	<u>Name of Company</u>	<u>Order No.</u>	<u>Date</u>
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 Q (By Mr. Gatlin) I believe your testimony,
2 isn't it correct, Mr. Nixon, applies to certain
3 sections of the MFR?

4 A That's correct.

5 MR. GATLIN: He's available for questions.

6 COMMISSIONER DEASON: Mr. Riley.

7 MR. REILLY: We're going to pass out a few
8 exhibits, and I would ask for them to be numbered for
9 identification purposes.

10 COMMISSIONER DEASON: Very well.

11 MR. REILLY: The first one is short titled
12 Excerpts from Commission Digest of Commission
13 Regulatory Philosophies, which we have identified as
14 RCN-1.

15 COMMISSIONER DEASON: That will be
16 Exhibit 16.

17 (Exhibit 16 marked for identification.)

18 MR. REILLY: And the second one is short
19 titled Excerpts from Staff Recommendation, Jasmine
20 Lakes, Docket No. 920148-WS.

21 COMMISSIONER DEASON: 17.

22 MR. REILLY: Yes. And I think this is not
23 getting to be such a short title. And also Commission
24 Order No. PSC-931675-FOF-WS.

25 MR. REILLY: And that's number 17?

1 **COMMISSIONER DEASON:** Yes, 17.

2 (Exhibit 17 marked for identification.)

3 **CROSS EXAMINATION**

4 **BY MR. REILLY:**

5 **Q** Okay. Mr. Nixon, am I correct that Gulf
6 Utility is a subchapter S corporation?

7 **A** No, you're not.

8 **Q** I'm not correct?

9 **A** No.

10 **Q** I'm going hand you -- perhaps it's just a
11 poor copy and we were misled -- but is that a copy of
12 a tax return, 1995? It appears to say "S Corporation
13 Income Tax Return," but I don't -- it's blocked out.

14 **A** I think you're misled, because there was a
15 punched hole at the top of the schedule. The way you
16 can tell this is a regular tax return is that it's
17 form 1120 and not 1120S.

18 **Q** Which is what it would be. Okay. Thanks.

19 **A** Right. I mean Gulf has had authority to
20 gross-up CIAC, and its tax status is well established.

21 **Q** Very good. Just one second, please.

22 (Pause) Your answer was so excellent it has destroyed
23 an entire line of questioning, and I have it on good
24 advice that this second line of questioning has been
25 adequately covered. So it is with great regret that I

1 hand the microphone over to another.

2 **WITNESS NIXON:** I'm sorry to hear that.

3 **MS. O'SULLIVAN:** Another who has no
4 questions for you. Staff has no questions.

5 **COMMISSIONER DEASON:** Redirect?

6 **MR. GATLIN:** No redirect.

7 (Witness Nixon excused.)

8 - - - - -

9 **COMMISSIONER DEASON:** Exhibits.

10 **MR. GATLIN:** His exhibit had been identified
11 as Exhibit 1 by Mr. Cardey, Mr. Cardey's Exhibit 1,
12 and was admitted then. Mr. Nixon refers to that
13 exhibit some in his testimony.

14 **COMMISSIONER DEASON:** But the exhibit itself
15 has already been admitted?

16 **MR. GATLIN:** Yes, it is.

17 **COMMISSIONER DEASON:** Very well. Mr. Riley,
18 you have two exhibits that have been --

19 **MR. REILLY:** Yeah. I would like to, with
20 the indulgence of the Commission, just to withdraw
21 those proposed exhibits and preserve those numbers for
22 more worthy candidates.

23 **COMMISSIONER DEASON:** Well, we're just going
24 to show 16 and 17 --

25 **MR. REILLY:** Withdrawn?

1 **A** Yes, I did.

2 **MR. REILLY:** This is the portion where we're
3 going to ask him for any corrections or changes, and
4 before he identifies a few changes and corrections, I
5 did want to dispose of the matter of the testimony we
6 had agreed to strike; and I said we would identify
7 that at this point in the hearing.

8 **Q** **(By Mr. Reilly)** So I would direct your
9 attention -- and I believe this is the testimony that
10 relates to the issue of I&I, inflow and infiltration,
11 and I believe that begins on Page 12, Line 7.

12 **A** Yes, that's correct.

13 **Q** And then goes to Page 14 through Line 15.

14 **A** That is correct; yes.

15 **Q** And is it in light of the understanding at
16 the prehearing conference that you are withdrawing
17 that testimony at this time?

18 **A** That is correct; yes.

19 **Q** Now --

20 **MR. GATLIN:** Mr. Riley, would you repeat
21 that?

22 **MR. REILLY:** Okay. This is the testimony
23 that begins --

24 **MR. GATLIN:** Page 12?

25 **MR. REILLY:** On Page 12, Line 7. It just

1 takes out the entire I&I discussion and ends Page 14,
2 Line 15, or through 15.

3 MR. GATLIN: All of that is out, correct?

4 MR. REILLY: That's correct.

5 Q (By Mr. Reilly) And in addition to that,
6 would you make any other corrections or amendments
7 that you would like to make at this time with your
8 prefiled direct testimony?

9 A Yes. We have two schedules that we revised.

10 MR. GATLIN: Mr. Chairman, I believe that
11 Mr. Riley will ultimately offer those as exhibits to
12 the record, and we will have no objection to them as
13 long as we can respond to them in our rebuttal
14 testimony.

15 MR. REILLY: And we have no objection to
16 that. The subject matter of the first exhibit relates
17 to this whole issue of fire flow, which after he filed
18 his testimony, as you know, there was Staff testimony,
19 then there was a follow-up additional testimony on
20 fire flow, and then they had some rebuttal testimony
21 that's been received very, very recently.

22 So we had testimony in his direct that said
23 we were reviewing all this and we were gathering all
24 this information but we would finalize his adjustment
25 on fire flow, and this is what he intends to do with

1 this amendment on his Exhibit TLB-2.

2 And then the second one, I'll let him
3 explain it and the reasons for it. The Company, in
4 its rebuttal testimony, gave as its reason for the
5 need for certain equipment not being put in plant and
6 held for future use was that the plant was needed for
7 Class 1 reliability.

8 Upon reviewing the rebuttal testimony,
9 Mr. Bidy is inclined to make an adjustment, in this
10 case an adjustment which helps the Utility, to allow
11 some of that plant not to be put into plant held for
12 future use; and that's the purpose of Exhibit TLB-3.4,
13 which we have the copies here to -- we'll go ahead and
14 distribute them now so people can see them.

15 **MR. GATLIN:** Mr. Chairman, I'm very
16 concerned about Mr. Riley trying to help us.
17 (Laughter)

18 **COMMISSIONER DEASON:** It's kind of a change,
19 isn't it, Mr. Gatlin?

20 **MR. REILLY:** That's my representation of
21 what we're doing in TLB-3.4. And these are the two --
22 well, one is an amended schedule. TLB-2 is an amended
23 TLB-2, and the TLB-3.4 is a new schedule addressing
24 this issue of Class 1 reliability. With that little
25 preface, I'll yield to the witness to explain his new

1 testimony.

2 **WITNESS BIDDY:** All right. The revised
3 TLB-2 under "finished water storage" was revised for a
4 different fire flow which we received after filing
5 direct testimony from fire officials; I believe
6 Mr. Beard. It also has two minor typos on Line 14 and
7 Line 18 that were changed.

8 Schedule -- or Exhibit TLB-3.4 is our
9 computation of Class 1 reliability allowance for the
10 Three Oaks wastewater treatment plant, giving the
11 regulatory requirement percentages for portions of the
12 old plant and computing the amount of the total plant
13 that should still be held for future use.

14 **Q** (By Mr. Reilly) Okay. Are there any other
15 changes or amendments you would like to make to your
16 prefiled direct testimony other than those that you've
17 just outlined?

18 **A** No, there's not.

19 **Q** If I were to ask you the same questions
20 posed in your prefiled direct testimony, would your
21 answers be the same as outlined in that testimony as
22 they have been amended today?

23 **A** Yes, they would be.

24 **Q** In your prefiled testimony, you also sponsor
25 and refer to Exhibits TLB-1, 2, 2.1, 2.2, 3, 3.1, 3.2,

1 3.3, and most recently 3.4. Is that correct?

2 A That is correct.

3 Q Do you continue to endorse and sponsor those
4 exhibits?

5 A Yes, I do.

6 MR. REILLY: At this point I would move
7 Mr. Biddy's prefiled direct testimony to be inserted
8 into the record as though read, and that his exhibits.
9 I've just enumerated be identified as a composite exhibit.

10 COMMISSIONER DEASON: The prefiled testimony
11 will be inserted in the record as though read, and
12 the -- let me make sure that I'm clear. You want the
13 additional Exhibit 3.4 included with the prefiled
14 exhibits as --

15 MR. RILEY: Just all part of his composite
16 exhibits.

17 COMMISSIONER DEASON: And the revised TLB-2,
18 Page 1 of one --

19 MR. REILLY: Would be in substitution for
20 the one that was before.

21 COMMISSIONER DEASON: That, then, will be
22 Composite Exhibit 18. That would be all of the
23 prefiled exhibits plus Exhibit 3.4 as well as updated
24 TLB-2, Page 1 of one.

25 (Exhibit 18 marked for identification.)

1 **Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?**

2 A. My name is Ted L. Bidby. My business address is Baskerville-Donovan, Inc.
3 (BDI), 2804 Remington Green Circle, Tallahassee, Florida 32308.

4 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?**

5 A. I am Vice-President of Baskerville-Donovan, Inc. and Regional Manager of the
6 Tallahassee Office.

7 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND WORK
8 EXPERIENCE?**

9 A. I graduated from the Georgia Institute of Technology with a B.S. degree in Civil
10 Engineering in 1963. I am a registered professional engineer and land surveyor in
11 Florida, Georgia, Mississippi and several other states. Before joining BDI in 1991,
12 I had operated my own civil engineering firm for 21 years. My areas of expertise
13 include civil engineering, structural engineering, sanitary engineering, soils and
14 foundation engineering and precise surveying. During my career, I have designed
15 and supervised the master planning, design and construction of thousands of
16 residential, commercial and industrial properties. My work has included: water
17 and wastewater design; roadway design; parking lot design; stormwater facilities
18 design; structural design; land surveys; and environmental permitting.

19 I have served as principal and chief designer for numerous utility projects.
20 Among my major water and wastewater facilities designs have been a 2,000 acre
21 development in Lake County, FL; a 1,200 acre development in Ocean Springs, MS;
22 a 4 mile water distribution system for Talquin Electric Cooperative, Inc. and a 320

1 lot subdivision in Leon County, FL.

2 **Q. WHAT ARE YOUR PROFESSIONAL AFFILIATIONS?**

3 A. I am a member of the Florida Engineering Society, National Society of Professional
4 Engineers, and Florida Society of Professional Land Surveyors.

5 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE A STATE OR FEDERAL
6 COURT AS AN ENGINEERING EXPERT WITNESS?**

7 A. Yes, I have had numerous court appearances as an expert witness for cases
8 involving roadways, utilities, drainage, stormwater, water and wastewater facilities
9 designs.

10 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC
11 SERVICE COMMISSION (PSC OR COMMISSION) FOR USED AND
12 USEFUL ANALYSIS AND OTHER ENGINEERING ISSUES?**

13 A. Yes, I have testified before the PSC for Docket Nos. 950495-WS, 950378-WU and
14 951056-WS on engineering issues and used and useful analysis.

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

16 A. The purpose of my testimony is to provide the used and useful analysis for
17 engineering issues and comment on Gulf Utility Company's (GUC or Utility)
18 minimum filing requirements (MFRs). A summary of my used and useful
19 methodology is included as Exhibit TLB-1.

20 **Q. DID YOU PREPARE OR SUPERVISE PREPARATION OF THE EXHIBITS
21 THAT YOU ARE SPONSORING FOR THIS PROCEEDING?**

22 A. Yes, I did.

1 **Q. DO YOU AGREE THAT USED AND USEFUL CALCULATIONS SHOULD**
2 **INCLUDE A MARGIN RESERVE?**

3 **A. No, I do not think the margin reserve requested by GUC in its used and useful**
4 **calculations is appropriate. While it may be appropriate for a utility to have reserve**
5 **capacity to accommodate demands placed upon the system because of growth, it is**
6 **not appropriate to make current customers pay for this reserve capacity in a margin**
7 **reserve. It is more appropriate to collect these costs from the cost causers, namely**
8 **the future customers. Funds to support prudently constructed reserve capacity**
9 **should be collected from future customers in the form of contribution-in-aid-of-**
10 **construction (CIAC), paid by customers upon connection, or prepaid, in the form**
11 **of plant capacity charges, connection charges for distribution and collection mains,**
12 **advances for construction collected from developers and distribution and collection**
13 **lines contributed by developers.**

14 **Even the carrying charges for plant which is not needed to serve current**
15 **customers may be paid for by the utility receiving guaranteed revenues from future**
16 **customers. The Commission also permits utilities to collect an allowance for funds**
17 **prudently invested (AFPI) which also reimburses the utility for the carrying charges**
18 **for non-used and useful plant. Collection of these contributions and prepaid fees**
19 **from future customers should render a margin reserve allowance, paid by current**
20 **customers, to be unnecessary. GUC is an excellent example because developers**
21 **are required to contribute costs for water and wastewater mains construction. That**
22 **is the reason why GUC has a better financial ability to respond to future growth.**

1 Under Florida's tightening environmental regulations, increasing water costs
2 and water conservation concern, it is reasonable to believe that the water
3 consumption and wastewater generation of existing customers will not increase.
4 Therefore, the margin reserve requested by the Utility is solely for new customers.
5 If PSC allows margin reserve in the used and useful calculations, then it will
6 penalize existing customers by burdening them to pay extra cost for new customers.
7 Allowing margin reserve will further increase water and wastewater rates for the
8 existing customers. High utility rates (electric, water and wastewater) reduce
9 customers' financial ability to obtain utility services and that will hinder future
10 development in the service areas. Therefore, the Commission should eliminate
11 margin reserve allowance in the used and useful calculations. The Utility should
12 recover the costs of plant additions and main extensions through other measures
13 from new customers or developers. No margin reserve is included in the used and
14 useful analysis that I sponsor.

15 **Q. DO YOU HAVE ANY COMMENTS ON THE ONE MILLION-GALLON**
16 **REJECT HOLDING TANK FOR CORKSCREW WATER TREATMENT**
17 **PLANT (WTP)?**

18 **A.** Based on my field visit on December 4, 1996, this facility has not been constructed.
19 Therefore, the associated costs should be eliminated from the rate base. Capital
20 investment of the proposed concentrate holding tank is \$700,000 as shown in
21 Schedule A-1, Page 3 of 3, Line 24. Rate base should also not include the
22 engineering, legal, and administrative costs of this facility, which are \$150,000

1 according to Citizen's Interrogatory No. 3.

2 **Q. DO YOU HAVE ANY COMMENTS ON THE OLD THREE OAKS**
3 **WASTEWATER TREATMENT PLANT (WWTP)?**

4 A. Currently the old Three Oaks WWTP is off line since the new 0.75 MGD plant is
5 in service. GUC plans to use these old treatment tanks to equalize flow surges as
6 the plant is expanded in the future. Therefore, I recommend transferring the
7 associated costs of old treatment facilities into the account of plant held for future
8 use. Receipt of information from pending discovery will permit us to quantify this
9 adjustment.

10 **Q. SHOULD THERE BE ANY ADJUSTMENTS ON THE CHLORINE**
11 **CONTACT CHAMBERS OF THREE OAKS WWTP?**

12 A. Yes. There are two chlorine contact chambers in place at Three Oaks WWTP.
13 However, only one chamber is used for chlorination purpose and it is adequate for
14 the existing plant capacity of 0.75 MGD. The other chamber is currently held for
15 future use. Therefore, I recommend the same treatment on the second chlorine
16 contact chamber, namely, that its cost be transferred to plant held for future use.
17 Again, receipt of pending discovery will permit us to quantify this adjustment.

18 **Q. SHOULD THE RATE BASE INCLUDE THE INVESTMENT FOR WATER**
19 **AND WASTEWATER LINES TO SERVE THE FLORIDA GULF COAST**
20 **UNIVERSITY?**

21 A. No. From my field inspection, I realize that the Florida Gulf Coast University will
22 not be in service until the summer of 1997. Since it is outside the test year 1996,

1 rate base should not include any of the associated costs to serve the new university.
2 The associated costs are \$1,160,207.75 according to Staff's Interrogatory No. 16.
3 The projected demands of water and wastewater service for the university should
4 be excluded from the used and useful calculation also.

5 While from mid 1997 forward these water and wastewater lines will be used
6 mainly by the new university, it is inappropriate to conclude that these water mains
7 and wastewater lines are 100% used and useful. Ultimately these lines will serve
8 demands on campus as well as private developments off campus because massive
9 development around the new university will occur as the campus grows. Without
10 knowing the ultimate build out design, no reliable used and useful analysis can be
11 performed for these water mains and wastewater lines.

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

15 **A.** Fire flow capacity should be included in the used and useful calculation only if fire
16 flow provision is confirmed by sufficient records or supporting documents. GUC
17 did not provide this information with its original MFRs filing. The Office of Public
18 Counsel (OPC) has requested the Utility to prove the fire flow provision through
19 fire flow test records. The discovery is currently pending.

20 The delivery of a required fire flow is dictated by many components in a
21 water distribution system, including high service pumps, distribution storage tanks,
22 water mains, etc. Because of economic concerns, for many systems fire flows are

1 provided partially by high service pumps and partially by elevated storage. It is not
2 cost effective to use source of supply and treatment plant to meet instantaneous
3 demands, such as peak hourly flows and fire flows. For this reason, I did not
4 included fire flow in my used and useful calculations for source of supply or water
5 treatment plant.

6 GUC currently has a total of 2.6 million gallons of storage which seems
7 adequate for the fire flow requirement and peak hour demands. Therefore, I have
8 included fire flow in the used and useful calculations for finished water storage.
9 See attached Exhibit TLB-2 for details. However, I am waiting for the requested
10 fire flow test information to further confirm the fire flow provision. Revisions to
11 my used and useful calculations will be submitted if the actual fire flow test records
12 reveal inadequate fire flow delivery.

13 **Q. DO YOU HAVE ANY COMMENTS ABOUT THE LEVEL OF**
14 **UNACCOUNTED FOR WATER PRESENTED BY GUC IN THE MFRS?**

15 A. To encourage efficiency, PSC should allow no more than 10% unaccounted for
16 water. GUC projected a 5.81% unaccounted for water in the Schedule F-1 of the
17 MFRs which is less than 10%. Therefore, I recommend no adjustment to the
18 unaccounted for water. However, adjustments may be necessary if the future
19 discovery suggests high levels of unaccounted for water.

20 **Q. DO YOU HAVE ANY COMMENTS ON THE USED AND USEFUL**
21 **CALCULATIONS PREPARED BY THE UTILITY FOR WATER SUPPLY**
22 **WELLS?**

1 A. GUC did not perform a complete used and useful analysis for the water supply
2 wells. The Utility's analysis was only based upon "activation or inactivation" for
3 its used and useful determination, which neglects potential excess capacities of
4 supply wells. The used and useful analysis should consider the capacity of each
5 well and treatment demands. When calculating treatment demands for the
6 Corkscrew Water Treatment Plant (WTP), an additional 15% of demand from the
7 raw water supply should be considered for reject concentrate.

8 Customarily a water utility will use a "firm reliable capacity" in calculating
9 the used and useful percentages for water supply wells. The firm reliable capacity
10 excludes the largest well capacity by assuming it to be out of service. When there
11 are more than ten wells, the largest two wells are assumed to be out of service. The
12 combined capacity of the remaining supply wells is the "firm reliable capacity."

13 However, when storage or high service pumping facilities are available, the
14 "firm reliable capacity" method is not applicable. According to Section 3.2.1.1
15 Source capacity of *Recommended Standards For Water Works*:

16 "The total developed groundwater source capacity shall equal or exceed the
17 design maximum day demand and equal or exceed the design average day
18 demand with the largest producing well out of service."

19 This design criteria should be used to calculate used and useful percentage for
20 supply wells. For the above reason, the "firm reliable capacity" method should not
21 be applied to supply wells where the water system is also equipped with storage and
22 high service pumping facilities. GUC also has a one million-gallon booster station

1 along the US Highway 41 to supply demands from the customers. The used and
2 useful calculations in Exhibit TLB-2 have made proper adjustments according to
3 the above principles.

4 **Q. DO YOU HAVE ANY COMMENTS REGARDING THE USED AND**
5 **USEFUL CALCULATIONS OF THE FINISHED WATER STORAGE?**

6 A. The Utility did not prepare a used and useful analysis for the finished water storage
7 because it was granted 100% used and useful in Docket No. 900718-WU. In that
8 rate proceeding, PSC staff used one day of combined plant capacity for peak
9 demands plus fire protection to calculate the used and useful percentage. However,
10 I believe a half (50%) of the average daily flow (ADF) is adequate for equalization
11 and emergency storage. This allowance is more than adequate for equalization
12 (peak hour demand) storage, compared with the 20 to 25% ADF mentioned in the
13 AWWA M32. The excess storage can be used as a provision for emergency
14 storage. The one day ADF storage criteria used in "10 States Standards" was
15 reduced to one half day because MDF design is used for supply wells and treatment
16 plant. With this provision for excess storage, I do not believe it is justified to add
17 more allowance for emergency storage.

18 No "dead storage" or "retention storage" is included in my used and useful
19 calculations because design engineers could have raised the storage tanks two feet
20 above the high service pumps or vis versa. Then the full volume of a storage tank
21 can be utilized. In addition, when designing storage tanks and high service pumps,
22 engineers have to check the available net positive suction head (NPSH) and ensure

1 that the available head is greater than the net required positive suction head to avoid
2 cavitation problems. Therefore, high service pumps should be placed at a low grade
3 to obtain the maximum NPSH. Full storage tank capacity was applied in my used
4 and useful calculations, per Exhibit TLB-2.

5 **Q. DO YOU AGREE WITH THE 100% USED AND USEFUL REQUEST FOR**
6 **FACILITY LANDS?**

7 A. No, PSC should not automatically grant GUC 100% used and useful on facility
8 lands without complete analysis. Every system has different sizes of facilities and
9 lands. The current demands and available facilities are also unique between
10 systems. These factors all dictate the facility usage. Therefore, a used and useful
11 assessment is necessary for every facility land because all facility lands are part of
12 the system. Facility lands are designed and used to serve the whole system,
13 including new and existing customers. It is unfair to burden existing customers for
14 the whole facility land cost needed to serve total build out.

15 San Carlos WTP is built out in its facility site based on my filed inspection.
16 According to GUC operation manager's explanation, San Carlos wastewater
17 treatment plant (WWTP) can not be expanded because of the Class I reliability
18 requirement and inadequate open space. However, facility land adjustments should
19 be made to Corkscrew WTP and Three Oaks WWTP because there is ample space
20 to expand for the ultimate design capacities of 3.0 MGD and 5.0 MGD respectively.

21 After reviewing the site plans provided in Citizens Production of
22 Documents No. 46, I made proper adjustments my used and useful calculations in

1 Exhibits TLB-2 and TLB-3.

2 **Q. DO YOU HAVE ANY COMMENTS ON THE USED AND USEFUL**
3 **PERCENTAGES FOR THE WATER TRANSMISSION AND**
4 **DISTRIBUTION SYSTEMS REQUESTED BY THE UTILITY?**

5 A. The Utility did not furnish used and useful calculations for its water transmission
6 and distribution systems because all developers are required to contribute on-site
7 facilities to GUC. Therefore the water distribution system is considered 100% used
8 and useful.

9 To assess the Utility's rationale, I compare the CIAC amount in Schedule
10 A-1 and transmission and distribution plant accounts in Schedule A-5. It shows
11 that CIAC is greater than the plant in service amount of transmission and
12 distribution plant. Therefore, no used and useful analysis is necessary for the water
13 transmission and distribution systems unless future discovery reveals a different
14 scenario. However, this does not suggest that the water transmission mains are
15 actually 100% used and useful.

16 **Q. DO YOU HAVE ANY COMMENTS REGARDING THE USED AND**
17 **USEFUL PERCENTAGES REQUESTED FOR THE WASTEWATER**
18 **COLLECTION SYSTEM BY THE UTILITY?**

19 A. Again, the Utility claims 100% used and useful for the wastewater collection
20 system because the extension policy requires all developers to contribute on-site
21 facilities. Therefore the wastewater collection system is considered 100% used and
22 useful.

1 To assess the Utility's rationale, I compare the CIAC amount in Schedule
2 A-2 and collection plant accounts in Schedule A-6. It shows that CIAC is greater
3 than the plant in service amount of collection plant. Therefore, no used and useful
4 analysis is necessary for the wastewater collection system unless future discovery
5 reveals a different scenario. However, this does not suggest that the wastewater
6 collection system is actually 100% used and useful.

7 **Q. SHOULD THE ENGINEERING SCHEDULE F-2(S) GALLONS OF**
8 **WASTEWATER TREATED INCLUDE EXCESS INFLOW AND**
9 **INFILTRATION?**

10 **A. No. For used and useful analysis, the amount of wastewater treated should not**
11 **include any excessive inflow and infiltration. Engineering Schedule F-2(S) filed**
12 **by the Utility does not distinguish excess inflow and infiltration from its treated**
13 **wastewater. The inflow/infiltration (I&I) information should be presented in**
14 **Schedule F-2, though it is not required by the MFKs. Excess I&I should be**
15 **deducted from the treated wastewater after considering a proper allowance.**

16 There are many guidelines and criteria that exist for considering an inflow
17 and infiltration allowance on gravity sewers. In the *Recommended Standards for*
18 *Wastewater Facilities*, 200 gallons per inch of pipe diameter per mile per day
19 (gpd/in pipe/mi) is the recommended guideline and that criteria is generally used
20 by the Florida Department of Environmental Protection (FDEP) staff.

21 In the Environmental Protection Agency (EPA) handbook: *Sewer System*

1 *Infrastructure Analysis and Rehabilitation*, it states "No further I/I analysis will be
2 necessary if domestic wastewater plus non-excessive infiltration does not exceed
3 120 gallons per capita per day (gpcd) during periods of high groundwater. The total
4 daily flow during a storm should not exceed 275 gpcd, and there should be no
5 operational problems, such as surcharges, bypasses or poor treatment performance
6 resulting from hydraulic overloading of the treatment works during storm events.
7 The flow rate of 120 gpcd for infiltration analysis contains two flow components:
8 80 gpcd of domestic base flow and 40 gpcd of non-excessive infiltration."

9 *Water Pollution Control Federation (WPCF) Manual No. 9* also suggests
10 a high infiltration allowance. On page 31, the *Manual No. 9* mentions "For small
11 to medium sized sewers it is common to allow 30,000 gpd/mile for the total length
12 of main sewers, laterals, and house connections, without regard to sewer size."
13 However, on Page 131 it states "Infiltration specification are generally in the range
14 of 250 to 500 gpd/in. diam/mile."

15 I recommend 200 gpd/in. pipe/mile allowance for non-excessive I&I
16 because EPA and WPCF guidelines are too liberal. GUC could have an infiltration
17 allowance as high as 0.56 MGD (4,003 ERCs X 3.5 cap/ERC X 40 gpcd) under the
18 EPA guideline, without even considering an allowance for inflow. An allowance
19 of such a magnitude is even bigger than the combined annual average daily flow of
20 Three Oaks and San Carlos WWTPs. Ratepayers should not be expected to pay for
21 such a huge infiltration allowance.

1 EPA guidelines are normally used on grant applications for constructing
2 municipal wastewater systems. Private utilities do not have government funding,
3 so the Commission should not apply such a lax guideline in the used and useful
4 calculation for regulated utilities. Private utilities have to achieve higher standards
5 to provide rates which are comparable to municipal WWTPs.

6 In addition, when engineers fill out the DEP permit application, the
7 maximum allowable leakage rate is normally specified as approximately 10 gpd/in.
8 pipe/ mile. Therefore, I believe 200 gpd/ in. pipe/ mile allowance is adequate for
9 both inflow and infiltration, especially now that PVC pipes with compression joints
10 (rubber gasket) are widely used. They are much better than clay pipes in preventing
11 excessive inflow and infiltration.

12 OPC is requesting more information to confirm the existence of excess
13 inflow and infiltration, if any, in the wastewater collection system. Future
14 adjustments may be necessary pending receipt of information from outstanding
15 discovery.

16 **Q. DID YOU PREPARE ANY USED AND USEFUL CALCULATIONS IN THIS**
17 **TESTIMONY?**

18 **A.** Yes, I have calculated the used and useful percentages for all water and wastewater
19 systems, according to my positions on the above issues. However, some
20 information was not provided by GUC, and I had to make certain assumptions in
21 the calculations. For example, fire flow provision was included without
22 confirmation. All numbers filed by GUC were used, and assumed to be genuine

1 and correct. A summary which explains the rationale behind my various used and
2 useful calculations can be found in Exhibit TLB-1.

3 However, these used and useful numbers are subject to change pending
4 further responses to discovery. The calculated used and useful percentages of water
5 and wastewater systems are presented in Exhibit TLB-2 and Exhibit TLB-3,
6 respectively. Exhibit TLB-2.1 is a summary of the historic water customers and
7 1996 projection in ERCs. Exhibit TLB-2.2 is a summary of fire flow test records
8 and the allowance determination. Exhibit TLB-3.1 is a summary of the treated
9 wastewater flow and water sold to sewer customers in 1995. Calculation of the
10 inflow and infiltration allowance is presented in Exhibit TLB-3.2. Historic sewer
11 customers of 1992 to 1995 are presented in Exhibit TLB-3.3, as well as projected
12 1996 sewer customers.

13 **Q. DOES THIS CONCLUDE YOUR PREFILED TESTIMONY?**

14 **A Yes, that concludes my testimony filed on December 20, 1996.**

1 MR. REILLY: Okay. Thank you. We tender
2 Mr. Biddy for cross-examination.

3 COMMISSIONER DEASON: Mr. Gatlin.

4 CROSS EXAMINATION

5 BY MR. GATLIN:

6 Q Mr. Biddy, your experience in the utility
7 business has been primarily with governmental
8 utilities, has it not?

9 A The majority of it, yes, but not primarily.

10 Q You've done -- excuse me.

11 A I've done a number of private utilities.

12 Q Well, you've done 29 governmental agencies,
13 haven't you?

14 A I believe you're referring to the deposition
15 where I told you that my company represents 29 local
16 governments --

17 Q Is that --

18 A -- in the Panhandle just at the present
19 time.

20 Q Do you consider used and useful an issue of
21 economics?

22 A Yes.

23 Q Not an engineering issue?

24 A Well, it's based on engineering criteria,
25 but it boils down to a matter of economics, yes.

1 MR. REILLY: Okay. Thank you. We tender
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15 where I told you that my company represents 29 local
16 governments --

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19 time.

20 Q Do you consider used and useful an issue of
21 economics?

22 A Yes.

23 Q Not an engineering issue?

24 A Well, it's based on engineering criteria,
25 but it boils down to a matter of economics, yes.

1 Q In fact, you listed each of them separately
2 when you said what your experience was.

3 A That's true.

4 Q Municipal governments or county governments
5 finance their systems mainly by grants or loans from
6 federal governments and state agencies, don't they?

7 A That's correct, yes.

8 Q Have you ever been involved with an
9 investor-owned utility in raising debt or equity
10 capital?

11 A No, I have not.

12 Q The used and useful concept is not a part of
13 setting rates for governmental utilities, is it?

14 A No, it is not.

15 Q Would you agree that the present customers
16 have benefited from the margin reserve?

17 A No, I would not, Mr. Gatlin. It's our
18 position, my position, and that of the Office of
19 Public Counsel that future customers should pay for
20 any capacity over the present required capacity for a
21 system. I know that the Commission has allowed margin
22 reserve in the past. The present customers paying
23 that are paying for future capacity.

24 Q If it's correct that it's the way you
25 describe it, assuming that, didn't these present

1 customers -- weren't they future customers at one
2 time?

3 A Yes, they were.

4 Q And fortunately the Utility had the capacity
5 to serve them when they came on line?

6 A Well, they have to.

7 Q Right. They had that obligation to do it.

8 A They have to, yes.

9 Q And how about not only new customers, but
10 change of usage by present customers; that has to have
11 a margin reserve, doesn't it?

12 A Well, you're talking about engineering
13 design now, that you don't design for just the --

14 Q Absolutely.

15 A -- absolute minimum.

16 Q Right. I --

17 A That is correct; you do not design, because
18 it would be -- it's not good engineering practice.
19 You do have to have additional capacity to serve
20 additional customers.

21 However, the way you collect the money from
22 those is the whole issue here, and that's a matter of
23 the -- whether or not a margin reserve is allowed or
24 whether or not you collect it through other means.

25 Q Well, let's take this high school up here.

1 They have about 1,200 customers -- 1,200 students
2 now -- before, several years ago. Now they've gone to
3 over 2,500. Under your theory, we could not serve
4 those extra customers, could we?

5 A Not at all. If an engineer had done his
6 proper studies to determine that the high school was
7 going to grow to that level, he would have recommended
8 that the plants be designed for those kinds of
9 capacities. Hopefully, he would have talked the
10 school board into reserving that capacity through
11 CIACs or some other means.

12 Q What you're saying is that the Utility ought
13 to front all money for the imagine reserve?

14 A That's our position, yes.

15 Q If your recommendations were adopted by the
16 Commission, what effect would it have on the
17 guidelines related to the level of contribution? 75%
18 rule, I think it's referred to.

19 A What effect would it have on those
20 guidelines?

21 Q Yes. Do you know whether it would exceed it
22 or be lower, or what?

23 A You know, I haven't made a calculation. I
24 guess it would vary depending on the growth.

25 Q You had not made a calculation at the time

1 of your deposition. Have you made one since then?

2 A No, I have not.

3 Q Why do you do a used and useful study?

4 A Why does --

5 Q Yes.

6 A -- the office of Public Counsel do --

7 Q Yes. Why are you testifying on that
8 subject?

9 A To determine a fair percentage of the
10 facilities in place that are being used to serve the
11 existing customers in order to hopefully get that
12 percentage in the rate base, and the rest of it being
13 held and collected by some other means from the future
14 customers.

15 Q Are you attempting to follow Commission
16 policy on this issue?

17 A In that sense, as I realize that the
18 Commission and OPC realizes that the Commission does
19 grant or has historically granted margin reserve, but
20 the OPC's policy is that we do not endorse margin
21 reserve.

22 Q Are you familiar with the Staff
23 recommendation on the margin reserve rule procedures?

24 A Yes.

25 Q In which the Staff recommends five years as

1 a margin reserve?

2 A In this particular instance?

3 Q In their rule proposal.

4 A I know it's -- in the past it's been 12
5 months for lines, distribution and collection lines,
6 and 18 months for plant. I haven't read the proposed
7 rule.

8 Q Do you agree or disagree that a utility has
9 to be in a position to serve changing needs of its
10 present customers?

11 A Certainly.

12 Q But you think that the utility ought to
13 front that money for that --

14 A Well, it's a combination of the partnership
15 of it's -- of the Utility's consultant, who should be
16 doing these studies to keep the Utility aware of the
17 needs that are occurring, and the Utility's structure
18 for collecting from those future customers that they
19 are providing capacity for.

20 Q And you say that extra capacity, the utility
21 should not earn a cent return on that capacity?

22 A No. I'm saying the structure that they
23 receive, such as fee structure, such as CIACs,
24 allowance for the funds prudently invested, donated
25 lines and other mechanisms should be place, and that

1 should be what they're asking the Commission for
2 rather than asking the existing customers to pay for
3 those facilities.

4 Q There should be prepaid CIAC, then. Is that
5 what you're saying?

6 A Yes.

7 Q But the AFPI doesn't produce any revenue
8 presently from the customer -- from the Company, does
9 it?

10 A Well, it eventually will.

11 Q If the customers come on it; is that
12 correct?

13 A That's right.

14 Q But it doesn't produce any cash in the
15 present case, does it?

16 A That's true.

17 Q So the Utility has got to go someplace to
18 get that cash to support that margin reserve, haven't
19 they, under your theory?

20 A Well, they've got to collect money to defray
21 the cost of that extra capacity through other means if
22 there's no margin reserve; that's correct.

23 Q But the AFPI charge is not collected until
24 some future customers connect it, isn't it?

25 A That's correct.

1 Q And in many instances the CIAC is not paid
2 to the utility until a customer connects, is it?

3 A That's true, too.

4 Q What else is there left to be financed?

5 A Well --

6 Q The Company, I take it, is still carrying
7 the cost?

8 A In this case I think they have a lot of
9 donated lines from developers. Many times CIAC is
10 paid in advance by developers. I think it's quite a
11 reserve account that this particular utility has in
12 CIACs now.

13 Q Because it has prepaid CIAC?

14 A Yes.

15 Q Prepaid is not booked as CIAC until the
16 customer connects, is it?

17 A Well, that's an economic accounting issue.
18 I don't know how it's booked.

19 Q You don't know the rule on that?

20 A No.

21 Q Do you know when it is booked?

22 A No, I do not.

23 Q Do all the wells in Corkscrew well field
24 have a capacity of 500 gallons per minute?

25 A All five that are in service, yes.

1 Q Would you agree that that's a reasonable and
2 sound practice to have them coordinated and all having
3 the same capacity?

4 A Yes.

5 Q Have you done a study or investigation of
6 any kind relative to the size of the mains going from
7 the Company to the university?

8 A I have examined the drawings and site plan
9 drawings that the Utility furnished to us of the sizes
10 of the lines. I have not done a study of the capacity
11 of those lines or how many hookups would be -- that it
12 would take.

13 Q Do you know that that size of that line was
14 negotiated by the Utility and the university?

15 A I'm sure that they probably did negotiate
16 that, yes.

17 Q So it was not all in the university's
18 responsibility to size that any other way; isn't that
19 right?

20 A I don't -- I wasn't privy to any of those
21 negotiations and don't know what the negotiations
22 were. I know that the 12-inch line extends
23 approximately 3,000 feet down the new street coming to
24 the road to the university and then into the
25 university.

1 Q Have you read the contract?

2 A No, I have not.

3 Q You understand it's in this record, don't
4 you?

5 A Yes.

6 Q When there is a fire, for example in this
7 system, all of the wells, the pumps the tanks and all
8 are used in that fire -- to put that fire out, aren't
9 they?

10 A That is correct, yes.

11 Q And when I said wells, I meant supply and
12 wells.

13 A Well, the wells will do you no good in the
14 fire fighting except to refill your tanks if the fire
15 went on for some extended period. Your fire flow is
16 furnished by storage and high service pumps.

17 Q They've got to be filled up again after
18 they're emptied, don't they?

19 A Certainly.

20 Q Isn't that using it?

21 A Well, they're part of the system --

22 Q Right.

23 A -- to keep the supply replenished of course.

24 Q Are there any statistics that you know of as
25 how do you predict the size of fires?

1 A No.

2 Q And you're not recommending that we just
3 have to pass -- handle one size fire, are you?

4 A Well, there's requirements for fire flow
5 based on, I guess, empirical studies by insurance
6 companies, such as 1,500 gallons per minute for a
7 four-hour duration in a commercial area; 750, usually,
8 gallons per minute for four-hour duration in
9 residential areas; but as far as predicting size of
10 fires, that's hard to do.

11 Q You could have two big ones in two days?

12 A That's certainly possible.

13 Q Do you have a copy of the MFRs with you,
14 Mr. Biddy?

15 A No, I do not.

16 Q Would you turn to Page 159? That's
17 Schedule F-5. Do you have it?

18 A Yes, I do.

19 Q Do you see Line 3 it says "Required Fire
20 Flow"?

21 A Yes.

22 Q What would your numbers be on that line?

23 A In residential it would be 750 gallons per
24 minute times four hours times 60 minutes, whatever
25 that is, and --

1 Q Is it more or less than .360?

2 A Well, I'll make a quick computation and tell
3 you.

4 MR. REILLY: Can I ask a question? Did you
5 ask him what that requirement should be in that MFR
6 versus what the Utility is able to supply?

7 MR. GATLIN: Yes; what number would he put
8 in that line instead of the .360 that the Utility put
9 in.

10 WITNESS BIDDY: The required fire flow based
11 on the criteria of --

12 Q (By Mr. Gatlin) What you --

13 A -- 750 gallons per minute --

14 Q Yeah. That's what --

15 A -- for four hours?

16 Q Yeah. That's what you've used, isn't it?

17 A Yeah. It's .180.

18 Q Point what?

19 A 180, million gallons per day.

20 Q Half of what's down there?

21 A That's correct.

22 Q And you think that would be safe for the
23 customers and Gulf Utility?

24 A I think it's a requirement of the local Lee
25 County ordinances.

1 Q What Lee County ordinances?

2 A Some of the exhibits to the testimony of
3 Mr. Beard and Mr. Kleinschmidt, both of which are fire
4 officials of -- in Lee County.

5 Q Did they use Section 12 of the Lee County
6 ordinances?

7 A I'll have to look and see. (Pause) Yes.
8 Mr. Beard attaches Section 12, which indicates the
9 needed fire flow in residential areas to be 750
10 gallons per minute for any area where the distance is
11 zero to 30 feet between buildings, only 500 gallons
12 per minute, where the needed -- where the distance
13 between the buildings is over 30 feet; and I guess
14 probably 1,500 gallons per minute for commercial
15 areas.

16 Q Is that what you're relying on for the 750
17 gallons?

18 A As the required fire flow by ordinance, yes.
19 That --

20 Q Did you know that ordinance has been revoked
21 and there's a ordinance in Section 10?

22 A I understand Mr. Elliot, his rebuttal
23 testimony said that ordinance had been superseded,
24 yes.

25 Q Did you know that that is a developer type

1 ordinance that puts the duty on the developers of
2 housing?

3 A Yes, I did.

4 Q Back on that F-5 of 159, that required fire
5 flow that you say is residential only, isn't it?

6 A That's what I was quoting, yes.

7 Q Okay. Well, can you add some for
8 commercial?

9 A It would be double that for commercial.

10 Q So it would be .360?

11 A .360, yes, being --

12 Q What we have down here?

13 A You have .360.

14 Q Is it your understanding that the five-day
15 average is used in the design of wells, treatment for
16 water?

17 A For design of wells --

18 Q And treatment?

19 A And treatment?

20 Q Yes.

21 A For -- no, not for design, but for computing
22 of the used and useful calculations for a supply well,
23 the maximum day is defined as the average of the five
24 maximum days in the maximum month.

25 Q And that's what's used?

1 A Yes.

2 Q And is that what you used?

3 A That's correct.

4 Q I don't believe you considered growth from
5 existing customers' fire flows and margin reserve at
6 all, did you?

7 A Repeat the question, please.

8 Q Talking about the subject of fire flows and
9 margin reserve. Did you include a factor of that in
10 your recommendation?

11 A A margin reserve for the fire flows, no, I
12 did not. We took the worst case scenario under fire
13 officials' test and allowed that fire flow.

14 Q In your investigation, did you make a study
15 to determine the annual gallons per ERC on the San
16 Carlos plant?

17 A Yes, we did.

18 Q How about the Three Oaks plant?

19 A Yes.

20 Q And you used the annual average flow from a
21 each plant?

22 A Yes -- no. For computing used and useful?

23 Q Yes.

24 A No. We used the way it was permitted as the
25 rationale for the used and useful. One is

1 permitted -- let me find it and I'll tell you. The
2 San Carlos plant is permitted based on annual average
3 daily flow.

4 Q Flow or capacity?

5 A Flow. That's permitted plant capacity, is
6 218,000 gallons per day is the annual average daily
7 flow at San Carlos. That's what's permitted.

8 The permitted plant capacity for Three Oaks
9 is based on the maximum month average daily flow,
10 750,000 gallons, or that is the permitted capacity;
11 and so those two capacities were used in our used and
12 useful calculations.

13 Q You used the same at both plants; is that
14 correct?

15 A No.

16 Q Gallons per ERC?

17 A Oh. We're talking about two different
18 things now.

19 Q I think so. Let's try it again. Go ahead.

20 A Wastewater -- you look at Exhibit TLB-3.1
21 and you'll see a table showing the San Carlos
22 wastewater treatment plant, all the wastewater sold
23 and treated; and then --

24 Q Give me that table number again, please.

25 A TLB-3.1.

1 Q Okay.

2 A You'll see a table for the San Carlos
3 wastewater treatment plant and a table for the Three
4 Oaks treatment plant. You'll see there's two columns
5 under each. One is for water sold in terms of flow,
6 and then water treated; and those are -- like at the
7 bottom you can see maximum month, a million gallons
8 for each one of those systems, maximum annual average
9 daily flow; and then under that you see what's the
10 permitted -- or what their permit is for.

11 For instance, in San Carlos it's .218, and
12 then Three Oaks is .75 MGD.

13 Q You have not converted to gallons per ERC,
14 have you?

15 A No.

16 MR. REILLY: Could we possibly have
17 Mr. Gatlin restate the question? I'm not sure if he's
18 getting at TLB-3.3 or not as to calculating gallons
19 per day per ERC. Am I mistaken on that?

20 MR. GATLIN: I understand his answer was he
21 didn't do it.

22 MR. REILLY: I might just check. (Pause)
23 I'm not sure. I'm reading his question might be
24 addressed to 3.3 and 2.1, which is attempting to do
25 the gallons per day per ERC. I think water, I

1 believe, is in 2.1 and wastewater --

2 MR. GATLIN: Mr. Chairman, could we swear
3 Mr. Riley in?

4 MR. REILLY: -- if I understand the question
5 correctly.

6 COMMISSIONER DEASON: Mr. Riley, you need to
7 explore this on redirect.

8 MR. REILLY: Okay.

9 WITNESS BIDDY: If I could, Mr. Gatlin, 3.3
10 is a recitation of the records of the ERCs and the
11 projected growth for 1996, but those are from the
12 records from '92 through '95.

13 Q (By Mr. Gatlin) Is it the same resulting
14 number in both plants?

15 A Per ERC? This Table 3.3 does not break it
16 down by plant. It breaks it down just the total
17 system.

18 Q So the -- you have not used the same in both
19 plants? You have or haven't. I'm not sure what your
20 answer is.

21 A You'll have to repeat the question. I don't
22 understand what you're saying.

23 Q Do you use the same annual average for both
24 plants?

25 A Yes.

1 Q In gallons per ERC?

2 A No. If you'll let me refer you and walk you
3 through table TLB-3, maybe you can understand this.

4 Q All right. I'll sure try.

5 A Okay. The rationale for --

6 Q Give me that table again.

7 A TLB-3, the first line is -- Line 1 is the
8 permitted plant capacity in annual average daily flow
9 of the San Carlos plant of 218,000 gallons. Do you
10 see that?

11 Q Yes, I do.

12 A Okay. It's 218,000 gallons per day. That's
13 what the FDEP permits this plant -- its capacity to
14 be.

15 Second line is the permitted plant capacity
16 but on a different basis; maximum month average daily
17 flow, and that's the way the Three Oaks plant is
18 permitted. That's its capacity according to FDEP.

19 Now, the estimated -- 1996, you see bold
20 letters Line 5, Annual Daily Flow, and that's 219,151
21 gallons for the San Carlos plant. Are you with me?

22 Q No. How did you get that number?

23 A That's from the historic records.

24 Q Would you direct me to which ones you're
25 talking about?

1 A Where the 219,151 comes from?

2 Q Yes, sir.

3 A Okay.

4 MR. REILLY: Is there not a footnote to that
5 column?

6 WITNESS BIDDY: We received the response to
7 an interrogatory, Interrogatory No. 17, and that's the
8 ratio of the -- it's based on the ratio of the 1996
9 ERCs to the 1995 ERCs. Do you follow me?

10 Q (By Mr. Gatlin) Are you finished with the
11 answer?

12 A Yeah.

13 Q Are you using the same gallons per ERCs on
14 both plants?

15 A Yes.

16 Q In your testimony you recognized that
17 there's some plant included that the Commission
18 determined was 100% used and useful in the last rate
19 case, do you not?

20 A Some land, did you say?

21 Q Some plant.

22 A Plant.

23 Q Yes.

24 A That previously was called 100% used and
25 useful?

1 Q Yes.

2 A Yes.

3 Q And you recommended that it now be declared
4 less than 100% used and useful?

5 A Yes.

6 Q Do you think that's fair?

7 A Yes, we do, because it's -- are you
8 referring to the San Carlos plant where the old plant,
9 some of it, is held for prior service?

10 Q Did you know that Gulf Utility Company had
11 financed based on the used and useful percentage of
12 its plant since the last case?

13 A I have no idea how they do their financing.

14 Q Well, do you think it would be a plus or a
15 minus to the financial integrity of Gulf if you
16 reduced the plant below 100%?

17 A With over 100%?

18 Q No. The part that you declared 100% -- I
19 mean, the Commission declared 100% on certain plant in
20 the last case. Now you're recommending a lower than
21 100%. Do you think if that's done, it will be a
22 financial plus or minus for the Utility?

23 A Well, obviously it would not be a plus.

24 Q So Gulf has been conducting its business
25 since 1988 to '91 based on the Commission's policy

1 that was understood at the time, but you don't think
2 they ought to do that anymore?

3 A We think that fairness to the existing
4 customers -- in fairness to the existing customers,
5 that you ought to weigh not only plants with
6 everything else as to how much it's used of its
7 capacity, and that's what the rate base ought to be
8 based on.

9 Q Yeah. I understand, Mr. Biddy. But when
10 it's been found to be 100% one time and the Commission
11 comes back and says, guess what, you just lost 25% of
12 it, is that fair?

13 A Well --

14 Q To the Utility?

15 A -- whether it's a matter of fairness or not,
16 it's fair to the users, the customers.

17 Q You think with that kind of rulings by the
18 Commission that the Utility will be able to raise the
19 \$5 million in debt that they have to for additional
20 plant, or did you consider that?

21 A Did not enter into our thinking when we
22 weighed how fair this would be to the customers of
23 this Utility.

24 Q And you included in that statement is that
25 it's fair to the customers if the Utility is not

1 financially viable?

2 A No, we didn't say that at all.

3 Q You want the Utility to be financially
4 viable?

5 A Certainly.

6 Q Okay. Have you designed a lot of plants,
7 Mr. Biddy?

8 A A lot of plants?

9 Q A great number of them in the last -- for
10 water and wastewater?

11 A Quite a few.

12 Q And do you submit those plans and design
13 to -- when appropriate to the DEP?

14 A Always.

15 Q Have you ever overdesigned a plant; in other
16 words, designed a Cadillac instead of a Chevrolet, and
17 the DEP stamped it approved?

18 A Certainly.

19 Q You've overdesigned a plant?

20 A I have.

21 Q When you could use a smaller plant or a less
22 sophisticated plant, you submitted the higher priced
23 one?

24 A Are you talking a matter of price or
25 capacity now?

1 Q Let's talk about price.

2 A Price?

3 Q Yes.

4 A We have designed plants that we considered
5 much better from a long-range standpoint of efficiency
6 in operation in certain instances that were more
7 costly than a cheaper version that we didn't think
8 would be as efficient or easy to operate. There's
9 instances like that; for remote areas, for instance.

10 Q So in those instances you would have taken
11 into account the economics of the situation?

12 A We would have taken into account the
13 economics --

14 Q Yes, sir. I'm asking --

15 A Certainly.

16 Q And so that was the basis of you designing
17 the Cadillac instead of the Chevrolet?

18 A Well, no, that wasn't the reason for it.
19 The reason for it was operational reasons, the
20 instances I'm thinking of.

21 Q Well, that wouldn't be an overdesign, would
22 it, if you're designing for operation?

23 A If it was a matter of we were going to have
24 an operational problem with a cheaper plant, then I
25 think you're justified in going to the Cadillac.

1 Q But it would be based on sound engineering
2 practice to do that?

3 A Certainly.

4 Q And that's what you use all the time?

5 A That's right.

6 Q And you're not implying that it was not used
7 in this Gulf Utility case, are you?

8 A Say that again.

9 Q You're not implying that sound engineering
10 practice was not used in the Gulf Utility case that
11 we're talking about today?

12 A No, not at all. I think it's a very
13 well-run and well-developed utility. It's just a
14 matter of our disagreement is in how the excess
15 capacity is charged. We feel like it should be
16 charged to future customers and not to present
17 customers.

18 Q There's two elements that can be designed to
19 the Cadillac, isn't there? There's the capacity and
20 then the operational aspect of it?

21 A That's true.

22 MR. GATLIN: That's all the questions I
23 have. Thank you.

24 COMMISSIONER DEASON: Staff.

25 MS. O'SULLIVAN: Staff has no questions.

1 **COMMISSIONER DEASON:** Redirect.

2 **MR. REILLY:** Just a few.

3 **REDIRECT EXAMINATION**

4 **BY MR. REILLY:**

5 **Q** I believe, if I understood the questions
6 correctly, that there was a line of questioning
7 concerning the fairness of assigning a lower used and
8 useful percentage on the Three Oaks wastewater
9 treatment plant now as compared to a percentage given
10 to it earlier.

11 My question is, under what circumstances
12 would that be justified? If the plants changed
13 materially and the capacities become much larger,
14 would there not be a need for a different used and
15 useful adjustment?

16 **A** Certainly, there would.

17 **Q** Could you clarify that?

18 **A** Well, the plant has increased in capacity
19 from a half million gallons per day to 750,000 gallons
20 per day, and the old plant, the Utility would like to
21 hold it as redundancy for the full -- for its full
22 capacity. We have allowed as much as the FDEP
23 guidelines allow that item, but it still didn't come
24 up anywhere close to 100.

25 **Q** And any references to an earlier order in

1 this -- for this Utility could not have covered the
2 new Three Oaks wastewater treatment plant --

3 A But it was not --

4 Q -- because it was not in existence at the
5 time?

6 A That's right.

7 Q Also there were some questions asked to you
8 about F-5, schedule in MFRs, Page 159?

9 A Yes.

10 Q And the questions went along the lines of
11 what you would put in there in lieu of the .360. My
12 question to you is, your allowance for fire flow, was
13 it based on what the ordinances or what might
14 otherwise be required, or based on what the Utility's
15 actually been documented reliably able to supply?

16 A It was based on the information received
17 from testimony by fire officials on what they actually
18 have existing in their worst case scenarios throughout
19 the system.

20 Q So the Utility could document an ability to
21 provide the 750 gallons per minute times four hours,
22 and that's an allowance you're going to give them --

23 A That right.

24 Q -- but that doesn't change what may or may
25 not be the prudently required fire flow that might be

1 found in F-5?

2 A That's correct.

3 Q Is that kind of comparing apples and
4 oranges?

5 A It is apples and oranges, yes.

6 Q Okay. Also, there was -- there were a
7 little line of questioning on proposed rules that are
8 being considered by Staff.

9 Is it your understanding that any of these
10 rules have been adopted at this point and binding to
11 this proceeding?

12 A Not to my knowledge, no.

13 MR. REILLY: Okay. No further.

14 COMMISSIONER DEASON: Exhibits.

15 MR. REILLY: I would like to move the
16 composite exhibit.

17 COMMISSIONER DEASON: That will be Exhibit

18 18. Without objection, it will be admitted.

19 (Exhibit 18 received in evidence.)

20 COMMISSIONER DEASON: Thank you Mr. Bidy.

21 (Witness Bidy excused.)

22 - - - - -

23 COMMISSIONER DEASON: Mr. Riley, you may

24 call your next witness.

25

1 **KIMBERLY H. DISMUKES**

2 was called as a witness on behalf of the Citizens of
3 the State of Florida and, having been duly sworn,
4 testified as follows:

5 **DIRECT EXAMINATION**

6 **BY MR. REILLY:**

7 Q Would you please state your name and
8 business address for the record?

9 A Kimberly H. Dismukes, 5688 Forsythia Avenue,
10 Baton Rouge, Louisiana, 70808.

11 Q And you have been sworn?

12 A Yes.

13 Q Did you prefile direct testimony in this
14 docket?

15 A Yes, I did.

16 Q Do you have any corrections or amendments
17 you would like to make concerning that prefiled
18 testimony?

19 A Yes, I have several corrections. The first
20 correction is on Page 12, Line 7. The number "1996"
21 should be changed to "1995".

22 **MR. GATLIN:** Just a minute, please.

23 **MR. REILLY:** Just hold it right there.

24 (Pause.)

25 **WITNESS DISMUKES:** Page 12, Line 7, "1996"

1 should be changed to "1995".

2 MS. O'SULLIVAN: Is that in both instances
3 on that line? There's two 1996s.

4 WITNESS DISMUKES: No; just the first one.
5 Thank you.

6 MR. GATLIN: "1995"?

7 WITNESS DISMUKES: Yes. The next correction
8 is on Page 16, Line 19, the figure of \$780.00 should
9 be changed to \$185.00.

10 And if you would turn to Page 20, Line 15,
11 insert the word "increased" before "and" and "by,"
12 which is towards the latter half of that line. And on
13 that page as well, strike from Line 18 on Page 20 over
14 to Line 3 on Page 21. Page 24, Line 10, at the very
15 end of that line it says "Class A and B," and it
16 should just say "Class A," so strike "and B". Those
17 are all of my corrections.

18 Q Ms. Dismukes, if I were to ask you the same
19 questions posed in your prefiled direct testimony,
20 would your answers be the same as outlined in your
21 prefiled direct testimony as changed today?

22 A Yes.

23 Q In your prefiled testimony you also sponsor
24 and refer to a composite exhibit consisting of 18
25 schedules; is that correct?

1 A Yes.

2 Q Do you continue to endorse and sponsor that
3 composite exhibit?

4 A Yes.

5 MR. REILLY: At this time I move that
6 Ms. Dismukes' prefiled testimony be inserted into the
7 record as though read and that her composite exhibit
8 be assigned a number for identification purposes.

9 COMMISSIONER DEASON: Prefiled testimony
10 will be inserted in the record and the prefiled
11 exhibits consisting of Schedules 1 through 18 will be
12 identified as Exhibit 19.

13 (Exhibit 19 marked for identification.)

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1 testimony is organized into five sections. In the first section of my testimony, I
2 summarize my recommendations. In the second section, I address adjustments to the
3 Company's proposed cost of capital. In the third section of my testimony, I address
4 adjustments to test year revenue. In the fourth section of my testimony, I discuss
5 certain expense adjustments. In the fifth section, I address adjustments to the
6 Company's proposed rate base.

7 **I. Summary of Recommendations**

8 Q. Would you please summarize your recommendations?

9 A. Yes. Schedule I summarizes the adjustments that I propose and shows the revenue
10 requirement impact of each adjustment. Instead of a net rate increase, my
11 recommendations produce a rate reduction of \$898,018. My recommendations show
12 that the Company's water customers should receive a rate decrease of \$425,172 and
13 its wastewater customers should receive a rate decrease of \$472,846. This schedule
14 does not incorporate the used and useful recommendations of Mr. Bidy. If his
15 recommendations were incorporated, it would produce a further decrease in the
16 Company's revenue requirement.

17 **II. Cost of Capital**

18 Q. What adjustments do you recommend concerning the Company's capital structure and
19 overall cost of capital?

20 A. I recommend one adjustment to the Company's capital structure. As shown on page
21 2 of Schedule 2, I have removed \$160,929 from the equity component of the

1 Company's capital structure. In February 1990, Gulf recorded \$68,114 of water
2 assets and \$92,815 of wastewater assets on its books associated with assets
3 constructed by a related party — Caloosa Group, Inc. In exchange for the assets,
4 Gulf issued common stock to the shareholders of Caloosa Group, Inc. (Caloosa). The
5 shareholders of Gulf and Caloosa are the same and they own the same proportionate
6 share of each company. Typically when a developer constructs lines and hydrants and
7 connects to the utility's system, the assets are contributed to the Company. The assets
8 are recorded on the books of the Company and an equal amount of CIAC is also
9 recorded on the books. The net result is no impact on rate base. This is the
10 Company's policy with all developers, except its affiliate Caloosa Group, Inc. In
11 response to OPC's Interrogatory 36, Gulf explained that the transaction with its
12 affiliate "was a routine business transaction in February 1990 where common stock
13 was issued for \$160,928 of assets. It was straightforward. It violated no law or rule."
14 The Company continued in its response: "The Company's accounting of this
15 transaction should be approved. The current stockholders have shown their
16 commitment to provide the quality of service to the area, and the larger equity base
17 from the Company's accounting of this transaction will benefit the consumer over the
18 long pull."

19
20 Lacking in the Company's response is an explanation of why the Company did not
21 require its affiliate-developer to contribute the property as it requires other

1 developers. The Company has not provided a satisfactory explanation of why the
2 Commission should permit the Company to treat its affiliate-developer more favorably
3 than unaffiliated developers. The effect of the Company's transaction is to increase
4 rate base and the overall cost of capital — both of which increase rates to customers.
5 The Commission should reject the Company's accounting treatment of this
6 transaction. Accordingly, I recommend that the Commission reduce the equity
7 component of the capital structure by \$160,928. In addition, as described below, the
8 Commission should increase CIAC included in rate base by the same amount. As
9 shown on Schedule 2, after making the adjustment that I propose, the cost of capital
10 that I recommend is 9.22%. This compares to the Company's requested cost of capital
11 of 9.25%.

12 III. Revenue Adjustments

13 Q. What adjustments do you propose to the Company's revenue?

14 A. I am proposing one adjustment to test year revenue. As shown on Schedule 3, I
15 recommend that the Commission increase test year revenue by \$139,599. The
16 Company disposes of its wastewater effluent by providing reclaimed water to golf
17 courses (San Carlos Golf Course, Vines County Club, and Villages of County Creek).
18 Rather than selling reclaimed water to these customers, Gulf provides this service free
19 of charge. In response to Staff Interrogatory 30, Gulf explained:

20 Gulf has always disposed of effluent by golf course
21 irrigation because it was and is the least cost method

1 available. If charges are imposed effluent become less
2 attractive to developers and the Company could be
3 forced to use much more expensive disposal methods
4 such as deep well injection or evaporation/percolation
5 ponds.

6 While I do not dispute that effluent disposal by way of spray irrigation is beneficial to
7 the Company and its customers, it is also beneficial to the golf courses. The
8 environment under which the Company initially entered into its reuse agreements no
9 longer exists. Water has become more scarce and Floridians are recognizing that
10 water should be conserved. Reuse provides a valuable means of conserving potable
11 water resources.

12
13 The Company also operates in a water caution area. Consequently, the South Florida
14 Water Management District will closely monitor the need for consumptive use permits
15 and the associated withdrawals. Thus, while the golf courses to which Gulf provides
16 reclaimed water have consumptive use permits, it remains questionable whether or not
17 they could be renewed. The South Florida Water Management District's consumptive
18 use permit rules require an applicant for a new permit, permit renewal, or permit
19 modification to show that the applicant "makes use of a reclaimed water source unless
20 the applicant, in any geographic location demonstrates that its use is either not
21 economically, environmentally or technically feasible; or in areas not designated as

1 Critical Water Supply Areas pursuant to Chapter 40E-23, F.A.C., the applicant
2 demonstrates reclaimed water is not readily available." In its Basis for Review of
3 Water Use Permit Applications, the South Florida Water Management District
4 describes the review process in areas of special water concern: "allocation of water
5 shall be restricted or denied for irrigation purposes when reclaimed water is available
6 and is economically, technically and environmentally feasible." The South Florida
7 Water Management District is making it more difficult for consumptive use permits
8 to be issued for irrigation purposes.

9
10 Since Gulf Utility currently provides reclaimed water to three golf courses and has a
11 contract for a fourth, it is unlikely that any of these golf courses could prove that the
12 provision of reclaimed water is not technically or environmentally feasible. The test
13 of whether the golf courses could show that using reclaimed water is not
14 economically feasible is less clear, unless the Company continues to provide this
15 service free of charge. To the extent that the South Florida Water Management
16 District uses an objective measure of "economically feasible" and also considers the
17 scarce nature of the resources being withdrawn, it should find that at a reasonable
18 rate, reclaimed water is economically feasible. Accordingly, I recommend that the
19 Commission establish a reuse rate in this proceeding of \$.25 per 1,000 gallons. This
20 is substantially below the Company's potable water rate of \$2.16 per 1,000 gallons,
21 and it is comparable to the \$.21 per 1,000 gallons charged by Florida Cities Water

1 Company in Lee County. Consistent with my recommendation that the Commission
2 establish a reuse rate in this proceeding, I have increased test year revenue by
3 \$139,599, as shown on Schedule 3. This revenue was based upon the Company's
4 estimate of reclaimed water that it would provide to its existing golf courses in 1996
5 and the minimum amount contracted for with River Ridge.

6 **IV. Expense Adjustments**

7 Q. What adjustments to the Company's expenses are you proposing?

8 A. The adjustments that I recommend are presented on Schedules 4 through 10. The first
9 set of adjustments that I recommend relate to transactions with the Company's
10 affiliate — Caloosa. Schedule 4 increases CIAC related to assets purchased by the
11 Company from Caloosa. As shown, I recommend that CIAC be increased by \$68,144
12 for the water operations and \$92,815 for the wastewater operations. As I previously
13 discussed, the Company has not provided a satisfactory reason why its developer-
14 affiliate should be treated any differently than a nonaffiliated developer.

15
16 The second adjustment relates to expenses incurred on behalf of both Caloosa and the
17 Company, only some of which are charged to Caloosa. As explained earlier, Caloosa
18 Group, Inc. is a land development company and is an affiliate of Gulf Utility. Five of
19 Gulf Utility's employees, the President, the Chief Financial Officer, the Assistant to the
20 CFO, the Administrative Manager, and the Administrative Assistant, provide services
21 to both companies. These employees' salaries are paid separately for the work that

1 they do at each company. In addition, Gulf Utility charges Caloosa \$50 per month for
2 use of Gulf Utility's computer system and \$50 a month for supplies and office rent.
3 Although Caloosa pays for the time Gulf's employees work for Caloosa, none of the
4 benefits paid by Gulf are allocated or charged to Caloosa. In addition, there are two
5 other expense categories where none of the costs have been charged or allocated to
6 Caloosa. These include car expenses of Mr. Moore (President) and business and
7 conference expenses of Mr. Moore as well as other general and administrative
8 expenses. In my opinion, it is not fair to charge all of these expenses to the regulated
9 utility operations of Gulf Utility. Clearly, some of these expenses should be allocated
10 to Caloosa as the employees of Gulf Utility provide services to both. By charging only
11 the regulated utility operations for these expenses, the nonregulated operations
12 receive a windfall. Certainly, if Caloosa were a stand alone entity it would incur
13 benefit expenses on behalf of its employees as well as other administrative and general
14 expenses.

15 Q. Did you develop a method to allocate these expenses?

16 A. Yes. My recommendations are depicted on Schedule 4. I developed three allocation
17 factors to assign costs between Caloosa and Gulf Utility. First, I allocated health
18 insurance costs and IRA benefits for the five employees that work for both companies
19 based upon their Caloosa salary relative to their total Caloosa and Gulf Utility salary
20 Second, I allocated office supplies, rent expense, computer depreciation, and other
21 business expenses and administrative expenses based upon Caloosa's total payroll to

1 the total payroll of Caloosa and Gulf Utility. Third, I allocated Mr. Moore's car
2 expenses based upon his Caloosa salary to his total Caloosa and Gulf Utility salary.
3 As shown on Schedule 4, this produced an allocation of expenses to Caloosa of
4 \$8,645. From this amount I subtracted the \$1,200 charged to Caloosa for use of the
5 computer and office supplies. The difference, or \$7,445, should be removed from the
6 Company's test year expenses.

7 Q. Have you made any other adjustments for the Company's transactions with its
8 affiliate?

9 A. Yes. Schedule 5 reflects an adjustment for the difference between the lease expense
10 charged to the Company by Caloosa and the present value of a levelized lease
11 payment based upon a 40-year life and a discount rate of 9.22%. In 1996, Gulf Utility
12 entered into a lease agreement with its affiliate Caloosa Group, Inc. to lease 3,931
13 square feet of office space. Since this is an arrangement between affiliates and is not
14 an arm's-length transaction, I tested the reasonableness of the lease payment by
15 comparing it to what the lease payment would be over the life of the building using
16 a cost of capital of 9.22%. As shown on page 2 of Schedule 5, the levelized lease
17 payment over the life of the building would be \$64,826. Since Gulf Utility occupies
18 33.71% of the building, I multiplied \$64,826 times 33.71% to arrive at the levelized
19 lease payment that would apply to the Company. As shown on page 1 of this
20 schedule, this amounted to \$21,853. This compares to the amount being charged the
21 Company of \$47,152. After accounting for the allocation of rental expense to

1 Caloosa, my calculations show that Gulf Utility is being charged an excessive amount.
2 Accordingly, I recommend that test year expenses be reduced by \$26,182. To ensure
3 that ratepayers are not harmed by the affiliate relationship between Caloosa and Gulf
4 Utility, I recommend that the Commission assess the reasonableness of the lease
5 expense charged to Gulf Utility by comparing it to what the lease expense would be
6 over the life of the building assuming Caloosa earned a normal return on its
7 investment, and the return of its investment is earned over a 40-year period. This
8 comparison clearly shows that Gulf Utility is being charged an excessive amount.

9 Q. What is the next adjustment that you propose?

10 A. I am also recommending an adjustment to the salaries of Gulf Utility's employees that
11 provide services to both the Company and Caloosa. As shown on Schedule 6, the
12 hourly rate charged for services performed on behalf of Gulf Utility is considerably
13 higher than the hourly rate charged for services performed on behalf of Caloosa. For
14 example, the equivalent hourly rate of Mr. Moore¹ when he performs services for the
15 Company is \$49.04, whereas the hourly rate charged to Caloosa is \$22.69. Similarly,
16 Ms. Andrews's hourly rate for work performed at Gulf Utility is \$25.66, however, for
17 Caloosa the hourly rate is only \$16.70. As shown on Schedule 6, the hourly rates
18 charged to the Company are much higher than the hourly rates charged to Caloosa.
19 I see no reason why the hourly rates charged should be different. It would appear that
20 Caloosa is receiving a windfall at the expense of ratepayers. In other words, the

¹ The hourly rates of Gulf's employees are after adjustment for pay increases which is addressed next in my testimony.

1 regulated utility operations are absorbing a disproportionate share of the total payroll
2 costs of Caloosa and Gulf Utility.

3 Q. Did you make an adjustment for the problem that you have identified?

4 A. Yes. My adjustment is shown on Schedule 6. I reallocated the salary charged to
5 Caloosa based upon the combined hourly rate of Caloosa and Gulf Utility. This
6 ensures that both companies are paying the same amount per hour for the use of Gulf
7 Utility's employees. For example, the combined hourly rate for Mr. Moore is \$46.11.
8 Using Mr. Moore's estimate that he spends five hours per week working for Caloosa,
9 I reallocated the salary charged to Caloosa using an hourly rate of \$46.11 as opposed
10 to the \$22.69 per hour actually charged or paid.

11

12 As shown, this reallocation produces a reduction to the utility salary paid to Mr.
13 Moore of \$6,088. In other words, this amount should be charged to Caloosa's
14 operations, not the regulated utility operations. I performed a similar calculation for
15 each of the employees of Caloosa based upon the hours that they devote to the utility
16 operations versus Caloosa's operations. As shown, in total, I recommend that \$8,947
17 be removed from the Company's test year payroll expense to properly account for the
18 salary expense charged to Caloosa. In addition, I have used these revised salary
19 allocations to develop the percentage of Caloosa payroll to total Caloosa and Gulf
20 Utility payroll used on Schedule 4 to allocate other expenses to Caloosa. As shown,
21 the percentage of Caloosa payroll to total Caloosa and Gulf Utility payroll is 2.62%

1 Q. Do you recommend any other adjustments to the Company's payroll expense?

2 A. Yes. I also recommend that the Commission reduce the pay increase built into the
3 1996 salaries for the Company's management employees. As shown on Schedule 7,
4 the Company is projecting pay increases ranging from a high of 9.6% to a low of
5 6.5% for its officers and managers. According to the Company's response to OPC's
6 Interrogatory 11, salary increases in the past were 5% in 1992, 4% in 1993, 5% in
7 1994, and 4% in ¹⁹⁹⁵ 1996. The Company budgeted a 6.5% overall increase in 1996, but
8 increases can vary per employee. In my opinion, the Company has not demonstrated
9 that a 6.5% increase in employee salaries is reasonable. In many instances the salary
10 increases for the officers and managers of the Company exceed the 6.5% overall
11 increase budgeted for the test year. In the past, the percentage increases have been
12 between 4% and 5%. I have used the higher 5% increase to adjust the salaries of the
13 Company's officers and management employees. As shown on Schedule 7, adjusting
14 1995 salaries for a 5% increase in 1996, reduces test year expenses by \$7,416.

15

16 In addition to this adjustment I also recommend that the Commission reduce the
17 salary of Mr. Mann. Mr. Mann is the Vice President of the Company and receives a
18 salary of \$49,608. Mr. Mann does not maintain an office at the utility site, but
19 apparently has an office in Jacksonville. On two separate occasions, the Company was
20 requested to provide an estimate of the hours Mr. Mann devoted to the Company. In
21 response, the Company stated that: "Mr. Mann does not submit time records and is

1 paid on a salary basis. The amount of time he spends each week on his various duties
2 varies considerably depending on the needs of the Company." [Response to OPC
3 Interrogatory 41.] A similar response was given to the Staff auditors when they
4 conducted their audit of the Company books. A list of duties of Mr. Mann indicates
5 that his role is one of reviewing certain accounting matters like preparation of PSC
6 annual reports, financial statements, budgets, and cash flow statements. In addition,
7 in conjunction with the president, Mr. Mann performs such functions as long-term
8 financial planning, long-term debt management, and setting tax policies. In addition
9 to these types of duties, Mr. Mann also prepares the tax M-1 schedule and other
10 related schedules for state and federal tax returns and other special projects as
11 directed by the Board of Directors.

12
13 In my opinion, the Company has not proven the reasonableness of the salary paid to
14 Mr. Mann. Although other employees of Gulf Utility maintain time records, there is
15 no such requirement for Mr. Mann, despite the apparent variable nature of the work
16 he performs. Based upon a review of the duties Mr. Mann performs, I estimate that
17 he should, on average, spend 10 hours per week on utility business, or 520 hours per
18 year. At an hourly rate of \$35.00 per hour, which is roughly the mid point between
19 the hourly rates paid to the president and the Chief Financial Officer, I recommend
20 that the Commission allow a salary for Mr. Mann of \$18,200. Accordingly, as shown
21 on Schedule 7, I have reduced test year expenses by \$30,234.

1 Q. What is the next adjustment that you recommend?

2 A. The next adjustment is shown on Schedule 8. The Company pays dues and conference
3 registration fees to the National Association of Water Companies. For the projected
4 test year the Company has included \$3,299 for these expenses. I am recommending
5 that the Commission disallow 24% of these expenses because they are related to
6 lobbying. In response to OPC's Interrogatory 24, the Company indicated that in 1996,
7 NAWC estimated that 24% of their dues were for lobbying. The Commission has
8 historically not permitted the recovery of lobbying and public relations activities from
9 ratepayers. Such efforts are for the benefit of stockholders, not ratepayers.
10 Accordingly, since 24% of the dues and presumably conference fees are related to
11 lobbying, I have removed \$792 from test year expenses.

12 Q. Would you please explain the nonrecurring expense adjustments shown on Schedule
13 9?

14 A. Yes. Schedule 9 shows adjustments that I recommend concerning nonrecurring
15 expenses which the Company has included in the projected test year. The Company's
16 MFRs show that the Company budgeted \$16,000 for pond cleaning in 1996 and
17 \$21,000 for lift station coating and repairs in 1996. In Interrogatory 28, OPC
18 requested that the Company provide the amount it incurred for these efforts in 1993,
19 1994, and 1995. In response, the Company indicated that in 1994 it expended
20 \$17,500 for pond cleaning but did not incur any expenses for pond cleaning in 1993
21 or 1995. Based upon this response, it appears that the Company incurs expenses to

1 clean its ponds every two years. Accordingly, I recommend that the Commission
2 amortize the cost included in the test year of \$16,000 over two years. As shown on
3 Schedule 9, I have reduced test year expenses by \$8,000.

4
5 Similarly, the Company indicated in this response that it did not incur any cost to coat
6 liftstations in 1993, 1994, or 1995, but that it did incur liftstation repair costs of
7 \$11,919 in 1994 and \$6,980 in 1995. It did not, however, incur these costs in 1993.
8 Since the amount included in the test year is nonrecurring in nature, I recommend that
9 the Commission amortize the total over five years and then allow annual repair costs
10 of \$6,300 ($\$11,919 + \$6,890$ divided by 3 years.) As depicted on Schedule 9, my
11 recommendations reduce test year expenses by \$10,500.

12 Q. Would you please describe the miscellaneous adjustments shown on Schedule 10?

13 A. Yes. Schedule 10 contains five adjustments. The first adjustment removes from the
14 projected test year, expenses which the Company characterized as "unanticipated
15 expenses." In my opinion, it would not be good policy for the Commission to allow
16 such nondescript expenses to be included in a projected test year. The Company has
17 the burden of proving the reasonableness of its projected expenses, including all
18 expenses that it anticipates. Unanticipated expenses appear to be nothing more than
19 an additive above and beyond reasonably expected expenses. Accordingly, I
20 recommend that the Commission exclude unanticipated expenses of \$4,895.

21

1 below the line, but which is related to cash included in working capital. In response
2 to OPC's Interrogatory 37, the Company indicated that its operating account was
3 included in working capital and that this account earns interest. Since the cash is
4 included in working capital, it is only reasonable to include the interest income above
5 the line for rate making purposes. Accordingly, I have increased the Company's test
6 year income by \$4,000 for the projected interest the Company expects to receive on
7 this account.

8
9 The fifth adjustment removes some of the Board of Directors fees included in the test
10 year. Test year expenses include directors' fees of \$18,000: \$4,500 to be paid to
11 Russell Newton, Jr., \$4,500 to be paid to William Newton, and \$9,000 to be paid to
12 Russell Newton, III. A review of the Board of Director's Meeting Minutes indicates
13 that not all of the directors attend the board meeting. In particular, during 1996, only
14 Russell Newton, Jr. attended all three meetings. William Newton attended only one
15 of the three meetings, and Russell Newton, III attended two of the three meetings. A
16 similar pattern is shown for 1995. In 1995, Russell Newton, Jr. was the only director
17 to attend all three meetings. William Newton and Russell Newton, III attended only
18 one of the three meetings. Under the circumstances, I do not believe that it would be
19 prudent to include in test year expenses the entire amount of director's fees since two
20 of the board members show a pattern of not attending the meetings. I have removed
21 from test year expenses two-thirds of the fees for William Newton, since he has only

1 attended one of three meetings. I have also removed one-half of the directors fee paid
2 to Russell Newton, III since it is not evident that he should be paid twice as much as
3 the other directors. In addition, from this amount I have removed one-third of the
4 fees, since he attended only two of the three meetings. As shown on Schedule 9, the
5 adjustments that I recommend reduce test year expenses by \$9,000. The adjustments
6 which I recommend are conservative. A review of the meeting minutes indicate that
7 little is discussed and there is not significant input made by the board members.
8 Accordingly, in the absence of further support for these fees, the Commission would
9 be justified in removing all of these fees from test year expenses.

10 V. Rate Base-Related Adjustments

11 Q. What rate base adjustments do you recommend?

12 A. I am recommending several adjustments to rate base. These adjustments are shown
13 on Schedules 11-17. In many instances these adjustments affect expense accounts as
14 well. I have labeled them rate base-related adjustments for organizational purposes
15 only. The first adjustment, shown on Schedule 11, removes from the test year all costs
16 related to service to Florida Gulf Coast University. According to the testimony of Mr.
17 Biddy, the facilities required to serve this customer will not be in place at the end of
18 the test year. In addition, the lines being constructed to serve the university are not
19 100% used and useful, according to Mr. Biddy. Since it is not possible to determine
20 how much of the line is used and useful, I recommend that all expenses, revenue, and
21 investment (including CLAC) be removed from the test year. By removing these costs

1 and revenue from the test year the Commission will ensure that current customers are
2 not burdened with paying for the non-used and useful transmission lines and collection
3 lines installed to serve the university and other customers in the future. By excluding
4 these costs and revenue from the test year, the Company will, in effect, be permitted
5 to earn a return on the used and useful portion of these facilities.

6 Q. What is the next rate base adjustment that you recommend?

7 A. I recommend that the Commission include, as an offset to rate base, funding which
8 the Company will receive from the South Florida Water Management District.
9 According to the Company's response to Staff's Interrogatory 37, Gulf Utility
10 requested funding under the South Florida Water Management District's Alternative
11 Water Supply Grants Program in the amount of \$375,000 for the preservation of
12 potable water through the development of alternative sources of irrigation water. On
13 November 14, 1996, the Governing Board of the District approved a grant of
14 \$300,000. Since the Company will receive these funds, they should be included as an
15 offset to rate base, as CIAC, if the corresponding investment is included in rate base
16 If it is determined that the related investment is not included in rate base, I will modify
17 my testimony accordingly. The adjustment to include \$300,000 of CIAC in rate base
18 is depicted on Schedule 12.

19 Q. What is the next group of rate base adjustments that you recommend?

20 A. The next group of adjustments are shown on Schedules 13 through 16. These
21 adjustments are based upon the Staff's audit of the Company. The first adjustment

1 depicted on Schedule 13 increases CIAC included in rate base by \$379,319 for the
2 water operations and \$207,304 for the wastewater operations. According to the
3 Staff's Audit Disclosure No. 8, prepaid CIAC included on the Company's books
4 appears to be related to plant already in service. To the extent the related assets are
5 included in rate base, the associated prepaid CIAC should likewise be included in rate
6 base. Accordingly, I recommend that the Commission include the prepaid CIAC in
7 rate base.

8
9 The second adjustment is also based upon the Staff's audit. According to Audit
10 Exception No. 2, the Company overstated the amount of accumulated amortization
11 of CIAC and it overstated the amortization of CIAC included in test year expenses.
12 Schedule 14 depicts the adjustments that should be made to correct for these
13 overstatements. As shown, water rate base should be reduced by \$115,371 and
14 wastewater rate base should be reduced by \$98,456. Similarly, test year amortization
15 expense should be reduced by \$12,967 for the water operations and by \$7,329 for the
16 wastewater operations. ^{increased}

17
18 The third adjustment is based upon the Staff's Audit Exception No. 6. According to
19 this exception, the Company understated accumulated depreciation and overstated
20 depreciation expense. The adjustments proposed in the Staff's audit are depicted on
21 Schedule 15. As shown, water and wastewater depreciation expense should be

1 reduced by \$102,236 and \$46,689 respectively. Accumulated depreciation should be
2 increased by \$172,608 for the water operation and by \$158,465 for the wastewater
3 operations.

4
5 The fourth adjustment is shown on Schedule 16. According to the Staff's Audit
6 Exception No. 4, when the Staff reviewed the Company's filing, several discrepancies
7 were found. According to the audit, the Company verified these discrepancies. The
8 only discrepancy which would affect the test year rate base is the overstatement of
9 wastewater plant in service. Accordingly, I reduced test year plant in service by
10 \$2,265.

11 Q. Did you make any adjustments to the Company's requested working capital?

12 A. Yes. I started with the working capital calculation contained in the Staff's audit, under
13 Audit Exception No. 5 and made adjustments thereto. According to the Staff's audit,
14 it generated a 13-month average working capital calculation using the period August
15 1995 through August 1996. It also requested that the Company provide reasons why
16 the amounts would change from September through December. As shown on
17 Schedule 17, I started with the working capital balance of \$381,610 shown in the
18 Staff's audit. The first adjustment that I recommend removes from the working
19 capital calculation the unamortized rate case expense. I have removed this amount to
20 provide the Company with an incentive to minimize rate case expense. The second
21 adjustment removes \$394,954 for unamortized debt discount and expense. This cost

1 is reflected in the Company's cost of debt. Accordingly, it should not be included in
2 working capital. The third adjustment increases working capital for the accrued
3 interest on Industrial Revenue Bonds. According to the Company, its projected 13-
4 month average accrued interest is \$269,790, or \$18,128 less than the Staff's
5 calculation. I have used the estimate provided by the Company and increased working
6 capital accordingly. The fourth and fifth adjustments are similar in that they increase
7 working capital for accounts receivable and materials and supplies, as projected by the
8 Company. As shown on Schedule 17, the working capital amount that I recommend
9 is negative \$46,062. This compares to the Company's request of \$593,611.

10 Q. Why do you recommend including negative working capital in rate base when the
11 Commission has typically used a zero allowance when the calculation produces a
12 negative working capital?

13 A. A negative working capital allowance simply means that the Company has other
14 sources of noninvestor supplied capital that are used to support the operations of the
15 Company. It does not mean that the Company does not have a working capital
16 requirement. This requirement, however, is being met by other sources of cost-free
17 capital and these sources are in excess of the Company's working capital needs. If a
18 negative working capital is not included in rate base, the Company will be permitted
19 to earn a return on cost-free sources of capital. If the Commission does not include
20 a negative working capital in rate base, it will effectively provide the Company with
21 an opportunity to overearn. The appropriateness of including a negative working

1 capital in rate base was expressed by Commissioner Deason at the Agenda
2 Conference concerning Palm Coast Utility, Docket No. 951056-WS. Commissioner
3 Deason explained:

4 I need to state for the record that I think that if there
5 is a determination of a negative working capital
6 allowance that is the appropriate allowance. And just
7 for analogy purposes, I've tried to think of a good
8 analogy and that is it's kind of like looking at a
9 thermometer on the centigrade scale and you're
10 saying, 'Well, once it gets to zero and it's freezing, it
11 doesn't get any colder.' It does. And a negative
12 working capital allowance, all it means is that there are
13 other sources of capital other than things supplied by
14 the investor that are being used to support the
15 operations of this company. And that it is important to
16 recognize that like we do other sources of capital.

17
18 So, I would not support staff's recommendation at a
19 zero allowance. It would be my position that the
20 calculated negative amount is appropriate. And it's not
21 saying that the company doesn't have any working

1 capital requirement, it's just that those working capital
2 requirements are being met by sources -- cost-free
3 sources of capital other than investor sources of
4 capital, and that's why the calculation comes up
5 negative.

6

7 Q. Do the Commission's rules require that a zero working capital allowance be used if
8 the working capital calculations produce a negative working capital?

9 A. No. The Commission's rules have no such requirement. The Commission's rules
10 require that the balance sheet approach to working capital be used for Class A and B
11 water and wastewater utilities.

12 Q. Can you demonstrate how the Company would overearn if the Commission does not
13 include a negative working capital in rate base?

14 A. Yes. I prepared Schedule 18 to demonstrate how this happens. This is a hypothetical
15 example, showing the balance sheet, rate base, capital structure, and working capital
16 of a utility. For simplicity purposes, the plant in service is considered to be 100% used
17 and useful, so there is no need to reconcile the capital structure to the rate base. As
18 shown on this schedule, the balance sheet approach to working capital, produces a
19 gross working capital requirement of \$7,500. The cost-free sources of funds used to
20 support the gross working capital requirement is \$10,500, producing a net negative
21 working capital requirement of \$3,000. (This is shown under the third box on

1 Schedule 18.) The total capital (investor supplied sources of capital and customer
2 deposits) of the company is \$87,000. (This is shown under the second box on
3 Schedule 18.) The rate base of the utility, without working capital, is \$90,000.
4 Inclusion of the negative working capital amount yields a total rate base of \$87,000,
5 or precisely the amount of investor-supplied capital. In this example, the allowed
6 return on rate base is 10%, or \$8,700. The return earned by investors is likewise
7 \$8,700 or 10% (\$8,700 divided by \$87,000 in capital). However, if the commission
8 does not include the negative working capital in rate base, but substitutes zero, the
9 utility will be allowed to earn 10% on a \$90,000 rate base, or \$9,000. The return
10 earned by investors is 10.34% (\$9,000 divided by \$87,000 in capital), or .34% in
11 excess of what the commission allowed. Thus, if the Commission does not include
12 negative working capital in rate base it will provide the Company with an opportunity
13 to earn in excess of its allowed rate of return.

14 Q. Do you have any other recommendations concerning rate base issues that you would
15 like to address?

16 A. Yes. Although I have not performed the calculations associated with my
17 recommendation, I recommend that the Commission not include a margin reserve in
18 the Company's used and useful calculations. In my opinion, it is not appropriate to
19 include margin reserve in the used and useful calculations. Margin reserve represents
20 capacity required to serve future customers, not current customers.

21

1 The inclusion of a margin reserve to account for future customers above and beyond
2 the future test year level represents investment that will not be used and useful in
3 serving current customers. If the Commission includes margin reserve in the used and
4 useful calculations, this will result in current ratepayers paying for plant that will be
5 used to serve future customers. This causes an intergenerational inequity between
6 ratepayers. If no margin reserve is allowed, the Company will still be compensated for
7 the prudent cost of its plant with Allowance for Prudently Invested Funds (AFPI) or
8 guaranteed revenue.

9 Q. If the Commission agrees with you, will the Company be harmed?

10 A. Not if the plant was prudently constructed. If the plant is prudently constructed, the
11 Company is permitted to accrue AFPI on plant that is not used and useful. The
12 Commission established AFPI for the very purpose of protecting utilities from under
13 recovering the cost of plant that is not used and useful, but was prudently constructed.
14 Consequently, if the Commission does not grant the Company's request to include
15 margin reserve in the used and useful calculations, the Company could recover the
16 carrying costs associated with the assets that are currently considered non-used and
17 useful through the AFPI charges at some point in the future.

18 Q. If the Commission decides that margin reserve should be included in the used and
19 useful calculations, should a corresponding adjustment be made to CIAC?

20 A. Yes. If margin reserve is included in the used and useful calculations, then, to
21 achieve a proper matching, an amount of CIAC equivalent to the number of

1 equivalent residential connections (ERCs) represented by the margin reserve should
2 be reflected in rate base. In calculating the imputation of CIAC, the Commission
3 should use the proposed, interim, or final new capacity charges. The CIAC that will
4 be collected from these future customers would at least serve to mitigate the impact
5 on the existing customers resulting from requiring them to pay for plant that will be
6 utilized to serve future customers. Imputation of CIAC on margin reserve has been
7 a longstanding policy of this Commission. The Commission's practice of imputing
8 CIAC on margin reserve is well documented in Order No. 20434 and Order No. PSC-
9 93-0301-FOF-WS. If the Commission does not continue to impute CIAC associated
10 with margin reserve, it will place the risk of future customer connections on the backs
11 of current ratepayers. The risk that future customers connect to a utility's system, as
12 projected by the utility in its margin reserve calculations, is a risk that should be borne
13 by stockholders, not customers. This is a risk that the utility is compensated for in its
14 allowed return on equity. If the Commission were to change its policy and not impute
15 CIAC on margin reserve, then it would need to adjust its leverage graph formula to
16 account for the lower risk of the utility inherent in requiring current customers to bear
17 the risk that future customers will not connect to the system.

18
19 Furthermore, if the Commission does not impute CIAC on margin reserve it will
20 provide the utility with an opportunity to overearn. This occurs because the utility will
21 collect this CIAC (assuming its projections are correct), yet the associated CIAC will

1 not be included as an offset to the rate base. Moreover, failure to impute CIAC on
2 margin reserve would create a significant incentive for the utility to over project
3 customer growth for margin reserve purposes. Imputation of CIAC on margin reserve
4 provides the utility with an incentive to properly project future connections and it
5 matches plant in service with CIAC.

6

7 Q. Does this complete your direct testimony, prefiled on December 20, 1996?

8 A. Yes, it does.

9

APPENDIX
OF
KIMBERLY H. DISMUKES

APPENDIX I

QUALIFICATIONS

1

2

3

4 Q. What is your educational background?

5 A. I graduated from Florida State University with a Bachelor of Science degree in
6 Finance in March, 1979. I received an M.B.A. degree with a specialization in Finance
7 from Florida State University in April, 1984.

8 Q. Would you please describe your employment history in the field of public utility
9 regulation?

10 A. In March of 1979 I joined Ben Johnson Associates, Inc., a consulting firm specializing
11 in the field of public utility regulation. While at Ben Johnson Associates, I held the
12 following positions: Research Analyst from March 1979 until May 1980; Senior
13 Research Analyst from June 1980 until May 1981; Research Consultant from June
14 1981 until May 1983; Senior Research Consultant from June 1983 until May 1985;
15 and Vice President from June 1985 until April 1992. In May 1992, I joined the
16 Florida Public Counsel's Office, as a Legislative Analyst III. In July 1994 I was
17 promoted to a Senior Legislative Analyst. In July 1995 I started my own consulting
18 practice in the field of public utility regulation.

19 Q. Would you please describe the types of work that you have performed in the field of
20 public utility regulation?

21 A. Yes. My duties have ranged from analyzing specific issues in a rate proceeding to

1 managing the work effort of a large staff in rate proceedings. I have prepared
2 testimony, interrogatories and production of documents, assisted with the preparation
3 of cross-examination, and assisted counsel with the preparation of briefs. Since 1979,
4 I have been actively involved in more than 170 regulatory proceedings throughout the
5 United States.

6
7 I have analyzed cost of capital and rate of return issues, revenue requirement issues,
8 public policy issues, market restructuring issues, and rate design issues, involving
9 telephone, electric, gas, water and wastewater, and railroad companies.

10
11 In the area of cost of capital, I have analyzed the following parent companies:
12 American Electric Power Company, American Telephone and Telegraph Company,
13 American Water Works, Inc., Ameritech, Inc., CMS Energy, Inc., Columbia Gas
14 System, Inc., Continental Telecom, Inc., GTE Corporation, Northeast Utilities,
15 Pacific Telecom, Inc., Southwestern Bell Corporation, United Telecom, Inc., and U.S.
16 West. I have also analyzed individual companies like Connecticut Natural Gas
17 Corporation, Duke Power Company, Idaho Power Company, Kentucky Utilities
18 Company, Southern New England Telephone Company, and Washington Water
19 Power Company.

1 Q. Have you previously assisted in the preparation of testimony concerning revenue
2 requirements?

3 A. Yes. I have assisted on numerous occasions in the preparation of testimony on a wide
4 range of subjects related to the determination of utilities' revenue requirements and
5 related issues.

6
7 I have assisted in the preparation of testimony and exhibits concerning the following
8 issues: abandoned project costs, accounting adjustments, affiliate transactions,
9 allowance for funds used during construction, attrition, cash flow analysis,
10 conservation expenses and cost-effectiveness, construction monitoring, construction
11 work in progress, contingent capacity sales, cost allocations, decoupling revenues
12 from profits, cross-subsidization, demand-side management, depreciation methods,
13 divestiture, excess capacity, feasibility studies, financial integrity, financial planning,
14 gains on sales, incentive regulation, infiltration and inflow, jurisdictional allocations,
15 non-utility investments, fuel projections, margin reserve, mergers and acquisitions, pro
16 forma adjustments, projected test years, prudence, tax effects of interest, working
17 capital, off-system sales, reserve margin, royalty fees, separations, settlements, used
18 and useful, weather normalization, and resource planning.

19
20 Companies that I have analyzed include Alascom, Inc (Alaska), Arizona Public
21 Service Company, Arvig Telephone Company, AT&T Communications of the

1 Southwest (Texas), Blue Earth Valley Telephone Company (Minnesota), Bridgewater
2 Telephone Company (Minnesota), Carolina Power and Light Company, Central
3 Maine Power Company, Central Power and Light Company (Texas), Central
4 Telephone Company (Missouri and Nevada), Consumers Power Company
5 (Michigan), C&P Telephone Company of Virginia, Continental Telephone Company
6 (Nevada), C&P Telephone of West Virginia, Connecticut Light and Power Company,
7 Danube Telephone Company (Minnesota), Duke Power Company, East Otter Tail
8 Telephone Company (Minnesota), Easton Telephone Company (Minnesota), Eckles
9 Telephone Company (Minnesota), El Paso Electric Company (Texas), Florida Cities
10 Water Company (North Fort Myers, South Fort Myers and Barefoot Bay Divisions),
11 General Telephone Company of Florida, Georgia Power Company, Jasmine Lakes
12 Utilities, Inc. (Florida), Kentucky Power Company, Kentucky Utilities Company,
13 KMP Telephone Company (Minnesota), Idaho Power Company, Oklahoma Gas and
14 Electric Company (Arkansas), Kansas Gas & Electric Company (Missouri), Kansas
15 Power and Light Company (Missouri), Lehigh Utilities, Inc. (Florida), Mad Hatter
16 Utilities, Inc. (Florida), Mankato Citizens Telephone Company (Minnesota), Michigan
17 Bell Telephone Company, Mid-Communications Telephone Company (Minnesota),
18 Mid-State Telephone Company (Minnesota), Mountain States Telephone and
19 Telegraph Company (Arizona and Utah), North Fort Myers Utilities, Inc.,
20 Northwestern Bell Telephone Company (Minnesota), Potomac Electric Power
21 Company, Public Service Company of Colorado, Puget Sound Power & Light

1 **Company (Washington), Sanlando Utilities Corporation (Florida), Sierra Pacific**
2 **Power Company (Nevada), South Central Bell Telephone Company (Kentucky),**
3 **Southern Union Gas Company (Texas), Southern Bell Telephone & Telegraph**
4 **Company (Florida, Georgia, and North Carolina), Southern States Utilities, Inc.**
5 **(Florida), Southern Union Gas Company (Texas), Southwestern Bell Telephone**
6 **Company (Oklahoma, Missouri, and Texas), St. George Island Utility, Ltd., Tampa**
7 **Electric Company, Texas-New Mexico Power Company, Tucson Electric Power**
8 **Company, Twin Valley-Ulen Telephone Company (Minnesota), United Telephone**
9 **Company of Florida, Virginia Electric and Power Company, Washington Water**
10 **Power Company, and Wisconsin Electric Power Company.**

11 **Q. What experience do you have in rate design issues?**

12 **A. My work in this area has primarily focused on issues related to costing. For example,**
13 **I have assisted in the preparation of class cost-of-service studies concerning Arkansas**
14 **Energy Resources, Cascade Natural Gas Corporation, El Paso Electric Company,**
15 **Potomac Electric Power Company, Texas-New Mexico Power Company, and**
16 **Southern Union Gas Company. I have also examined the issue of avoided costs, both**
17 **as it applies to electric utilities and as it applies to telephone utilities. I have also**
18 **evaluated the issue of service availability fees, reuse rates, capacity charges, and**
19 **conservation rates as they apply to water and wastewater utilities.**

20 **Q. Have you testified before regulatory agencies?**

21 **A. Yes. I have testified before the Arizona Corporation Commission, the Connecticut**

1 Department of Public Utility Control, the Florida Public Service Commission, the
2 Georgia Public Service Commission, the Missouri Public Service Commission, the
3 Public Utility Commission of Texas, and the Washington Utilities and Transportation
4 Commission. My testimony dealt with revenue requirement, financial, policy, rate
5 design, and class cost-of-service issues concerning AT&T Communications of
6 Southwest (Texas), Cascade Natural Gas Corporation (Washington), Central Power
7 and Light Company (Texas), Connecticut Light and Power Company, El Paso
8 Electric Company (Texas), Florida Cities Water Company, Kansas Gas & Electric
9 Company (Missouri), Kansas Power and Light Company (Missouri), Houston
10 Lighting & Power Company (Texas), Lake Arrowhead Village, Inc. (Florida), Lehigh
11 Utilities, Inc. (Florida) Jasmine Lakes Utilities Corporation (Florida), Mad Hatter
12 Utilities, Inc. (Florida), Marco Island Utilities, Inc. (Florida), Mountain States
13 Telephone and Telegraph Company (Arizona), North Fort Myers Utilities, Inc.
14 (Florida), Southern Bell Telephone and Telegraph Company (Florida and Georgia),
15 Southern States Utilities, Inc. (Florida), St. George Island Utilities Company, Ltd.
16 (Florida), Puget Sound Power & Light Company (Washington), and Texas Utilities
17 Electric Company.

18
19 I have also testified before the Public Utility Regulation Board of El Paso, concerning
20 the development of class cost-of-service studies and the recovery and allocation of the
21 corporate overhead costs of Southern Union Gas Company and before the National

1 **Association of Securities Dealers concerning the market value of utility bonds**
2 **purchased in the wholesale market.**

3 **Q. Have you been accepted as an expert in these jurisdictions?**

4 **A. Yes.**

5 **Q. Have you published any articles in the field of public utility regulation?**

6 **A. Yes, I have published two articles: "Affiliate Transactions: What the Rules Don't**
7 **Say", Public Utilities Fortnightly, August 1, 1994 and "Electric M&A: A Regulator's**
8 **Guide" Public Utilities Fortnightly, January 1, 1996.**

9 **Q. Do you belong to any professional organizations?**

10 **A. Yes. I am a member of the Eastern Finance Association, the Financial Management**
11 **Association, the Southern Finance Association, the Southwestern Finance**
12 **Association, and the Florida and American Water Association.**

13

1 **MR. REILLY:** We tender Ms. Dismukes for
2 cross-examination.

3 **COMMISSIONER DEASON:** Mr. Gatlin.

4 **MR. GATLIN:** Mr. Chairman, I'm not likely to
5 complete the cross-examination this afternoon by 3:00,
6 and I really don't much like the idea of splitting it
7 up, and I would request that we just do it in the
8 morning, if there's something else we could do or
9 something.

10 **COMMISSIONER DEASON:** Staff, do you have
11 questions for Ms. Dismukes?

12 **MS. O'SULLIVAN:** Yes, I do. I have perhaps
13 no more than five minutes' worth. I could do those
14 now if you like.

15 **COMMISSIONER DEASON:** Go ahead and proceed.

16 **CROSS EXAMINATION**

17 **BY MS. O'SULLIVAN:**

18 **Q** Ms. Dismukes, if I could refer you to
19 Schedule 4 of your exhibit.

20 **A** Yes.

21 **Q** Under the Caloosa expense allocation section
22 of that exhibit, the third column entitled "Allocation
23 to Caloosa," would you agree that when added up, those
24 numbers do not equal 8,645 but instead 10,572?

25 **A** That looks correct. Yours looks more

1 correct than mine.

2 Q Okay. Subject to check from the MFRs, isn't
3 it correct that for the test year ended December 31st,
4 1996 Gulf has a 13-month average balance of \$993,185
5 in total prepaid CIAC?

6 A Could you give me the number again?

7 Q Certainly. Actually, I can refer you to the
8 MFRs, if you have those with you. Referring to
9 Schedule A-12 and A-19 --

10 MR. GATLIN: What page?

11 MS. O'SULLIVAN: Those are Pages 44 and 64
12 of the MFRs.

13 WITNESS DISMUKES: Okay. I'm on Page 44.

14 Q (By Ms. O'Sullivan) All right. I guess I
15 can -- to restate it. I asked you if you would agree,
16 subject to check from the MFRs, that Gulf has a
17 13-month average balance of approximately \$993,000 in
18 total prepaid CIAC, would you agree that that could be
19 derived from taking the total from Schedule A-12 of
20 Page 44 of the MFRs, which is \$9,060,000 and the total
21 balance of CIAC and prepaid CIAC from Schedule A-19 on
22 Page 64?

23 A You're basically suggesting that you would
24 subtract the sum of the 12 million plus the 9 million
25 from the 22 million in order to determine the prepaid

1 amount of CIAC?

2 Q That's correct.

3 A Yes. That should yield the correct number,
4 assuming that the numbers in the MFRs are correct.

5 Q All right. Would you agree that in cases
6 where a company has a large balance of prepaid CIAC
7 that the argument against the imputation of CIAC on
8 the margin reserve has less merit?

9 A Well, I think the argument to impute CIAC on
10 margin reserve has the most merit regardless of
11 whether or not they have prepaid CIAC.

12 Q Would you agree that if prepaid CIAC has
13 already been collected by the Utility, and the
14 Commission grants a margin reserve on plant, that any
15 adjustment to rate base would not be imputation of
16 CIAC, but rather the adjustment would be a
17 reclassification of prepaid CIAC to used and useful
18 CIAC.

19 A Yes.

20 Q Are you familiar with the -- I guess you
21 have reviewed Audit Exception No. 2 which addresses
22 composite amortization rates for CIAC?

23 A Yes.

24 Q Are you familiar with Rule 25-30.140 which
25 relates to composite amortization rates for CIAC? I

1 can give you a copy, if you'd like.

2 A That would be helpful.

3 Q If you could refer to Section 8-A, which is
4 on the last page.

5 MR. GATLIN: What is the rule?

6 MS. O'SULLIVAN: Oh. It's Rule 25-30.140,
7 Section 8-A.

8 Q (By Ms. O'Sullivan) Does this rule, as you
9 interpret it, say that a utility has the alternative
10 to amortize CIAC using a composite rate, or does it
11 say that where CIAC can be determined by plant account
12 or function, the amortization rate shall be that of
13 the appropriately related plant or function?

14 A I'm going to read it first. It says what
15 your latter -- the latter part of your question was
16 that if it can be separated out by function, then it
17 should be amortized by function.

18 Q All right. So --

19 A Only in the instance where those records are
20 not maintained should a composite rate be used.

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

23 COMMISSIONER DEASON: Let me ascertain. I
24 know this is the first day of the hearing, but I need
25 to ascertain where we are as far as estimates of time

1 to complete the hearing. We do have to conclude the
2 hearing today because of utilization of this space for
3 other purposes. We have tomorrow, and we have an
4 evening service hearing, and then we do have Friday
5 reserved, this facility reserved, if necessary.

6 Mr. Gatlin, let me ask you, the only
7 remaining Public Counsel witness is Ms. Dismukes, and
8 then there are a number of Staff witnesses. Do you
9 have an estimate of the time needed to conduct
10 cross-examination of those witnesses?

11 MR. GATLIN: For the three witnesses that
12 are going to show up in the morning, Mr. Beard,
13 Mr. Kleinschmidt and Ms. Welch, I would say a
14 combination of all of them together would be an hour
15 and a half.

16 COMMISSIONER DEASON: Now what about
17 Ms. Xanders and Mr. Burns?

18 MR. GATLIN: I thought Mr. Burns was a
19 witness we -- no; I don't have very much of him at
20 all, or Ms. Xanders, either one.

21 COMMISSIONER DEASON: Very little?

22 MR. GATLIN: Yes.

23 COMMISSIONER DEASON: Mr. Riley, what about
24 the time for cross of the Company's rebuttal case and
25 Staff witnesses?

1 **MR. REILLY:** We go very lightly on Staff
2 witnesses, and we go much more thoroughly with the
3 company witnesses.

4 Mr. Moore, Mr. Cardey will receive a pretty
5 good amount of questioning on rebuttal; Mr. Elliot as
6 well. Mr. Nixon, Messner and Andrews much less so,
7 and very little on the rest of these witnesses.

8 **COMMISSIONER DEASON:** Little and much and --
9 little is hard to quantify.

10 **MR. REILLY:** You want minutes?

11 **COMMISSIONER DEASON:** Yes. Minutes would be
12 better than hours.

13 **MR. REILLY:** We're definitely talking
14 minutes, because depending on how the questioning
15 goes, we're just talking about a page or two on some
16 of these, and some of the Staff witnesses no questions
17 at all unless a question comes to mind; and, as I
18 said, a fair amount on Mr. Moore, Mr. Cardey and
19 Mr. Elliot. Those three would be the subject of most
20 of our questioning tomorrow.

21 Minutes, gosh, it's hard to say, but it
22 could be at least an hour and a half or so.

23 **COMMISSIONER DEASON:** For all of them?

24 **MR. REILLY:** Well, it could be more than
25 that.

1 COMMISSIONER DEASON: Two hours.

2 MR. REILLY: Yeah, at least.

3 COMMISSIONER DEASON: Staff?

4 MS. O'SULLIVAN: Staff does have many more
5 questions on rebuttal than we had on direct. I would
6 say all the Utility witnesses combined, about two and
7 a half hours, and that's a fairly high estimate, but
8 we do have a good number of questions.

9 MR. REILLY: That's pretty much our
10 situation as well. I think if Mr. Gatlin could get
11 through with his questions of Ms. Dismukes between now
12 and 3:00, we might be able to make it to the end of
13 the second day. I could almost stipulate to that.

14 COMMISSIONER DEASON: It appears that we're
15 in fairly good shape. As I indicated, we do have a
16 service hearing tomorrow evening, so we don't have the
17 luxury of working late tomorrow, but appears that we
18 may be able to conclude during normal working hours
19 tomorrow. It's a possibility, and if that is not
20 sufficient, I feel very confident that we can conclude
21 within the morning hours of Friday.

22 Let me ask another question. Would now be
23 an appropriate time to go ahead and take care of the
24 stipulated witnesses and take care of that matter?

25 MS. O'SULLIVAN: I'm not sure I have them

1 with me. I was going to do it tomorrow morning. I
2 have to total up the page numbers and have the
3 exhibits moved in. I can do it tomorrow morning first
4 thing.

5 **COMMISSIONER DEASON:** All right. Let me ask
6 the parties, is there any problem starting the hearing
7 tomorrow at 8:30 as opposed to 9:00?

8 **MR. GATLIN:** No problem.

9 **MR. REILLY:** No problem.

10 **COMMISSIONER DEASON:** Staff?

11 **MS. O'SULLIVAN:** Not at all.

12 **COMMISSIONER DEASON:** We're going to
13 conclude then, for this day's session and we'll stand
14 in recess until tomorrow morning, and we will
15 reconvene at 8:30.

16 (Thereupon, the hearing adjourned at 2:50
17 p.m. to reconvene at 8:30 a.m. at the same address.)

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