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April 3, 1997

HAND DELIVERY

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

RE: Docket No. 951056-WS
Application by PALM COAST UTILITY CORPORATION
for a rate increase in Flagler County, Florida

Dear Ms. Bayo:

Enclosed for filing on behalf of Palm Coast Utility Corporation in the above docket are an original and fifteen copies of our Notice of Filing Agenda Conference Transcripts.

Please acknowledge receipt of the foregoing by stamping the enclosed extra copy of this letter and returning same to my attention. Thank you for your assistance.

Sincerely,

Wayne L. Schiefelbein
Wayne L. Schiefelbein

- ACK _____
- AFA 2
- APP _____
- CAF _____ WLS/pav
- CMU _____ Enclosures
- CTR _____
- EAG _____
- LEG 2
- LIN 3
- OPC _____
- RCH _____
- SEC 1
- WAS Willis
- OTH _____

DOCUMENT NUMBER-DATE
03439 APR-35
FPSC-RECORDS/REPORTING


BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate) Docket No. 951056-WS
increase in Flagler County by)
PALM COAST UTILITY CORPORATION) Filed: April 3, 1997

NOTICE OF FILING AGENDA CONFERENCE TRANSCRIPTS

Palm Coast Utility Corporation, by and through its undersigned counsel, hereby gives notice of filing transcripts of the Commission's deliberations for the above proceeding at the October 9, 1996 and March 18, 1997 Agenda Conferences, respectively.

Respectfully submitted,

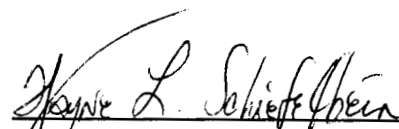


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Attorneys for
PALM COAST UTILITY CORPORATION

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by hand delivery to Ms. Bobbie Reyes, Esquire, Division of Legal Services, Florida Public Service Commission, 2540 Shumard Oak Blvd., Tallahassee, Florida 32399-0850; and by U.S. Mail to Mr. Stephen C. Reilly, Associate Public Counsel, Office of Public Counsel, Claude Pepper Building, Room 812, 111 West Madison Street, Tallahassee, Florida 32399-1400; and to Mr. Richard Melson, Esquire, Hopping, Green, Sams & Smith, 123 South Calhoun Street, Tallahassee, Florida 32314; and to Mr. Albert J. Hadeed, County Attorney, 1200 East Moody Boulevard, #11, Bunnell, Florida 32110-9764; and to Mr. Arthur L. Sirkin, c/o County Attorney, 1200 East Moody Blvd., #11, Bunnell, Florida 32110-9764, on this 3rd day of April, 1997.



Wayne L. Schiefelbein

DOCUMENT NUMBER-DATE

03439 APR-36

1512

FPSC-RECORDS/REPORTING

1 final order. And, again, I don't know what we can do
2 to avoid it, but it does trouble me that we have to do
3 this. But having said that, I can move staff on all
4 issues. On Issue 5 the correct -- the one I'm moving
5 is the primary recommendation.

6 COMMISSIONER DEASON: I'm sorry, you are moving
7 primary on --

8 COMMISSIONER KIESLING: Issue 5. It's on --

9 COMMISSION STAFF: Commissioner, that's on Page
10 21.

11 COMMISSIONER KIESLING: Thank you. Or if you want
12 to do all of them but 5, I can do it that way.

13 COMMISSIONER DEASON: Well, no, I have a question
14 on 4, on Issue 4. That's the first issue that I have a
15 question on. We're going to go issue-by-issue?

16 CHAIRMAN JOHNSON: Yes, we are going to go
17 issue-by-issue.

18 COMMISSIONER DEASON: I guess then I can move
19 Issues 1, 2, and 3.

20 COMMISSIONER KIESLING: Second.

21 CHAIRMAN JOHNSON: Show them approved without
22 objection.

23 COMMISSIONER DEASON: I'm on Page 19 of the
24 recommendation, the first paragraph. And I'm having
25 difficulty understanding the rationale concerning an

1 item of plant-in-service that was determined on a
2 year-end basis to be non-used and useful and then how
3 that, since we are going to be using a 13-month
4 average, then all of a sudden when we use a 13-month
5 average it's still considered non-used and useful. I
6 just need some explanation as to what we are doing
7 here.

8 COMMISSION STAFF: I guess, Commissioner, we used
9 the rationale that it was a known change and it was
10 non-used and useful plant.

11 COMMISSIONER DEASON: But was it non-used and
12 useful during the year, or was it just at the end of
13 the year it was so classified, or when was it so
14 classified?

15 COMMISSION STAFF: It was taken out of service, I
16 believe, before the test year.

17 COMMISSIONER DEASON: It was taken out of service
18 before the test year, so it would -- then for a
19 13-months average it should not be included in rate
20 base, either, is that correct?

21 COMMISSION STAFF: Right. They just didn't remove
22 it from the books.

23 COMMISSIONER DEASON: Okay. I was concerned then
24 that it was part of plant-in-service for a few months
25 of the year, and then for another part of the year it

1 was not, and then we just all of a sudden even though
2 we calculated it at a 13-month average, we just gave it
3 a zero value, and that concerned me.

4 COMMISSION STAFF: It was on the books, but it was
5 not in --

6 COMMISSIONER DEASON: It was on the books, but it
7 was not accounted for properly. I'm looking at the
8 bottom of Page 19 now. And concerning the utilization
9 of proposed system capacity charges, I need some
10 further explanation as the proposed versus actual and
11 what we are doing.

12 COMMISSION STAFF: OPC's Witness Dismukes had
13 recommended that to impute CIAC in the margin reserve
14 that you should used the proposed charge. The proposed
15 charge for the service availability was in a different
16 docket which wasn't part of the record of this case,
17 and it went to a different agenda. There was no
18 evidence in the record to say -- I mean, we had the
19 current charge in the record, we had the proposed
20 charge in the record, what they were, and we had OPC's
21 witness telling us to use the proposed charge to impute
22 CIAC on the margin reserve.

23 We had no testimony to dispute that. Even though
24 that didn't ultimately end up being the charge approved
25 by the Commission in a different docket outside of this

1 record, that's why staff recommended that the proposed
2 charge was used in this case.

3 COMMISSIONER DEASON: Because the concept of
4 margin reserve is forward looking, and you had
5 testimony in the record that said that we should use
6 the proposed charges because they were forward looking.

7 COMMISSION STAFF: That is correct. And there was
8 no other evidence as to which charge we should use
9 other than that.

10 COMMISSIONER DEASON: Okay. I can move staff on
11 Issue 4.

12 CHAIRMAN JOHNSON: Is there a second on Issue 4?
13 Diane.

14 COMMISSIONER KIESLING: I'm sorry.

15 CHAIRMAN JOHNSON: That's okay. Do you want to
16 take a second, or I can second it? On Item 4, do you
17 want to second it?

18 COMMISSIONER KIESLING: Yes. I will be happy to
19 second it.

20 CHAIRMAN JOHNSON: There is a motion and a second,
21 show it approved without objection. Now, Issue 5, we
22 had a primary and an alternative. Do you all want to
23 walk through those?

24 COMMISSION STAFF: Commissioners, in Issue 5,
25 Issue 5 addresses Palm Coast's motion for

1 reconsideration concerning the evidentiary deficiency
2 for the nonreconciliation of investment tax credits.
3 Christine Romig will introduce staff's primary
4 recommendation and Anne Causseaux will introduce
5 staff's alternative recommendation.

6 MS. ROMIG: Commissioners, in staff's primary
7 recommendation, staff is recommending that Palm Coast's
8 motion for reconsideration be granted, and that upon
9 reconsideration that the investment tax credits should
10 receive a pro rata reconciliation based on the evidence
11 in the record.

12 MS. CAUSSEAUX: Alternatively, staff would
13 recommend that Palm Coast's motion for reconsideration
14 be denied and that the order be clarified to show that
15 the evidence in the record was considered and did not
16 merit a pro rata reconciliation of the investment
17 credits.

18 COMMISSIONER DEASON: And that position is based
19 upon a burden of proof consideration, that that burden
20 should have been met in the case and it was not?

21 MS. CAUSSEAUX: Yes.

22 CHAIRMAN JOHNSON: So in the alternative you feel
23 that there was evidence, but that the company didn't
24 meet its burden of proof on this particular issue?

25 MS. CAUSSEAUX: Yes.

1 CHAIRMAN JOHNSON: In the primary --

2 MS. ROMIG: In the primary, staff is saying that
3 the three items which were part of the record, number
4 one, the MFRs reconciled ITCs on a pro rata basis.
5 Number two, OPC's calculations in Kim Dismuke's
6 prefiled testimony used pro rata reconciliation. And,
7 number three, on cross examination, although Mr.
8 Seidman testified that it is appropriate to include
9 specifically related ITCs in capital structure if they
10 can be so identified, they were not identified, nor was
11 any methodology proposed. So based on that on
12 reconsideration, I did not think that the record
13 supported deviating from the MFR presentation.

14 CHAIRMAN JOHNSON: That the record did not support
15 a deviation?

16 MS. ROMIG: Exactly.

17 CHAIRMAN JOHNSON: Any other questions,
18 Commissioners?

19 COMMISSIONER DEASON: Then is that assuming, then,
20 that whatever they file in the MFRs is correct, and
21 then it is some other party's burden then to show it
22 should be treated differently?

23 MS. ROMIG: That is the position that I took, yes,
24 on reconsideration.

25 CHAIRMAN JOHNSON: Is there any legal thought on

1 that issue?

2 COMMISSION STAFF: As to Commissioner Deason's
3 comments?

4 CHAIRMAN JOHNSON: Yes, and as to the burden of
5 proof.

6 COMMISSION STAFF: That's the basis of the
7 alternate recommendation, and that is that -- that was
8 one of the cases that was cited in the recommendation.
9 And the basis is that the Commission doesn't have to go
10 with what the parties present in the record if they
11 find that that is unreasonable.

12 CHAIRMAN JOHNSON: Any further questions?

13 COMMISSIONER DEASON: No. I think there was a
14 motion made earlier.

15 COMMISSIONER KIESLING: But mine got superseded by
16 going issue-by-issue.

17 COMMISSIONER DEASON: Okay. I would move staff
18 alternate recommendation for Issue 5.

19 CHAIRMAN JOHNSON: There is a motion on Issue 5
20 for the alternative, and I'm assuming you are agreeing
21 that they didn't meet the burden of proof and just
22 having it in the MFRs isn't sufficient?

23 COMMISSIONER DEASON: That's correct.

24 CHAIRMAN JOHNSON: There is a motion on Issue 5 to
25 approve the alternative recommendation. Is there a

1 second or discussion?

2 COMMISSIONER KIESLING: Yes, I'm willing to make a
3 second. And the reason is that as you will recall when
4 I was making my first motion I was undecided because I
5 was trying to read my notes. And, in fact, my notes
6 were for the alternate, so I was incorrect on the first
7 one and the position that I was wanting to support was
8 that the burden was on the utility. So, I can second
9 this motion because it is, in fact, the motion I
10 intended to make, but was incorrect.

11 CHAIRMAN JOHNSON: Show Issue 5, then, the
12 alternative position approved unanimously.

13 Issue 6. Or are there any other questions on the
14 remaining issues?

15 COMMISSIONER DEASON: I have a question on 6. I
16 think I understand the untimely situation, but my
17 concern is that apparently an error was made. And if
18 this is the correct issue I'm thinking about, I get
19 some of these issues and cases mixed up -- because we
20 were using one time period to calculate margin reserve
21 and it should have been a different time period. And
22 my question is how do we correct an error if we know
23 that it is incorrect even though it was raised to us
24 untimely and we have got to deny the reconsideration
25 because it was untimely?

1 COMMISSION STAFF: Staff is recommending that the
2 Commission correct that error on its own motion.

3 COMMISSIONER DEASON: And so that is perfectly
4 legitimate, that's no problem to do?

5 COMMISSION STAFF: That's correct. And as a
6 matter of fact, the utility wasn't even made aware,
7 they didn't even raise this issue until we had an
8 informal meeting with them, and after that meeting in
9 which staff brought it to the utility's attention that
10 we intended to recommend to the Commission to correct
11 this mistake on its own motion, then the utility raised
12 that as an amended motion.

13 COMMISSIONER DEASON: I move staff on Issue 6.

14 COMMISSIONER KIESLING: Second.

15 CHAIRMAN JOHNSON: Show it approved without
16 objection.

17 COMMISSIONER DEASON: I move staff on 7.

18 COMMISSIONER KIESLING: Second.

19 CHAIRMAN JOHNSON: Show that approved without
20 objection.

21 COMMISSIONER DEASON: I have a question, just a
22 clarifying question on Issue 8. The percentage change,
23 which is shown under the recommendation at the top of
24 the page, those represent changes from what to what?

25 COMMISSION STAFF: I think it's from the order,

1 from the Commissioners order to this case.

2 COMMISSIONER DEASON: So this is based upon what
3 was contained in the order to now what we are
4 determining on reconsideration?

5 COMMISSION STAFF: And also reduce the revenue
6 requirement which will be a fallout from the change in
7 Issue 5. There will be a change to that.

8 COMMISSIONER DEASON: All right. I move staff on
9 Issue 8.

10 COMMISSIONER KIESLING: Second.

11 CHAIRMAN JOHNSON: Show it approved without
12 objection.

13 COMMISSIONER DEASON: I move staff on all
14 remaining issues.

15 COMMISSIONER KIESLING: Second.

16 CHAIRMAN JOHNSON: Show them approved, then,
17 without objection.

18 COMMISSION STAFF: Commissioners, I just wanted to
19 point out that 9, 10, 11 and 12 are all fallouts, so we
20 will make those changes.

21 CHAIRMAN JOHNSON: Very good. Thank you very
22 much.

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, JANE FAUROT, Court Reporter, do hereby certify that the foregoing proceedings was transcribed from cassette tape, and the foregoing pages numbered 1 through 12 are a true and correct record of the proceedings.

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

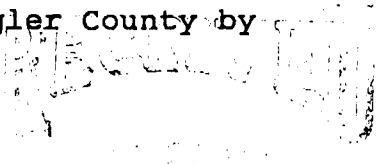
DATED THIS 31st day of March, 1997.

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

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
TALLAHASSEE, FLORIDA

IN RE: Application for rate increase in Flagler County by
Palm Coast Utility Corporation.

DOCKET NO. 951056-WS



Office of
KENNETH GATLIN



BEFORE:

COMMISSIONER J. TERRY DEASON
COMMISSIONER JULIA L. JOHNSON
COMMISSIONER DIANE K. KIESLING

PROCEEDING:

AGENDA CONFERENCE

ITEM NUMBER:

60

DATE:

Wednesday, October 9, 1996

PLACE:

4075 Esplanade Way, Room 148
Tallahassee, Florida

REPORTED BY:

JANE FAUROT, RPR
Notary Public in and for the
State of Florida at Large

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

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STAFF RECOMMENDATIONS

Issue A: Should the proposed stipulations be approved?

Recommendation: Yes. The proposed stipulations listed in the analysis portion of staff's September 26, 1996 memorandum should be approved.

Issue 1: Is the quality of service satisfactory?

Recommendation: Yes. The Commission should find that the quality of service provided by Palm Coast Utility Corporation(PCUC) is satisfactory.

Issue 2: Should a year-end or 13-month average rate base and capital structure be recognized for ratemaking purposes?

Recommendation: A 13-month average should be used for both rate base and cost of capital. Also, adjustments should be made to remove the utility's year-end adjustments to annualize revenues, chemicals and purchased power expenses, and CIAC gross-up amortization.

Issue 3: Were the appraisals for the 1986 purchase of the sprayfield site and the 1991 purchase of the rapid infiltration basin (RIB) site prepared by an independent, qualified appraiser?

Recommendation: Yes.

Issue 4: When was the sprayfield site first dedicated to utility service, and by whom?

Recommendation: In 1979, by PCUC.

Issue 5: When was the RIB site first dedicated to utility service, and by whom?

Recommendation: In 1991, by PCUC.

Issue 6: How should the sprayfield and RIB sites be valued?

Recommendation: The sites should be valued based upon their fair market value as of the date they were first dedicated to public service. However, PCUC's appraisal falls far short of establishing fair market value and, under the circumstances, is not credible. The fair market value for the RIB should be based upon the May 1988 sale from Pellicer to Wright for \$2,993 per acre, a 43.15% reduction from the appraised value. Since no other comparable sales were available for the sprayfield, the same percentage adjustment which is recommended for the RIB land (43.15%) should be applied to the sprayfield land, resulting in a fair market value of \$1,888 per acre.

Issue 7: Should an adjustment be made to the cost of the rapid infiltration basin land and buffer sites purchased by the Company from its affiliate?

Recommendation: Yes. Land should be reduced by \$318,322.

1 Issue 8: Should an adjustment be made to the cost of the
2 spray field land site purchased by the Company from its
3 affiliates?

4 Recommendation: Yes. Wastewater land should be reduced by
5 \$20,233.

6 Issue 9: Should plant in service be reduced for the
7 misclassification of major rehabilitation projects? (Audit
8 Exception No. 3)

9 Recommendation: No. Plant in service should not be reduced
10 for the misclassification of major rehabilitation projects.

11 Issue 10: Dropped.

12 Issue 11: Should a margin reserve be included in the
13 calculations of used and useful?

14 Recommendation: Yes. Consistent with Commission policy, a
15 margin reserve should be included in the used and useful
16 calculation.

17 Issue 12: If margin reserve is included in the calculation
18 of used and useful, what is the appropriate margin reserve
19 period?

20 Primary Recommendation: A 12-month margin reserve is
21 appropriate for water transmission and distribution lines
22 and wastewater collection lines and pumping systems. An
23 18-month margin reserve period is appropriate for the
24 following plant: water treatment plant, water source of
25 supply, and high service pumping. A three-year margin
reserve is appropriate for the wastewater treatment plant
and effluent disposal facilities.

Alternate Recommendation: Instead of a three-year margin
reserve for wastewater treatment plant and effluent disposal
facilities, the alternate recommendation is to only allow
eighteen months margin reserve consistent with past
Commission decisions. The margin reserve periods for other
facilities remain the same as the primary recommendation.

Issue 13: If a margin reserve is approved, should CIAC be
imputed on the ERCs included in the margin reserve?

Recommendation: Yes. Consistent with Commission practice,
CIAC should be imputed as a matching provision to the margin
reserve calculation. However, it is appropriate to make the
adjustment for 50% of the imputed amount as an averaging
method to recognize that the imputed amount will be
collected over the life of the margin reserve period, not
all at the beginning of the period. Accordingly, CIAC
should be increased by \$344,432 and \$849,939 for water and
wastewater, respectively. Accumulated amortization of CIAC
should be increased by \$5,489 for water and \$13,047 for
wastewater. Additionally, test year amortization expense
should be reduced by \$10,977 and \$26,093 for water and
wastewater, respectively.

Issue 14: What is an acceptable level of unaccounted-for
water?

- 1 Recommendation: A reasonable level of unaccounted-for water
is 12.5%.
- 2 Issue 15: Does PCUC have excessive unaccounted-for water
and, if so, what adjustments are appropriate?
- 3 Recommendation: No. No adjustments are appropriate.
- 4 Issue 16: Is there excess flushing at PCUC's water system
and, if so, what adjustments are appropriate?
- 5 Recommendation: No. No adjustments are appropriate since
the water used for flushing at PCUC is needed to maintain a
6 satisfactory water quality for its current customers. PCUC
should attempt to negotiate an agreement with the City of
Marineland for the purchase of water from PCUC.
- 7 Issue 17: What is an acceptable level of infiltration and
inflow?
- 8 Recommendation: For existing systems, an acceptable level
for infiltration and inflow is up to 40 gallons per day per
9 capita (gpd/c).
- 10 Issue 18: Does PCUC have excessive infiltration and/or
inflow and, if so, what adjustments are necessary?
- 11 Recommendation: PCUC does not have excessive infiltration
and/or inflow. The wastewater system, however, does have
12 infiltration and inflow associated with a collection systems
which has a low customer density. No adjustments should be
13 made to the customer demand applied in the utility's used
and useful calculation or the wastewater expenses.
- 14 Issue 19: Should 20% of facility costs be automatically
considered 100% used and useful because of economies of
scale considerations?
- 15 Recommendation: The Commission should include an economies
of scale factor for PCUC's water and wastewater treatment
16 plants and effluent disposal system. For the water system,
the economies of scale should be recognized by allowing the
17 utility to recover 100% of its investment for the membrane
softening plant (wtp #2) structures and improvements
18 (account 354.3) as well as, the following equipment included
in account 320.3: concentrate disposal equipment,
19 generators and related engines, wellfield control system,
instrumentation, telemetering and controls, and structural
20 piping. For the wastewater treatment plant and effluent
disposal facilities, the utility's requested economy of
21 scale factor should be accepted. An economy of sale factor
should be applied to any plant associated with either
22 the water transmission and distribution or wastewater
collection systems.
- 23 Issue 20: Is it appropriate to include a fire flow
allowance in the calculation of the used and useful
24 percentage for the water transmission and distribution
system, supply wells, and water treatment plants?
- 25 Recommendation: The inclusion of a fire flow is appropriate
for the water treatment plant. A fire flow allowance should

- 1 be not be included for the water transmission and
distribution system and the source of supply.
- 2 Issue 21: Is the utility's method of calculating the
3 maximum day flow appropriate for calculating used and useful
percentages for water facilities?
Primary Recommendation: Yes.
- 4 Alternate Recommendation: No.
Issue 22: Should the Commission use operating permit
5 capacities instead of construction permit capacities for the
used and useful calculations?
Recommendation: The Commission should use the most recent
6 operating capacity permitted by DEP for wastewater treatment
7 plant used and useful calculations. DEP issues only a
construction permit for water treatment facilities.
- 8 Issue 23: What is the appropriate allowance for
9 equalization and emergency storage in the used and useful
calculation?
Recommendation: The appropriate allowance for equalization
10 and emergency storage is 75% of the projected maximum daily
demand.
- 11 Issue 24: Should 10% of the finished water storage be
treated as retention storage?
Recommendation: Yes, for ground storage tanks only. An
12 allowance for retention in elevated storage tanks is not
13 appropriate.
- 14 Issue 25: What are the appropriate methods for calculating
the water source of supply, treatment plant, high service
pumping, and storage used and useful percentages?
Recommendation: Used and useful for the water source of
15 supply should be calculated by dividing the projected
16 maximum day flow by the source of supply's firm reliable
capacity. No used and useful calculation is necessary for
17 water treatment plant #1 since that plant is 100% used and
useful. Used and useful for water treatment plant #2 (wtp
18 #2) should be calculated by first adding the projected
maximum day demand and fire flow and then subtracting the
19 capacity of water treatment plant one from this sum. The
resulting number should then be divided by wtp #2's
20 capacity. Used and useful for high service pumping should
be calculated by dividing the projected peak hour demand by
21 the high service pumping's firm reliable capacity. Used and
useful for storage should be calculated by dividing sum of
22 the equalization, emergency, and fire flow requirements by
the available storage capacity.
- 23 Issue 26: What is the appropriate method for calculating
the wastewater treatment plant and effluent disposal used
24 and useful percentages?
Recommendation: The wastewater treatment plant used and
25 useful percentage should be calculated by dividing the
projected annual average daily flow by the treatment

- 1 capacity and that effluent disposal used and useful
 2 percentage should be calculated by dividing the projected
 3 annual average daily flow by the total effluent disposal
 4 capacity which PCUC has constructed.
- 5 Issue 27: What is the appropriate method for calculating
 6 the water transmission and distribution system used and
 7 useful percentage?
Recommendation: The distribution system used and useful
 8 percentage should be calculated by dividing the number of
 9 projected lots by the number of lots on lines. For the
 10 transmission system, used and useful should be calculated by
 11 dividing the number of projected lots on lines by the
 12 equivalent lots served by the transmission mains. For
 13 services, used and useful should be calculated by dividing
 14 the total number of lots on lines by the number of services
 15 which have been installed. For fire hydrants, used and
 16 useful should be calculated by taking the ratio of active
 17 hydrants to total hydrants.
- 18 Issue 28: What is the appropriate method for calculating
 19 the wastewater collection system and pumping plant used and
 20 useful percentage?
Recommendation: Used and useful for the gravity collection
 21 system should be calculated by dividing the project number
 22 of lots connected by the total number of lots served by
 23 gravity lines. Used and useful for the PEP mains should be
 24 calculated by dividing the projected number of lots
 25 connected by the total number of lots served by pep mains.
 The PEP tanks are 100% used and useful. Used and useful for
 pumping plant (lift stations) should be calculated by
 dividing the estimated peak flows to the lift stations by
 the station capacity. Used and useful percentage for force
 mains should be calculated using the pumping station used
 and useful percentage with an adjustment for manifold force
 mains.
- Issue 29: Should facility lands be considered 100% used and
 useful without detailed justification?
Recommendation: No. However, no used and useful
 adjustments to land are appropriate.
- Issue 30: Should a facility be considered 100% used and
 useful again, if it was determined to be 100% used and
 useful in a previous proceeding?
Recommendation: Normally, yes. However, if Commission
 procedures for calculating used and useful have changed or
 if additional capacity has been installed since the previous
 determination that the facility was 100% used and useful, an
 adjustment may be appropriate.
- Issue 31: Should non-used and useful adjustments be made to
 general plant?
Recommendation: Yes. The appropriate used and useful
 percentage for the general plant structures and improvements

1 is 90.98%.

2 Issue 32: What are the appropriate used and useful
percentages?

3 Recommendation: The appropriate used and useful percentages
4 are those provided in Attachment 2 of staff's September 26,
5 1996 memorandum.

6 Issue 33: Should an adjustment be made to depreciation
expense and accumulated depreciation of the cost of rapid
7 infiltration basin to the appropriate accounts?

8 Recommendation: No.

9 Issue 34: Should non-used CIAC be included as a reduction
to rate base?

10 Recommendation: This is a proposed stipulation discussed in
Issue A.

11 Issue 35: Dropped.

12 Issue 36: What is the proper amount of CIAC to use as a
deduction from rate base?

13 Recommendation: The proper amount is the amount that the
Commission approves as being used and useful.

14 Issue 37: Should net debit deferred income taxes be
included in rate base and, if so, should any adjustments be
made to the amount proposed by the Company?

15 Recommendation: Yes, net debit deferred income taxes should
be included in rate base. The amounts proposed by the
16 Company should be decreased by \$264,759 for water and
increased by \$332,444 for wastewater.

17 Issue 38: Should any adjustments be made to plant in
service related to percolation ponds that were taken out of
18 service or general plant due to the Company providing
operation and maintenance services to non-PCUC water and
19 wastewater systems?

20 Recommendation: No.

21 Issue 39: What provision for working capital should be
included in rate base?

22 Recommendation: A zero provision for working capital should
be approved, which was calculated using the balance sheet
23 approach in accordance with Rule 25-30.433(2), F.A.C.

24 Issue 40: What are the appropriate rate base amounts?

25 Recommendation: The appropriate rate base amounts are
\$11,227,302 for water and \$6,590,653 for wastewater.

Issue 41: Dropped.

Issue 42: Should CIAC be included as a component in the
case of capital?

Recommendation: Since it is recommended in Issue 36 that
used and useful CIAC be treated as a reduction to rate base,
23 CIAC should not be included as a zero-cost component in the
24 capital structure.

Issue 43: Should prepaid CIAC be included in the utility's
capital structure?

Recommendation: Prepaid (non-used and useful) CIAC should

- 1 not be included in PCUC's capital structure.
- 2 Issue 44: What is the appropriate cost of debt?
- 3 Recommendation: The appropriate cost of long-term debt is
4 7.24% and the appropriate cost of short-term debt is 7.73%.
- 5 Issue 45: What are the appropriate adjustments to
6 investment tax credits (ITCs) and their cost rate, if any,
7 and what is the resulting balance?
- 8 Recommendation: ITCs should be increased by \$129,534 if an
9 average rate base is used or by \$125,569 if a year-end rate
10 base is used. The result is a 13-month average balance of
11 unamortized ITCs of \$2,445,760 or a year-end balance of ITCs
12 of \$2,391,641. The ITCs should not receive a pro rata
13 reconciliation adjustment. Their cost rate is zero.
- 14 Issue 46: What is the appropriate capital structure for
15 ratemaking purposes?
- 16 Recommendation: The appropriate capital structure for
17 ratemaking purposes is PCUC's stand-alone capital structure.
- 18 Issue 47: What is the appropriate weighted average cost of
19 capital including the proper components, amounts, and cost
20 rates associated with the capital structure for the test
21 year?
- 22 Recommendation: The appropriate weighted average cost of
23 capital is 8.04%.
- 24 Issue 48: What are the appropriate projected number of
25 water and wastewater bills and consumption to be used to
calculate revenue for the projected test year and to
calculate rates for water and wastewater service?
- Recommendation: The appropriate projected number of water
and wastewater bills to be used to calculate revenue and
rates for the projected test year should be 184,812 and
126,252, respectively. The projected consumption should be
963,948 for water and 593,841 for wastewater.
- Issue 49: Should an adjustment be made to the amount of
miscellaneous revenue to be included in the 1995 projected
test year?
- Recommendation: No adjustment should be made to the amount
of miscellaneous revenue to be included in the 1995
projected test year.
- Issue 50: Should an adjustment be made to the amount of
1995 water revenue received from hammock Dunes?
- Recommendation: No adjustment should be made to the amount
of 1995 water revenue received from Hammock Dunes.
- Issue 51: Should adjustments be made for non-utility income
and revenue recorded on the Company's books?
- Recommendation: Yes. Adjustments should be made to
increase water and wastewater revenues by \$1,802 and
\$50,834, respectively.
- Issue 52: Should non-used and useful adjustments to O&M
expenses be made?
- Recommendation: Yes, but no additional adjustments are

1 necessary.
Issue 55: Should an adjustment be made for affiliate
2 charges?
Recommendation: Yes, an adjustment should be made to reduce
3 affiliate charges by \$15,153 for water and \$10,259 for
wastewater.
4 Issue 56: Should any adjustments be made to true-up the six
months of budgeted test year expenses to actual?
5 Recommendation: No adjustments should be made.
Issue 57: Should an adjustment be made to personnel
6 services expenses?
Recommendation: Yes. An adjustment to decrease personnel
7 services expenses should be made in the amount of \$10,204
and \$6,909 for water and wastewater, respectively.
8 Issue 58: Should the miscellaneous expense adjustment for
non-recurring legal fees reflected on Dismukes' Schedule 16
9 be made?
Recommendation: Yes. Legal expenses should be reduced by
10 \$4,457 for water and \$3,017 for wastewater.
Issue 59: Should any adjustments be made to administrative
11 and general expenses due to the company providing operations
and maintenance services to non-PCUC water and wastewater
12 systems, test year expenses to reflect actual expenses, test
year expenses to remove expenses incurred that were
13 associated with the divesture (sic) of PCUC, or test year
legal expenses?
14 Recommendation: No additional adjustments are necessary.
Issue 60: What is the appropriate amount of rate case
15 expense?
Recommendation: The appropriate provision for rate case
16 expense is \$390,981. This results in an increase of \$89,481
to the MFR-requested amount. The four-year amortization
17 results in additional test year rate case expense of
\$22,370, split equally between water and wastewater in the
18 amount of \$11,185, respectively.
Issue 60A: Dropped.
19 Issue 60B: Dropped.
Issue 61: Are adjustments necessary to property taxes for
20 non-used and useful plant adjustments?
Recommendation: Yes. A decrease of \$108,320 and \$45,869 is
21 necessary for water and wastewater, respectively.
Issue 62: What are the appropriate adjustments to the
22 provision for income taxes, including the appropriate
federal tax rate, the parent debt adjustment, the interest
23 reconciliation adjustment, the ITC interest synchronization
adjustment and adjustments for other NOI adjustments?
24 Primary Recommendation: The provision for income tax
expense should be based on the consolidated federal tax rate
25 of 35 percent and decreased by a net \$166,755 for water and
by a net \$257,766 for wastewater. Of the foregoing amounts,

1 the provisions are increased by \$88,002 for water and by
 2 \$79,142 for wastewater to adjust the parent debt adjustment.
 3 Second, the adjustment to the interest reconciliation
 4 adjustment increases the tax provision by \$132,409 for water
 5 and by \$120,302 for wastewater. Third, other adjustments to
 6 revenues and expenses decrease tax expense by \$387,166 for
 7 water and by \$457,210 for wastewater. Last, an ITC interest
 8 synchronization adjustment is not appropriate as PCUC is an
 9 Option 1 Company.

10 Alternate Recommendation: The tax expense should be
 11 calculated using a 34% tax rate. The dollar effect of this
 12 change is a \$21,679 total reduction to income tax expense
 13 or \$13,367 and \$8,312 for water and wastewater,
 14 respectively.

15 Issue 63: Dropped.

16 Issue 64: What are the test year operating income amounts
 17 before any revenue increase?

18 Recommendation: The test year operating income amounts
 19 \$1,049,237 for water and \$490,152 for wastewater.

20 Issue 65: What are the revenue requirements?

21 Recommendation: The following revenue requirement should be
 22 approved:

	<u>Total</u>	<u>\$Incr.(Decr.)</u>	<u>%Change</u>
23 Water	\$5,150,098	(\$250,266)	(4.63%)
24 Wastewater	\$3,354,699	\$ 67,494	2.05%

25 Issue 66: In light of Section 367,0817, F.S., should any
 revenue requirement associated with reuse be allocated to
 the water customers of PCUC?

Recommendation: No. No portion of the revenue requirement
 associated with reuse should be allocated to the water
 customers of PCUC.

Issue 67: Should a new class of effluent service be
 approved and, if so, what are the appropriate rates, if any,
 for effluent service?

Recommendation: Yes. A new class of service should be
 approved. The appropriate reuse rate is \$.10/1,000 gallons,
 resulting in an annual reuse revenue of \$36,500.

Issue 68: What is the appropriate bulk water rate for PCUC?

Recommendation: The appropriate bulk water rate for PCUC
 should be the rate achieved when the same percentage
 increase for other water rates is applied to PCUC's current
 bulk rate. Therefore, the appropriate bulk water rate for
 PCUC to charge Hammock Dunes should be a BFC of \$186.65 and
 a gallonage charge of \$.96.

Issue 69: What are the appropriate water and wastewater
 service rates for PCUC?

Recommendation: Consistent with staff's recommendation in

1 Issue 67, the recommended service rates should be designed
 2 to produce annual operating revenues of \$5,107,628 and
 3 \$3,259,173 for the water and wastewater divisions,
 4 respectively. The recommended revenues exclude any
 5 miscellaneous revenues and reuse. The approved rates
 6 should be effective for service rendered on or after the
 7 stamped approval date on the tariff sheets pursuant to Rule
 25-30.475(1), F.A.C., provided the customers have received
 notice. The rates should not be implemented until required
 notice has been received by the customers pursuant to Rule
 25-30.475(1), F.A.C. The utility should provide proof of
 the date notice as given within 10 days after the date of
 notice.

8 Issue 70: What are the appropriate amounts by which rates
 9 should be reduced four years after the established effective
 10 date to reflect the removal of the amortized rate case
 11 expense required by Section 367.0816, F.S.?

12 Recommendation: The water and wastewater rates should be
 13 reduced as shown on Schedule Nos. 5-A and 5-B of staff's
 14 memorandum, to remove \$51,176 for water and \$51,176 for
 15 wastewater for rate case expense grossed up for regulatory
 16 assessment fees which are being amortized over a four-year
 17 period. The decreases in rates should become effective
 18 immediately following the expiration of the four-year
 19 recovery period, pursuant to Section 367.0816, F.S. The
 20 utility should be required to file revised tariff sheets and
 21 proposed customer notices setting forth the lower rates and
 22 the reason for the reductions no later than one month prior
 23 to the actual date of required rate reductions.

24 Issue 71: In determining whether any portion of the interim
 25 increase granted should be refunded, how should the refund
 be calculated, and what is the amount of the refund?

26 Recommendation: The Utility should be required to refund
 27 7.21% of water and 3.83% of wastewater revenues collected
 28 under interim rates. The refund should be made with
 29 interest in accordance with Rule 25-30.360(4), F.A.C. The
 30 utility should be required to submit the proper refund
 31 reports pursuant to Rule 25-30.360(7), Florida
 32 Administrative Code. The utility should treat any unclaimed
 33 refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C.

34 Issue 72: What are the appropriate annual monthly
 35 discounted rates, and the effective date for AFUDC?

36 Recommendation: The annual AFUDC rate should be 8.04% and
 37 the discounted monthly rate should be 0.669571%, consistent
 38 with Rule 25-30.116, F.A.C. The AFUDC effective date should
 39 be January 1, 1996.

40 Issue 73: Should the docket be closed?

41 Recommendation: This docket should be closed after the time
 42 for filing an appeal has run, upon staff's verification that
 43 the utility has completed the required refunds with interest

1 and the proper revised tariff sheets and customer notice
2 have been filed by the utility and approved by staff.
3 Further, the utility's corporate undertaking may be released
4 upon staff's verification that the refund has been
5 completed.

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CERTIFICATE OF REPORTER

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COMMISSIONER DEASON: We are now on Item 60.

I understand there has been a correction made to the calculation of revenue requirement.

COMMISSION STAFF: Yes, Commissioner. We handed out a copy of revised revenue requirement. We found an error this morning in the debit deferred tax balance. It's not a change to the recommendation written language. That adjustment did not follow through to the accounting schedules, and we have handed out a package that shows all the schedules' changes plus the rates. It was a decrease of three cents for the water gallonage charge, and a decrease for the wastewater gallonage charge of three cents, also.

COMMISSION STAFF: In addition, Mr. Starling needs to make a couple of corrections to a couple of items.

MR. STARLING: On Page 86 under Account --

COMMISSIONER JOHNSON: I'm sorry, page?

MR. STARLING: 86. Under Account 360.2, Collections - Sewers Force Mains, staff's recommended used and useful percentage should be 69.99 percent, instead of the 38.73.

COMMISSIONER DEASON: Now, this is not a change in recommendation, it's just a --

MR. STARLING: Yes, that was an error which is

1 just in this schedule. The accountants already have
2 the proper numbers in their calculation, so it will not
3 affect the revenue requirement. And, also, the
4 corresponding change will also need to be made on
5 Page 94, which is more of the detail support for that
6 -- detail about that calculation. The used and useful
7 percentage should be 69.99 percent under Account 360.2.
8 That, of course, will change the dollar amounts. The
9 customer demand should be 69.07 percent, and the margin
10 reserve should be .92 percent. And that's the only
11 changes I have.

12 COMMISSIONER DEASON: Any further corrections?

13 COMMISSION STAFF: I believe that's all,
14 Commissioners. We're ready to proceed issue by issue.

15 I'm sorry. The utility has also filed a
16 suggestion of errors in staff's recommendation, and I'd
17 like to make a few points about that, if I might.

18 COMMISSIONER DEASON: Please proceed.

19 COMMISSION STAFF: First, with regards to the
20 motion, staff believes it's inappropriate. This motion
21 is not provided for anywhere in the Commission's rules,
22 nor is it akin to any motion provided by the Florida
23 Rules of Civil Procedure. The substance of this
24 motion, we believe, is more appropriately addressed in
25 a motion for reconsideration.

1 Second, the utility has attempted to buttress its
2 motion by citing to an order which the utility believes
3 supports its right to file this motion. However, the
4 utility fails to acknowledge that the order cited in
5 this motion was from an interim order. And in that
6 interim order there was no reconsideration. Again, in
7 this proceeding the Commission's decision is final and,
8 therefore, we believe that the subject of this motion
9 would be more appropriately addressed in a motion for
10 reconsideration.

11 Lastly, staff has reviewed the substance of the
12 motion, and we believe that the motion itself contains
13 nothing more than mere differences of opinion, which
14 under the standard cited to by the utility would not
15 stand.

16 COMMISSIONER JOHNSON: What was the nature of the
17 motion, again? What was it called?

18 COMMISSION STAFF: A suggestion of errors in
19 staff's recommendation.

20 COMMISSIONER JOHNSON: Is that something we then
21 deny? I mean --

22 COMMISSION STAFF: I would say that staff believes
23 it is inappropriate and would recommend that the
24 Commission not even consider it. In the alternative,
25 if you decide to consider it, we would recommend that

1 you deny it.

2 COMMISSIONER JOHNSON: I was just wondering for
3 purposes of procedure do we acknowledge it and then
4 state that it will not be addressed, or how do we make
5 -- how will we make the record clear in that regard?
6 Or do we just ignore it?

7 COMMISSION STAFF: I've been told that you don't
8 even need to consider it, but we just wanted to bring
9 it up to your attention.

10 COMMISSIONER JOHNSON: Okay. Thank you.

11 COMMISSIONER DEASON: Okay.

12 COMMISSION STAFF: Commissioners?

13 COMMISSIONER DEASON: Yes.

14 COMMISSION STAFF: With the revised schedules that
15 you all have received, regarding the reuse rates and
16 the staff's recommendation, originally it was shown
17 that the prior rates were not zero, also, the interim
18 rates and the utility requested rates. The schedules
19 now will show that the rates prior to filing were zero.
20 Well, the utility requested rates was zero, and the --
21 I'm sorry. The utility requested rate was 67 cents,
22 and staff recommended was 10 cents. Also, with the
23 revised schedule, they will reflect a change in the
24 bulk rate for the Dunes. Originally it was shown to be
25 186.65. Now they will be 185.63.

1 COMMISSIONER DEASON: Do we have revised rates as
2 a result of the change in revenue requirements that was
3 distributed this morning?

4 COMMISSION STAFF: Yes.

5 COMMISSIONER DEASON: Commissioners, what is your
6 pleasure as far as proceeding issue by issue, general
7 discussion, raise questions? I have some questions on
8 some issues and many issues I do not, but there are
9 several I do have questions on at some point. Maybe we
10 can go issue by issue, and then if a Commissioner has a
11 question --

12 COMMISSIONER KIESLING: Either that or -- what's
13 your first issue?

14 COMMISSIONER DEASON: 12.

15 COMMISSIONER KIESLING: Mine, too. Yours, too?
16 So, I'll move Issue A through Issue 11, move staff.

17 COMMISSIONER DEASON: Is there a second?

18 COMMISSIONER JOHNSON: Second.

19 COMMISSIONER DEASON: Without objection, then show
20 that staff's recommendations on Issues A through 11 are
21 approved.

22 We are now on Issue 12.

23 COMMISSIONER JOHNSON: Are they going to do a
24 presentation?

25 COMMISSIONER DEASON: Well, my question --

1 obviously, we have a primary and an alternate, and it's
2 a question of Commission policy and a variation of that
3 policy. Just let me say that I am in support of the
4 alternate. If there is some discussion, I'm certainly
5 willing to engage in that.

6 COMMISSIONER KIESLING: Mine is simply more of a
7 question. The first time that this issue came up was
8 just recently in the Southern States --

9 COMMISSION STAFF: That's correct.

10 COMMISSIONER KIESLING: -- rate case. And since
11 it wasn't in here, what did we do on that?

12 COMMISSION STAFF: Well, basically, the Commission
13 policy is, as in the alternative recommendation, where
14 we've allowed one year for the lines and 18 months for
15 the plant. Recently the Department of Environmental
16 Protection has come up with the additional
17 requirements.

18 COMMISSIONER KIESLING: I know their rule. I just
19 want to know what we did under the Southern States
20 case. Did we go with the three years or did we stay
21 with the 18 months?

22 COMMISSION STAFF: We stayed with the 18 months.

23 COMMISSIONER KIESLING: That's what I thought we
24 did. I'm willing to move the alternate.

25 COMMISSIONER DEASON: Let me say that I'm kind of

1 uncomfortable changing -- a three-member panel changing
2 a vote of the full Commission.

3 COMMISSIONER KIESLING: I am, too. Which is why
4 I'm --

5 COMMISSIONER DEASON: And that's the reason I'm
6 supporting the alternate, as well.

7 COMMISSIONER JOHNSON: The alternate is -- I'm
8 getting confused again. The alternate is the
9 Commission policy?

10 COMMISSIONER KIESLING: Yes.

11 COMMISSIONER JOHNSON: Okay.

12 COMMISSIONER DEASON: So, without objection, show
13 the alternate approved on Issue 12.

14 COMMISSIONER JOHNSON: And, again, for the same
15 reasons in the Southern States case. It's not
16 necessarily that this isn't a policy that may be
17 changed, but I understand that we're going to have a
18 proceeding where we're going to look at this issue, if
19 I'm right, in a more comprehensive manner.

20 COMMISSION STAFF: We have a big workshop on that
21 in December on margin reserve.

22 COMMISSIONER JOHNSON: Okay.

23 COMMISSION STAFF: For rulemaking.

24 COMMISSIONER JOHNSON: And to the extent that it
25 is a policy that we would change, I think it probably

1 would be more appropriate that we do it with a full
2 Commission.

3 COMMISSIONER KIESLING: The next issue that I have
4 is 19. Do you have any before that?

5 COMMISSIONER DEASON: The next question that I
6 have is on 19, as well.

7 COMMISSIONER KIESLING: All right. Then I'll move
8 staff on Issues 13 through 18.

9 COMMISSIONER DEASON: Without objection, show
10 staff's recommendation approved on Issues 13 through
11 18.

12 We are now on Issue 19.

13 COMMISSIONER KIESLING: And I don't so much have a
14 question as I do just the statement that I simply
15 cannot vote for this at this time, because I'm very
16 concerned that we've only done it one time before this
17 and it was quite awhile ago. I also am concerned
18 because it does appear to me that this does shift costs
19 for future growth to current customers. And I am not
20 comfortable with the adequacy of the record to justify
21 what I consider as a radical change in policy.
22 Although I understand all the reasons to do it, I just
23 don't think that this is the case or that this is the
24 proper mechanism to reach that kind of a major change
25 in policy.

1 COMMISSIONER DEASON: Let me ask a question.
2 Staff is recommending an adjustment on the water side
3 consistent with the testimony of Witness Amaya.

4 COMMISSION STAFF: Yes.

5 COMMISSIONER DEASON: And then on the wastewater
6 side, you're accepting the position of Witness
7 Gaustella for a 20-percent factor to be applied.

8 COMMISSION STAFF: Correct.

9 COMMISSIONER DEASON: Let me state that as far as
10 the recommended adjustment on the water side, I'm
11 comfortable with that because I thought we had
12 sufficient testimony that identified specific
13 components of the system and specific reasons why those
14 components should be included, and that it was the
15 prudent economic decision to make. I find that totally
16 lacking on the wastewater side. We have a 20-percent
17 factor. In fact, staff's recommendation even states
18 that the utility failed to provide any engineering
19 studies or documentation which quantifies the savings
20 from that proposal, from those economies of scale that
21 would be captured by that proposal, so I can't support
22 it. But I would be willing to support them on the
23 water side, because I think that there is enough
24 competent substantial evidence to support it on that
25 side. That's where I'm coming from.

1 COMMISSION STAFF: And that's why on the
2 wastewater side we went with the utility, because we
3 really didn't have anything else to give them. Even
4 though we believe that, you know, it's something that
5 we should consider and maybe we will in future cases on
6 economies of scale, and this might not be the place to
7 do it right now. But for the water side there was more
8 information which indicated that that plant was needed
9 and it was prudently sized.

10 COMMISSIONER KIESLING: And I agree with that. My
11 problem in terms of the water wasn't so much that the
12 record didn't justify this change, but that I just -- I
13 guess I just don't feel that we ought to be making this
14 kind of a radical departure without, first of all, the
15 whole Commission looking at it from a policy
16 perspective and the whole Commission arriving at some
17 kind of standards and criteria that we're going to use
18 to decide when we're going to apply this and when we're
19 not. And that's what concerns me.

20 COMMISSIONER DEASON: And I can appreciate that.
21 And I certainly understand that position, and I have
22 some sympathy for that position. I just feel like in
23 this case that there was -- this is more like on a
24 case-by-case basis and that I feel comfortable doing it
25 on the water side for the very specific reasons that

1 are contained in that testimony.

2 So, as I understand it, you would not want to have
3 any economies of scale adjustment. I would allow it
4 for the water side for the limited basis of staff's
5 recommendation; that is being for those items that were
6 enumerated and discussed in the testimony of staff's
7 witness. And I would not have any economy of scale
8 adjustment on the wastewater side, so we're in
9 agreement on the wastewater.

10 COMMISSIONER KIESLING: Yes.

11 COMMISSIONER DEASON: Commissioner Johnson, do you
12 have anything to add?

13 COMMISSIONER JOHNSON: Sure. I didn't have any
14 problems with respect to the evidence on the water
15 side. I understand that it is -- we are taking a new
16 step. And as I sat back and looked at this particular
17 issue, I personally felt a little more comfortable with
18 what staff was doing and with the information that was
19 in the record and felt more comfortable with this kind
20 of an issue taking that first step and kind of
21 providing that incipient policy that could either be
22 built upon or subtracted upon because it hasn't been
23 codified. So, with that in mind, I think, Commissioner
24 Deason, I felt more like you on the water issue, but I
25 do recognize that we are taking a step, and it may be

1 two Commissioners changing the policy direction, but I
2 felt comfortable with what we had in limiting it to the
3 facts that are before us.

4 COMMISSIONER DEASON: Well, let me say that this
5 is kind of a touchy area in the sense that -- as to
6 whether this is Commission policy or not. Perhaps it
7 has been Commission policy not to have an explicit
8 economies of scale adjustment, but I don't think it's
9 Commission policy not to have such an adjustment. It's
10 just that -- it's just something that has really not
11 ever been before the Commission to any great extent
12 before. So, I don't think that if we allow it on the
13 water side for the limited extent that it is
14 recommended that it is a wholesale change in Commission
15 policy. But I'd like some feedback from staff on that
16 as to how they think this agrees or disagrees with any
17 Commission policy that may exist in regard to economies
18 of scale.

19 COMMISSION STAFF: Well, as far as being an
20 explicit factor in the use and useful calculation, that
21 is a departure from policy. The one case we cited
22 where we had considered that, in Gulf Utility, I think
23 that there are other cases where we have also -- it's
24 implicit in it, for example, in smaller systems where
25 you only have one well. Just looking at it from the

1 flow perspective, it wouldn't be 100 percent, but you
2 have to have a well. So, we would give it 100 percent.
3 In that sort of way it is kind of the same, but, of
4 course, it's on a much bigger scale in Palm Coast.
5 They already have a six-million-gallon plant. They've
6 constructed for another six-million-gallon plant. So,
7 it's kind of hard to -- you know, Palm Coast is a
8 unique circumstance and I think that, as you say, it's
9 better to look at it on a case-by-case basis and the
10 facts before you. And that's about all I have to say
11 on that.

12 COMMISSIONER DEASON: Okay.

13 COMMISSIONER JOHNSON: And I understand exactly
14 what you're saying. And I guess in my mind the facts
15 of this particular case in dealing with this utility,
16 the policy and our actions here, I don't think it will
17 have a detrimental precedential impact. On the margin
18 reserve issue, that's such a generically applied
19 principle that I felt a little less comfortable taking
20 a step ahead. But with respect to this and limiting it
21 to the unique facts in this particular utility and
22 under these circumstances, I felt more comfortable
23 allowing it. But, again -- and my reason on the
24 wastewater side was more because the evidence was
25 lacking to really support that and feel good about

1 making that kind of a policy decision. Here we have
2 the evidence, we have the facts, it's a unique
3 situation, and I feel comfortable in that regard.

4 COMMISSIONER DEASON: So we can move along. I
5 think we're in agreement on the wastewater side to
6 approve staff's recommendation. So, in that regard
7 that's approved.

8 COMMISSIONER KIESLING: No.

9 COMMISSIONER JOHNSON: No, just the opposite.

10 COMMISSIONER DEASON: I'm sorry, to deny staff.

11 COMMISSIONER JOHNSON: On the wastewater.

12 COMMISSIONER DEASON: On the wastewater, because
13 staff is recommending to include the 20 percent
14 economies of scale factor.

15 COMMISSIONER JOHNSON: Right.

16 COMMISSIONER DEASON: I'm glad you're keeping me
17 straight. So, we have agreement to deny staff on the
18 wastewater side. So, that's without objection. Now we
19 have the question of the water side. And I'll just
20 pass the gavel.

21 COMMISSIONER KIESLING: You two are going to have
22 to make the motion.

23 COMMISSIONER JOHNSON: I move that we then approve
24 staff as it relates to the economies of scale on the
25 water system, but deny on the wastewater. And I don't

1 know if I couched that correctly.

2 COMMISSIONER DEASON: Okay. That's correct, and I
3 second that.

4 COMMISSIONER KIESLING: Could I just have a
5 clarification?

6 COMMISSIONER DEASON: Sure.

7 COMMISSIONER KIESLING: Didn't we just agree to
8 deny staff on the wastewater, so that I don't have to
9 dissent and --

10 COMMISSIONER JOHNSON: Oh, okay. Yes, so we just
11 kind of bifurcated it.

12 COMMISSIONER KIESLING: Yes.

13 COMMISSIONER JOHNSON: Okay.

14 COMMISSIONER KIESLING: So, your motion at this
15 time is just --

16 COMMISSIONER JOHNSON: Just on the water side.

17 COMMISSIONER KIESLING: -- on the water side.

18 COMMISSIONER DEASON: And that's what I seconded,
19 is just on the water side of that motion.

20 COMMISSIONER KIESLING: All right. All in favor
21 signify by saying aye.

22 COMMISSIONER DEASON: Aye.

23 COMMISSIONER JOHNSON: Aye.

24 COMMISSIONER KIESLING: All opposed, nay.

25 Nay.

1 COMMISSIONER DEASON: Okay. That addresses Issue
2 19.

3 COMMISSIONER KIESLING: I move 20.

4 COMMISSIONER DEASON: Without objection, 20 is
5 approved.

6 COMMISSIONER KIESLING: And I'm in a quandary on
7 21, so I probably need to hear from other folks and
8 perhaps hear from staff.

9 COMMISSIONER JOHNSON: I need to hear from staff,
10 for them to walk me through the two positions.
11 Particularly Bob, he's always got some split stuff. If
12 you all could walk me through your positions, that
13 would be helpful, and then I'll go from there with
14 questions.

15 COMMISSION STAFF: Our previous policy has been to
16 use the average of the five maximum days. However, the
17 Commission has in recent cases, such as Southern
18 States, has deviated from that and has used a single
19 maximum day. We don't have anything in any rule that
20 specifies which way to go. We don't have used and
21 useful rules yet. So, it's just which is the better
22 argument? Previous Commission decisions have been the
23 average of the five max days, because it does away with
24 any anomalies that may show up. The primary
25 recommendation that Mr. Starling has, of course, is to

1 use the single maximum day. Because in this particular
2 case, they have excluded two larger days that had
3 anomalies. The third day that they picked is a
4 legitimate day. So, it's --

5 COMMISSIONER JOHNSON: And we did the -- did we go
6 with single maximum in Southern States?

7 COMMISSION STAFF: You did.

8 COMMISSIONER JOHNSON: But in both cases Public
9 Counsel recommended the five --

10 COMMISSION STAFF: The average of the five days,
11 yes.

12 COMMISSIONER JOHNSON: But, now, in Southern
13 States, though, under the single maximum, did the
14 results -- it came out to be a more accurate number.
15 And I'm trying to recall what we did and why we did to
16 make sure we aren't --

17 COMMISSION STAFF: We ensured that there are no
18 anomalies in that. We look at -- they will list their
19 whole years' records. And if we see a particular day
20 in there that really sticks out as odd, we start asking
21 questions on it: Was there a line break; were there
22 any particular reasons that caused that one to be so
23 large? If we are cautious and look at those dates, we
24 could take the single day. I'm not a real advocate for
25 the alternate position. That's just previous

1 Commission policy. But if we really study the
2 information that the utility provides, the single
3 maximum day is adequate.

4 COMMISSIONER JOHNSON: Is more accurate.

5 COMMISSION STAFF: Can be more accurate, yes.

6 COMMISSIONER JOHNSON: And in this case you
7 believe it's more accurate.

8 COMMISSION STAFF: Correct.

9 COMMISSION DEASON: It's more appropriate to use
10 the single max day if you're convinced that it was
11 calculated appropriately and is not somehow biased by
12 some extraordinary event.

13 COMMISSION STAFF: That's correct.

14 COMMISSION STAFF: And water systems are designed
15 for max day demands, not for average five max day
16 demands.

17 COMMISSIONER KIESLING: Well, that helps me
18 clarify. I mean, I was concerned about how much we
19 were departing from existing Commission policy on this
20 and whether we had done it before and whether we felt
21 assured that any anomalies, if we do go with the
22 primary, that any anomalies, you know, are accounted
23 for.

24 COMMISSION STAFF: If we go with -- if we ever get
25 to used and useful rules, I think staff's

1 recommendation would be the single maximum day.

2 COMMISSIONER KIESLING: Okay. With that, I have
3 no problem moving the primary.

4 COMMISSIONER JOHNSON: Second.

5 COMMISSIONER DEASON: Show, then, staff's primary
6 approved on Issue 21.

7 Issue 22.

8 COMMISSIONER KIESLING: I'll let you kind of be
9 the engine that moves this at this point, because I
10 don't think I had any other issues up until 62.

11 COMMISSIONER DEASON: Up until 62. Okay.
12 Commissioner Johnson?

13 COMMISSIONER JOHNSON: I just had one question on
14 22. And I was getting confused, and it's for my
15 edification. I'm sure I'm fine with this. But what
16 was the issue? Why were we -- DEP only uses those
17 construction permits for the wastewater facilities.
18 Why was that an issue? I got really confused even with
19 the testimony on this particular issue.

20 COMMISSION STAFF: In some cases they will give
21 both an operating permit and a construction permit. In
22 others they give only the construction permit. They do
23 not issue an operating permit, so we had to go with the
24 construction permit capacity.

25 COMMISSION STAFF: And sometimes those capacities

1 are different. In this case they aren't, however, so
2 it doesn't really matter.

3 COMMISSIONER JOHNSON: And we only had the one.

4 COMMISSION STAFF: And at this time DEP is
5 combining the construction and operating permits, so
6 this problem will go away.

7 COMMISSIONER JOHNSON: Okay. Because it's always
8 been very confusing to me as to what we should use and
9 why. And, in fact, what DEP and what their standards
10 were. But I'm going to trust the engineers on this
11 one. I'm fine.

12 COMMISSIONER DEASON: Well, I have a question. I
13 really don't have a problem with the end result and the
14 way it's being applied in this case. But I have a --
15 this is kind of written as a blanket position and that
16 sometimes causes me some concern. Let me state that
17 concern. When there is a difference between the
18 construction capacity and the operating capacity, I
19 think perhaps it is not appropriate just to say that,
20 "Well, we're automatically going to use one over the
21 other." I think we have an obligation to look at them.
22 And the reason I state that is that it seems to me that
23 we could have a situation where a particular facility
24 was constructed at a given capacity, and that's what
25 the investment dollars are based upon, and that's what

1 we're probably being asked to include in rate base.
2 And then perhaps years down the road the DEP downrates
3 that facility. Perhaps it's because it was not
4 operated effectively by the utility; perhaps it was not
5 maintained properly, I don't know. But then if there
6 has been a downgrading or downrating of that plant, I
7 think we have to ask the question of why was it, and
8 was it something that the utility should have
9 controlled? And, if so, I would be more inclined,
10 then, to go ahead and calculate used and useful based
11 upon the original construction capacity, which are the
12 investment dollars we're being asked to include in rate
13 base.

14 COMMISSION STAFF: Commissioner, we do --

15 COMMISSIONER DEASON: That's the concern that I
16 have.

17 COMMISSION STAFF: We do have to look at those,
18 especially with a wastewater treatment plant where it
19 was built for contact stabilization at, say, a million
20 gallons. And later on DEP comes in and they change
21 that to extended aeration at 600,000 gallons. It's
22 because it gives it a better quality and all that. But
23 the capacity definitely changes then in their operating
24 permit. We have to take that into consideration. So,
25 I agree with you, a blanket rule right now would be

1 questionable. We do have to look at it.

2 COMMISSIONER DEASON: Okay. Well, with that
3 clarification, I can support staff's recommendation on
4 Issue 22. So, we can approve that without objection.

5 The next question I have is Issue 23. And I
6 suppose I really don't have a problem with staff's
7 recommendation, other than it appears that we're going
8 beyond even what the utility was requesting, in that
9 they were using a 50 percent factor and staff is
10 recommending a 75. And I just needed some
11 clarification as to what prompted that position.

12 COMMISSION STAFF: Well, that's what staff Witness
13 Amaya had proposed, and she proposed that based on what
14 was in the draft rules, used and useful rules. I
15 believe that that is a reasonable allowance. It is 25
16 percent more than what the utility had requested, but
17 even if you take out that 25 percent, it still goes 100
18 percent used and useful.

19 COMMISSIONER DEASON: So, it has no bottom line
20 effect on revenue requirements.

21 COMMISSION STAFF: Correct.

22 COMMISSIONER DEASON: Well, I'm just going to
23 state that I would support the 50 percent because
24 that's what the company has requested. And I'm not so
25 sure that just because there are draft rules out there

1 that that's sufficient reason to be changing a position
2 or a policy in this particular case.

3 COMMISSION STAFF: Okay.

4 COMMISSIONER DEASON: Realizing that it has no
5 effect on revenue requirements, but just let me state
6 that. So, do we have a motion on Issue 23?

7 COMMISSIONER KIESLING: Well, I didn't have any
8 problem with the 75 percent. And now that I've
9 listened to what you said, I'm having to rethink. So,
10 it will take me just a minute to rethink this.

11 COMMISSIONER DEASON: Very well.

12 COMMISSIONER JOHNSON: Now, your rationale for
13 going back to the 50 percent is that that is --

14 COMMISSIONER DEASON: Well, I guess that's two
15 reasons now. One is that apparently there really
16 wasn't evidence presented, other than that this is what
17 is being proposed in a draft rule.

18 COMMISSION STAFF: Right.

19 COMMISSIONER DEASON: So, that's one reason. And
20 the other reason is that the company themselves seem to
21 be -- in fact, they supported the 50 percent.

22 COMMISSION STAFF: They might have wanted more if
23 it wasn't 100 percent used and useful.

24 COMMISSIONER DEASON: Oh, I'm sure if you asked
25 them they would probably say yes. But that's what they

1 requested. That's what they supported. We're going
2 beyond that, and the basis for going beyond that is
3 that that is what is in our draft rule.

4 COMMISSION STAFF: Right. And one other thing,
5 though is, you know, with this area that they're in
6 with these forest fires they've had and their location
7 there, you know, storage, in my opinion, is always a
8 good thing to have in water systems. And it's
9 something that we should encourage, and one way to do
10 it would be to give them generous allowances for
11 equalization and emergency storage. And that's just
12 where we're coming from on that one. And storage
13 facilities are fairly cheap to construct.

14 COMMISSIONER JOHNSON: So, that's the rationale.
15 I'm kind of trying to look behind us stating that we're
16 -- the rationale that it's in the draft rules. But
17 what is the rationale for including it in the draft
18 rules, what you just stated.

19 COMMISSION STAFF: Correct.

20 COMMISSIONER JOHNSON: That we are trying to not
21 -- now, again, what will the policy be, we are trying
22 to encourage? Is it --

23 COMMISSION STAFF: Well, storage is a good thing
24 for water systems to have, and, you know, there is a
25 tremendous economies of scale with storage facilities.

1 Of course, that's not in the record, but it's something
2 that we know. And I think that this generous allowance
3 for that is appropriate.

4 COMMISSIONER KIESLING: Well, I mean, I for some
5 time, not just in this case, have had some uneasiness
6 over how expensive it is for a utility to ensure
7 adequate fire flow, such as having this kind of storage
8 available, because it doesn't seem to me like they are
9 able to adequately recover that in rates. That what
10 they spend on fire flow doesn't really get -- in order
11 to have and ensure adequate fire flow, doesn't
12 necessarily get always reflected with used and useful
13 calculations. And it was because of that that I felt
14 comfortable going with the 75 percent. And while I can
15 understand from the discussion that perhaps the record
16 wasn't as full as it should be to include 75 percent,
17 I'm still comfortable with the 75 percent. So, I guess
18 in order to move us along, I'll make a motion to
19 approve staff on Issue 23, and if I don't get a second,
20 then you can pass the gavel to me and you two can have
21 at it.

22 COMMISSIONER DEASON: There is a motion.

23 COMMISSIONER JOHNSON: Well, I think I'm
24 comfortable with it, too, for the rationale stated and,
25 really, for the reasons why we're trying to get a rule

1 that will go up to 75 percent. I guess maybe I am a
2 little bothered that we don't -- what are we going to
3 rely upon in the record? I mean, how can we couch --
4 go ahead.

5 COMMISSION STAFF: Witness Amaya supported the 75
6 percent.

7 COMMISSIONER JOHNSON: I'm sorry?

8 COMMISSION STAFF: Witness Amaya, she did support
9 that.

10 COMMISSIONER JOHNSON: Oh, our witness.

11 COMMISSION STAFF: Yes. So, we do have record
12 support for it.

13 COMMISSIONER JOHNSON: I'll second it.

14 COMMISSION DEASON: Okay. A motion has been made
15 and seconded. All in favor say aye.

16 COMMISSIONER KIESLING: Aye.

17 COMMISSIONER JOHNSON: Aye.

18 COMMISSIONER DEASON: All opposed, nay.

19 Nay.

20 That disposes of Issue 23.

21 Issue 24. Without objection? No objection.

22 Issue 24 is approved.

23 Issue 25. I have a question on Issue 25. It has
24 to do with staff's recommendation as it appears on
25 Page 64, the first full paragraph. In the middle of

1 that paragraph, it makes reference to the firm reliable
2 capacity, excluding two wells for Water Treatment
3 Number 1 and one well for Water Treatment Plant
4 Number 2. I need an explanation as to why that is the
5 appropriate -- why that needs to be done in the
6 calculation to determine firm reliable capacity.

7 COMMISSION STAFF: As far as splitting it between
8 the two plants?

9 COMMISSIONER DEASON: Yes.

10 COMMISSION STAFF: Water Plant Number 1 has 30
11 wells, or maybe more, I'm not sure. But Water
12 Treatment Plant Number 2 has separately constructed
13 wells which only provide water for that plant.
14 Therefore, as far as the need for a source of supply
15 with an extra well redundancy also exists at that
16 plant. As well as for the Water Treatment Plant
17 Number 2, it has its separate well system. And since
18 it has so many, that's why we're allowing two at that
19 one or recommending two. But the reason for getting
20 that at the membrane plant, well, you know, it needs a
21 backup well, also.

22 COMMISSIONER DEASON: Okay. Then, without
23 objection, Issue 25 is approved.

24 I have a question on Issue 26. I'm looking on
25 Page 70 of the recommendation, the last full paragraph.

1 And the last of that paragraph where it's talking about
2 the investment in the disposal capacity at the Dunes,
3 and that not being included as part of the used and
4 useful calculation, I need some further explanation as
5 to why that --

6 COMMISSION STAFF: Well, Dunes actually only have
7 only investment in 2.35 MGD of effluent disposal
8 capacity. The permitted capacity is 3.35, but one
9 million gallons of that is for disposal at the Dunes.
10 And as you've heard plenty of, Dunes incurred all the
11 investment related to that plant. Therefore, you know,
12 in my opinion, it would be more proper in the
13 denominator to use that 2.35, since the 3.35 includes
14 one million, which the utility really doesn't have any
15 investment in.

16 COMMISSIONER DEASON: But the fact remains that
17 the total effluent disposal capacity is a million
18 higher than what you're using for the used and useful
19 calculation.

20 COMMISSION STAFF: Correct. Yes, that's true.
21 But the utility doesn't have any investment in one
22 million of that. That's kind of cost-free effluent
23 disposal.

24 COMMISSIONER DEASON: Well, then, do you take the
25 million away from the flows, then, to calculate the

1 used and useful percentage?

2 COMMISSION STAFF: No, I did not. Witness Amaya
3 proposed reducing it by 300,000 gallons. I did not
4 take any reduction of that, though, or did not
5 recommend any reduction. That's something that could
6 be done, but I didn't recommend doing that for the
7 effluent disposal.

8 COMMISSIONER DEASON: It seems to me we have an
9 inconsistency. That for the used and useful
10 calculation, obviously, there is a numerator and a
11 denominator.

12 COMMISSION STAFF: Right.

13 COMMISSIONER DEASON: We're taking something away
14 from -- help me -- the numerator or the denominator?
15 It's flows divided by --

16 COMMISSION STAFF: The capacity.

17 COMMISSIONER DEASON: I mean, the flows over the
18 capacity.

19 COMMISSION STAFF: Right.

20 COMMISSIONER DEASON: We're taking a million away
21 from the denominator, but we're not making any
22 adjustment at all to the numerator.

23 COMMISSION STAFF: Correct. And, I guess, that's
24 something that was brought out by Witness Amaya. In my
25 opinion, however, I think that -- and, you know, this

1 is stuff that really wasn't in the record. But their
2 effluent disposal system, I think there is discussions
3 in there of the problems they're having with wet
4 weather periods. So, this utility has had their
5 sprayfields downrated. They have their RIB sites
6 downrated.

7 COMMISSIONER DEASON: Are the capacities we're
8 using for used and useful?

9 COMMISSION STAFF: No. That's because of their
10 operational problems they have had in the area of these
11 ponds and their construction permit were rated assuming
12 a certain absorption rate or rate that the wastewater
13 effluent will go into the ground and be disposed of.
14 The actual conditions out there indicate, however, that
15 it's just not working as planned. Those ponds are full
16 when we out there -- when I went out on my inspection.
17 DEP has done theirs. So, I don't see much excess
18 capacity in there, and that's really the underlying
19 reason why I just didn't subtract that million from the
20 numerator. That's something that could be done,
21 however.

22 COMMISSIONER DEASON: But the staff witness
23 recommended 300,000.

24 COMMISSION STAFF: Which might be a good
25 compromise.

1 COMMISSIONER DEASON: But they are not adjusting
2 flows at all.

3 COMMISSION STAFF: Correct.

4 COMMISSIONER DEASON: And what they're suggesting
5 is that, what is supported in the record is a 300,000
6 adjustment, not a million adjustment, not a one-to-one
7 adjustment, a 300,000 adjustment. Which I assume takes
8 into consideration the operational aspect of the entire
9 effluent disposal system.

10 COMMISSION STAFF: Correct. And one other thing I
11 should point out is that the utility in their way of
12 dealing with this problem was they reduced -- or Mr.
13 Gaustella reduced the disposal capacity by also the
14 capacity of the sprayfield saying that they can't use
15 that 500,000-gallon-per-day -- or 600,000 I think is
16 what it was -- sprayfield during wet weather periods.
17 So, that was their way of getting to what they
18 recommended was 100 percent. And that's another thing
19 that played in my mind. Well, you know, they do have a
20 point as far as that sprayfield. They can't use it
21 when it's raining.

22 COMMISSIONER DEASON: And, obviously, a decision
23 was made that there is beneficial use of that in
24 non-wet weather periods.

25 COMMISSION STAFF: Correct.

1 COMMISSIONER DEASON: And we know that wet weather
2 does not exist for 365 days out of the year.

3 COMMISSION STAFF: Correct.

4 COMMISSIONER JOHNSON: What is staff's reaction to
5 the \$300,000 adjustment?

6 COMMISSION STAFF: I'm sorry. Excuse me.

7 COMMISSIONER JOHNSON: What was your reaction to
8 the \$300,000 --

9 COMMISSIONER DEASON: 300,000 gallons.

10 COMMISSIONER JOHNSON: 300,000-gallon adjustment,
11 reduction?

12 COMMISSION STAFF: That recognizes what
13 Commissioner Deason was saying that, you know, if you
14 reduce the capacity by a million gallons for the Dunes,
15 then you ought to recognize those flows.

16 COMMISSIONER DEASON: And is that what is on
17 average?

18 COMMISSION STAFF: I think the average for the
19 test year was 600,000. I'm speaking from memory there.

20 COMMISSIONER DEASON: But Ms. Amaya in her --

21 COMMISSION STAFF: She recommended 300,000.

22 COMMISSIONER DEASON: -- opinion recommended
23 300,000.

24 COMMISSION STAFF: 300,000, yes. And I think that
25 also had to do with that sprayfield, you know, with the

1 wet weather problems that they have.

2 COMMISSIONER KIESLING: And, Commissioner Deason,
3 if I understand, you want that 300,000 in consistent
4 with Ms. Amaya's testimony for the reasons you've
5 discussed?

6 COMMISSIONER DEASON: Yes, I can support that. I
7 think then that we're being consistent in that we're
8 making an adjustment to the calculation for the Dunes
9 capacity, and we're making an adjustment to the flows
10 as a result of the flows to the Dunes, and that the end
11 result would be a consistent calculation. It's not a
12 one-to-one, because we're taking a million out of one
13 and 300,000 out of the other, which really is to the
14 company's benefit. But for the reasons expressed, our
15 own witness and then what we've heard here today
16 concerning the wet weather considerations, I think it
17 would be appropriate.

18 COMMISSIONER KIESLING: And I'll so move.

19 COMMISSIONER DEASON: You're moving, then, to
20 modify staff's recommendation by that one component?

21 COMMISSIONER KIESLING: Yes.

22 COMMISSIONER JOHNSON: Second.

23 COMMISSIONER DEASON: Moved and seconded. Show
24 that motion passing unanimously.

25 I have no other questions until we get to Issue

1 37.

2 COMMISSIONER KIESLING: All right. And I'll move
3 everything in between.

4 COMMISSIONER DEASON: Okay. Is there a second?

5 COMMISSIONER JOHNSON: Second.

6 COMMISSIONER DEASON: Without objection show
7 Issues 26 through 36. Some issues have been dropped,
8 and there are some -- I'm sorry.

9 COMMISSION STAFF: There will be some fallout
10 changes for rate base.

11 COMMISSIONER KIESLING: Right.

12 COMMISSION STAFF: And Issue 32 is a fallout issue
13 based on these decisions that you've made previously.

14 COMMISSIONER DEASON: Very well. Issue 37.

15 COMMISSION STAFF: Commissioners, that's the issue
16 that the numbers change in as a result of the new
17 schedules that we distributed this morning.

18 COMMISSIONER DEASON: Okay. Does that relate --
19 I'm looking at Page 101 of the recommendation, the
20 second full paragraph, and there is a reference to an
21 adjustment that was made in a previous case. And my
22 question is, is this adjustment being made in this
23 case? And if it is not, why is it not being made?

24 COMMISSION STAFF: It is being made in this case.

25 COMMISSIONER DEASON: It is being made. Very

1 well. I have no further questions. Show that staff's
2 recommendation on 37 is approved.

3 COMMISSION STAFF: And that will be a fallout
4 result of the change to rate base.

5 COMMISSIONER DEASON: Very well.

6 I have no question on 38. Without objection, show
7 that 38 is approved.

8 I have a question on 39, not so much a question as
9 a statement. And that is that I understand that this
10 is Commission policy. I'm not so much trying to get a
11 change in policy given that this is just a panel. I
12 need to state for the record that I think that if there
13 is a determination of a negative working capital
14 allowance that is the appropriate allowance. And just
15 for analogy purposes, I've tried to think of a good
16 analogy and that is it's kind of like looking at a
17 thermometer on the centigrade scale and you're saying,
18 "Well, once it gets to zero and it's freezing, it
19 doesn't get any colder." It does. And a negative
20 working capital allowance, all it means is that there
21 are other sources of capital other than things supplied
22 by the investor that are being used to support the
23 operations of this company. And that it is important
24 to recognize that like we do other sources of capital.

25 So, I would not support staff's recommendation at

1 a zero allowance. It would be my position that the
2 calculated negative amount is appropriate. And it's
3 not saying that the company doesn't have any working
4 capital requirement; it's just that those working
5 capital requirements are being met by sources --
6 cost-free sources of capital other than investor
7 sources of capital, and that's why the calculation
8 comes up negative. So having said that, and so the
9 record is clear on that, we can address Issue 39. Is
10 there a motion?

11 COMMISSIONER KIESLING: I would move staff for the
12 simple reason that that's what the rule says.

13 COMMISSIONER JOHNSON: Yes, I would second that
14 motion because it is -- it's not just incipient; we
15 have a codified rule that we may need to revise, but
16 the rule is there.

17 COMMISSIONER DEASON: And I totally agree, and it
18 would not be appropriate even if I could get somebody
19 to agree with me to change it.

20 COMMISSION STAFF: Commissioners, I don't want to
21 mislead you, but the rule does not say if it's negative
22 it should be zero. There is no rule that says that.
23 It says the balance sheet approach should be used. The
24 testimony in this record says that it results in a
25 negative, therefore, we use zero. That's from the

1 utility. The other, OPC Witness Dismukes said, "If
2 it's negative, it should be netted against the debit
3 deferred taxes included in the rate base." And she
4 does not justify why a negative working capital
5 allowance should be used on a stand-alone basis. So,
6 that is the basis of our recommendation, is that there
7 isn't sufficient record support to say why negative
8 working capital allowance should be used. There is a
9 rule that says the debit deferred taxes, which was
10 Issue Number 37, which we talked about, that those
11 should be a separate line item in rate base. And that
12 was our interpretation of the rule, that it shouldn't
13 be netted against working capital.

14 COMMISSION STAFF: Commissioners, however, it has
15 been incipient policy of the Commission for years and
16 years that when it was negative, we went with zero
17 instead. I know of no case where we've ever recognized
18 a negative working capital allowance because of the
19 balance sheet approach.

20 COMMISSIONER DEASON: And I agree with that; that
21 it's not in the rule, but it has been policy. And that
22 was the reason why I was stating that it wasn't so much
23 my position trying to change Commission policy in this
24 forum, being that it's a limited panel situation, but
25 that I have a position on the issue. And I want to

1 make sure that I state that position so that the vote
2 is clear as to the reason why I would be disagreeing
3 with staff's position, even though it's policy. I
4 realize that.

5 COMMISSIONER JOHNSON: Okay. I'm glad that was
6 clarified. I better understand what we've been doing
7 with this particular rule and kind of like the fallout,
8 it's just in the incipient policy. I guess I read
9 those last several paragraphs of the analysis that kind
10 of suggest that that was just the direct -- as we
11 implemented the rule this is what we would do. But to
12 the extent that in some further proceeding and we do
13 have evidence, what you all are suggesting is that if
14 the evidence is there, that this is just incipient
15 policy, that that policy could be changed at some point
16 in time. But even in this case there was a statement,
17 but there was no rationale stated as to why we should
18 do this.

19 COMMISSION STAFF: To use a negative.

20 COMMISSIONER JOHNSON: Right.

21 COMMISSION STAFF: Right, that's correct.

22 COMMISSIONER JOHNSON: Okay. I think I seconded.

23 COMMISSIONER KIESLING: I still stand by my
24 motion.

25 COMMISSIONER DEASON: Okay. It's been moved and

1 seconded. All in favor say aye.

2 COMMISSIONER KIESLING: Aye.

3 COMMISSIONER JOHNSON: Aye.

4 COMMISSIONER DEASON: Opposed, nay.

5 Nay.

6 Okay. That addresses Issue 39.

7 I have no questions until Issue 52.

8 COMMISSIONER KIESLING: All right. I'll move
9 everything in between.

10 COMMISSIONER JOHNSON: Second.

11 COMMISSIONER DEASON: Without objection, show
12 those issues approved.

13 We're now on Issue 52.

14 COMMISSION STAFF: This is the used and useful
15 adjustment to the O&M expenses proposed by the utility.
16 Staff is recommending that there are used and useful
17 adjustments made, but we're not recommending any
18 further adjustments made. We're agreeing with the
19 utility's methodology, that based on the current
20 interviewing process that that is a more accurate
21 method than relying on past information.

22 COMMISSIONER DEASON: Okay. And the very limited
23 question or matter for discussion has to do with
24 personnel services. And I understand that that
25 category does not include the benefits associated or

1 the benefits actually paid to or associated with the
2 work performed by specific employees, it's the
3 administration of those benefit programs.

4 COMMISSION STAFF: That's correct.

5 COMMISSIONER DEASON: And my question or comment
6 is that -- well, given that we are making some used and
7 useful adjustments for some of these categories and
8 some of those adjustments relate to personnel and their
9 associated benefits, why would we not also make a
10 corresponding adjustment to the cost of administering
11 those benefits which are being adjusted for?

12 COMMISSION STAFF: I think the way that we looked
13 at it was that normally you don't have a company that
14 makes used and useful adjustments to O&M expenses, and
15 you'll have major adjustments to plant and rate base
16 components for used and useful. But you recognize that
17 the O&M expenses generally are driven by the operating
18 portions as opposed to the non-used and useful
19 portions. I really think that you would have these
20 expenses regardless of whether 25 percent or 15 percent
21 were non-used and useful. I think as long as you
22 recognize that the salaries and the benefits are
23 removed as non-used and useful elsewhere, then the
24 administration of the insurance costs or the health
25 insurance or other items, I think that you would still

1 those issues approved.

2 The question I had on Issue 60 was an inclusion in
3 rate case expense of services provided by Witness
4 Gaustella in a generic type proceeding. It was a
5 non-rate case type investigation, is that correct?
6 Somebody help me out here. I'm just trying to recall
7 the discussion.

8 COMMISSION STAFF: Commissioner Deason, are you
9 speaking of the used and useful workshop?

10 COMMISSIONER DEASON: That's what it was, the used
11 and useful workshop.

12 COMMISSION STAFF: Yes, sir. And what is your
13 question?

14 COMMISSIONER DEASON: Why was that being included
15 in this rate case as rate case expense?

16 COMMISSION STAFF: Basically, we did not believe
17 there was enough support in the record to move it to
18 "Regulatory Commission Expense, Other." That was the
19 real basis for that adjustment or lack of adjustment,
20 rather.

21 COMMISSIONER DEASON: Well, let me ask you this:
22 Whose burden is it to prove that these are reasonable
23 expenses to include in this rate case?

24 COMMISSION STAFF: The utility.

25 COMMISSIONER DEASON: Well, then you're saying --

1 but you're saying there is no evidence to exclude it
2 from this rate case. Is there evidence to include it
3 in this rate case is what I'm asking?

4 COMMISSION STAFF: Yes.

5 COMMISSIONER DEASON: And what evidence is that?

6 COMMISSION STAFF: Basically, the testimony of
7 Witness Seidman where he testified that the expenses
8 associated with that workshop coincided with the
9 preparation of this rate case and the issues, some of
10 the issues brought up in this rate case. And he
11 testified that he believed that those expenses should
12 have been incurred by Mr. Gaustella.

13 COMMISSIONER DEASON: What would be the accounting
14 if it just so happened that there was not a rate case
15 that was existing at the time of this used and useful
16 workshop?

17 COMMISSION STAFF: I think you could look at it
18 depending on how the company booked it. I think
19 appropriately it would be deferred and amortized as a
20 nonrecurring expense, but a lot of companies are going
21 to expense it in the year incurred. But ratemaking
22 treatment would be -- it's a nonrecurring expense;
23 you're not going to have a Commission workshop every
24 year; you would amortize it according to the rule over
25 five years, unless you had a shorter or longer period.

1 I think a workshop, it's pretty reasonable to amortize
2 it over five years, rate case expenses over four years.
3 There's a four-year rate reduction at the end of it.
4 The difference would be between four years and five
5 years, and we didn't really think that it would be that
6 material as far as the impact on the rates and the
7 revenue requirements for this case. Staff really
8 believes it should be "Regulatory Commission Expense,
9 Other." It's just that we don't think the record fully
10 developed that.

11 COMMISSIONER DEASON: If it were treated in that
12 category, as "regulatory expense, other," what impact
13 would it have on this rate case?

14 COMMISSION STAFF: I don't think it would be a
15 very big impact.

16 COMMISSION STAFF: Would you like the dollar
17 amount, is that what you're asking? It's
18 approximately, I think, \$4,300.

19 COMMISSIONER DEASON: My concern is, I guess, not
20 so much the dollars, but the policy. I think that
21 there is some danger in just lumping in things into
22 rate case expense, and that things need to be accounted
23 for appropriately, and if this is an other regulatory
24 proceeding that's not part of this rate case, it should
25 be accounted for as such. And if there's to be some

1 amortization of that in this rate case, I'm not opposed
2 to that. But I'm uncomfortable just grouping and
3 lumping things together without an explanation as to
4 that it was looked at and it is a totally immaterial
5 difference and that just for convenience and for
6 efficiency it's better to treat it this way. And if I
7 can be convinced that's the appropriate way to do it,
8 that's fine, but I've not been shown that. And I have
9 discomfort without some explanation just grouping these
10 things and just lumping everything together in rate
11 case expense.

12 COMMISSION STAFF: The total cost was \$4,333. You
13 divide that, that's \$866 for five years and \$1,083 over
14 four years. So, we're talking about \$200-and-some-odd.

15 COMMISSIONER DEASON: Now, is the company
16 accounting for this on its books correctly?

17 COMMISSION STAFF: I would assume this company is
18 deferring it's rate case expense and amortizing it over
19 four years, since it's lumped into rate case expense.

20 COMMISSIONER DEASON: But in this case the
21 difference is only some \$200 a year?

22 COMMISSION STAFF: That's correct.

23 COMMISSIONER DEASON: Okay.

24 COMMISSION STAFF: And that's really -- I mean,
25 staff recognizes it should be in regulatory commission

1 expense. I know we had several large issues in the
2 Southern States rate case where that came into play,
3 and we did move those into that. They were very
4 material items in that case.

5 COMMISSION DEASON: They were material in that
6 one. This one it --

7 COMMISSION STAFF: That's correct.

8 COMMISSION DEASON: -- appears to be immaterial.
9 Given that explanation, I can support staff on 60.
10 Without objection, show staff's recommendation is
11 approved.

12 61, without objection. Do we have to do 61?

13 COMMISSIONER KIESLING: Yes.

14 COMMISSIONER DEASON: Yes. Without objection.

15 The next matter is Issue 62. Commissioner
16 Kiesling, I believe you had a question on that one.

17 COMMISSIONER KIESLING: I guess it's more that I
18 feel that I need some more explanation for the two
19 positions than I was able to get from the written
20 recommendation, because -- well, quite frankly, because
21 I originally started out thinking I was going to move
22 the primary, but then I shifted to the alternate. And
23 then I decided I was undecided, so I'm not prepared to
24 make a motion without some more explanation.

25 COMMISSION STAFF: Commissioners, the primary

1 recommendation is simply based on does the utility,
2 using 34 percent, have the opportunity to earn a fair
3 return? And, secondly, it's the primary staff's
4 interpretation that the parent debt adjustment is of
5 benefit to the customers.

6 COMMISSIONER KIESLING: Well, that didn't help me.

7 COMMISSIONER JOHNSON: I was thinking the same
8 thing. I'm glad you said that, Diane.

9 COMMISSIONER KIESLING: I know you tried, but I
10 was like trying to translate a foreign language. I
11 mean, some of this failure just may be mine, that I
12 just don't understand the interplay in these things at
13 the level that I should.

14 COMMISSION STAFF: A parent debt adjustment
15 reduces the amount of income tax expense --

16 COMMISSIONER KIESLING: Right.

17 COMMISSIONER STAFF: -- which is a cost of service
18 which is passed on to the ratepayers. In this case it
19 reduces the cost of the income tax expense by
20 approximately \$250,000.

21 COMMISSIONER JOHNSON: Get closer to the
22 microphone.

23 COMMISSION STAFF: I'm sorry. In this case it
24 reduces the cost of the income tax expense and the
25 revenue requirement by about \$250,000. The difference

1 in the tax rate from the 34 percent to the 35 percent
2 is one percent, and that increases the revenue
3 requirement by about -- I think it's \$20,000. So, my
4 interpretation was that, yes, they're spending another
5 one percent to file a consolidated tax return or to
6 participate in a consolidated tax return. And they're
7 spending \$20,000 to do that, but they're saving the
8 customers \$250,000, because the parent debt adjustment
9 is an offsetting benefit. Every utility joins in the
10 filing of a consolidated tax return, we generally
11 impute a parent debt adjustment to the utility which
12 recognizes the interest on the debt of the parent.
13 It's an imputation. There is a rule on it.

14 COMMISSIONER KIESLING: All right. So, that, I
15 think, helped me understand the primary. Either
16 Ms. Salak or Ms. Causseaux, you authored the alternate.

17 COMMISSION STAFF: Commissioners, we believe that
18 the benefit related to the parent debt adjustment is
19 not totally a benefit of tax reduction. It's a
20 recognition of the fact that the parent controls the
21 level of equity in the utility, that the parent makes
22 the capitalization decisions. They determine how much
23 debt and how much equity, those types of things. And
24 in doing that they can, if you will, control the level
25 of equity that earns it the highest return that's out

1 there. And recognizing that it's somewhat less than an
2 arm's-length situation, this Commission some time ago
3 adopted the parent debt adjustment rule. And that rule
4 is not an attempt to reach out and grab any of the
5 benefits of the consolidated return. It's simply an
6 attempt to recognize the financial dealings and the
7 financial structure and those types of things that are
8 occurring. And my reading of the record did not
9 indicate any benefits that would merit a 35 percent
10 return, nor did it indicate any harm that might or
11 might not occur if it were not granted.

12 COMMISSIONER DEASON: There normally are many
13 other benefits associated with a consolidated tax
14 return that this jurisdiction does not recognize for
15 ratemaking purposes, such as losses of affiliates and
16 things of that nature. Is that correct?

17 COMMISSION STAFF: That's right. That was one of
18 the points that was made to the Internal Revenue
19 Service when they said that the parent debt adjustment
20 did not violate normalization, was that we do not reach
21 out and try to pick up the expenses of other members of
22 the group or to increase the taxes for the revenues of
23 the other members of the group, nor do we reach out and
24 try to touch the losses of other members of the group.

25 COMMISSION STAFF: Basically, the Commission

1 practice is to treat utilities on a stand-alone basis.
2 It's my opinion that the 34 percent treats them on a
3 stand alone basis, and there wasn't enough in the
4 record to indicate that we should deviate from that
5 practice.

6 COMMISSIONER DEASON: Commissioners, I would be
7 willing to give you my direction.

8 COMMISSIONER KIESLING: I'm looking to you.

9 COMMISSIONER DEASON: I am in agreement with the
10 alternative recommendation. I think that we basically
11 do calculate taxes on a stand-alone basis. That's
12 consistent with that general practice of the
13 Commission. I do realize there are some benefits
14 associated with parent debt -- I'm sorry -- yes, with
15 the parent debt adjustment. But, to me, that's more in
16 line with the issue of capital structure and
17 calculation of double leverage. This commission does
18 not do double leverage, but we have limited an
19 adjustment to the tax effect, basically, of double
20 leverage. And I think they are distinct issues. I
21 think the alternative recommendation is the appropriate
22 practice. That's what I would be supporting.

23 COMMISSIONER JOHNSON: Move alternative.

24 COMMISSIONER KIESLING: I'll second that since
25 that was where I had ended up, was the alternative on

1 my first time around on this. I'll just go with that.

2 COMMISSIONER DEASON: Okay. Show, then, that
3 alternative is approved on Issue 62.

4 I think everyone would be happy to know I have no
5 further questions.

6 COMMISSIONER KIESLING: Then I move the remainder.

7 COMMISSIONER JOHNSON: I did have. I wanted staff
8 to walk through 67.

9 COMMISSIONER KIESLING: Okay. Then I'll move 63
10 -- that's a drop issue. I'll move 64, 65, and 66.

11 COMMISSIONER DEASON: Without objection, show
12 those issues approved.

13 We're now on Issue 67.

14 COMMISSIONER JOHNSON: I guess most specifically
15 Dunes' argument about the incremental costs and the
16 sharing of incremental costs, could you kind of walk
17 through that analysis and how we reached the conclusion
18 that we reached in that regard?

19 COMMISSION STAFF: Yes, ma'am. Dunes does not
20 believe that the cost base rate set out by
21 Mr. Gaustella is appropriate because they say that it
22 has been Commission practice that when both parties
23 benefit from the provision of reuse, as in this case,
24 then the Commission has based the rate on the sharing
25 of the incremental costs. We were not necessarily

1 of doing it, and because in this case it appears that
2 there is some justification for a rate, which is why we
3 chose 10 cents, that we chose that amount.

4 COMMISSION JOHNSON: Okay. Work with me a little
5 bit here. What was the justification? I thought that
6 the approach that they had provided and the rationale
7 for it, at least during the hearings, was somewhat
8 convincing. And I understand that as we analyzed what
9 they had provided and they had set what they thought
10 the Commission precedent was, that perhaps it was not
11 so clear. But I was wondering if on a going-forward
12 basis if this would be a policy and approach that we
13 might adopt.

14 COMMISSION STAFF: Well, the reason why I believe
15 that a rate is appropriate is because it recognizes
16 that reuse is a commodity and that the Dunes do benefit
17 from receiving the reuse and this amount will recognize
18 that benefit. I don't believe zero is appropriate,
19 because I think that Palm Coast is entitled to some
20 payment for the reuse. But on the flip side, I don't
21 think the other rate is appropriate, either, because it
22 is just a little high, given the fact that there has
23 been no reuse rate in the past.

24 COMMISSION STAFF: Commissioner, perhaps I can
25 help, too. On a going-forward basis, the idea of

1 looking at the incremental cost is one way of doing
2 that. The difficulty that we have and the reason we're
3 not necessarily saying that is the thing to do is that
4 is going to be so very different on a case by case.
5 Like in this particular case there are so many of the
6 costs that are absorbed and incurred by the reuse
7 customer. And that's going to vary very much. Like in
8 this case, there is very few costs that the utility
9 actually has, including the treatment of it. But, yet,
10 it is a very valuable commodity to the Dunes in that
11 they use it for irrigation, and it's a service that
12 does deserve some rate attached to it to recognize that
13 value. So, incremental cost is one way of approaching
14 it, but it is a value of service consideration as well.
15 And that's why we're kind of at a quandary on that
16 particular approach, although it is something we will
17 consider in the future.

18 COMMISSIONER JOHNSON: And I agree that you do
19 have that problem of reuse as a commodity, and we do
20 know that Dunes is receiving a benefit. And then it's
21 how do we get at the cost or the price and how do we
22 make our determination as to, what was it --

23 COMMISSIONER KIESLING: Ten cents.

24 COMMISSION STAFF: Ten cents.

25 COMMISSIONER JOHNSON: Ten cents.

1 COMMISSION STAFF: And we recognize that's a
2 judgment call and it's not cost-based. But there also
3 is a very fragile relationship between the two, because
4 Palm Coast really needs the Dunes, too, as well. And
5 we wanted to make the rate -- we wanted to send some
6 signal that there is a value there and you need to pay
7 for it, but we wanted to keep it low enough that we
8 don't do anything that's going to disturb that
9 relationship or that balance that exists right now.

10 COMMISSIONER JOHNSON: And the 10 cents is low
11 enough that it should not cause --

12 COMMISSION STAFF: It shouldn't do that, that's
13 correct. The Water Management District witness did
14 testify that if they were going to do any other source
15 for their irrigation they would have to go to the Water
16 Management District, and they would look at the
17 economic feasibility of it. And we don't believe 10
18 cents is going to upset that.

19 COMMISSIONER JOHNSON: Okay.

20 COMMISSION STAFF: 67 cents might. The record
21 wasn't real clear on that.

22 COMMISSIONER JOHNSON: Okay.

23 COMMISSIONER KIESLING: And let me just say this.
24 I mean, the 67 cents, I think, is way out of line when
25 we look at other systems that have a rate for reuse,

1 and that reclaimed water is already treated. You know,
2 we're looking at 21, 23 cents a gallon. I mean, those
3 are the kinds of rates we've been seeing in a number of
4 areas in the state that are also in water use caution
5 areas. And for that reason, I thought 10 cents or less
6 for receiving effluent that is treated but is not at
7 the level of being able to be applied to a public
8 access area was within the reasonable range.

9 COMMISSIONER JOHNSON: Okay. And I did want to
10 hear your comments on what you thought about the 10
11 cents.

12 COMMISSIONER KIESLING: I thought that the 10
13 cents was acceptable. I probably would have gone with
14 something like seven or eight cents, you know, but I
15 wasn't going to quibble over two or three cents. I
16 just thought that with what the Dunes incurs
17 expense-wise to treat this before it can be applied as
18 reuse water, and if I'm willing to assume that the
19 prices that we have set for other reuse water in the
20 state are acceptable and are reasonable, being in the
21 21 to 23 cent range, then it seemed to me that what the
22 Dunes was providing and the expenses they were
23 incurring were probably 50 percent or more of the total
24 cost. But, you know, all of that is just pure
25 judgment, not based on enough in the record for me to

1 be able to -- I mean, I can state some rationales, but
2 I can't back it up with anything other than, you know,
3 these kinds of assumptions and comparisons. So, I was
4 willing to go with the 10 cents simply because it was
5 as good a number as any, and it was certainly in the
6 range of reasonable in my mind, recognizing that Palm
7 Coast gets a great benefit out of its deal with the
8 Dunes because it gets rid of its effluent without
9 having to have somewhere else to put it.

10 COMMISSIONER JOHNSON: Yes. Those are some of my
11 thoughts. And, I guess, based upon the testimony of
12 the witness and the evidence in the record, I was
13 certainly glad to see it was just 10 cents. But I felt
14 comfortable with a much, much lower number.

15 COMMISSIONER KIESLING: Well, you know, let me
16 just say this. I mean, to the extent that 10 cents is,
17 you know, not any more supported than eight cents or
18 seven cents would be, if you're not comfortable with
19 that, I could certainly go along with something like
20 seven cents.

21 COMMISSIONER JOHNSON: Yes. And I understand
22 staff to say it's not totally cost-based, and I
23 understand what we're trying to do with the benefits
24 being gained on both sides, and I was looking at the
25 incremental cost, some of the analyses that their

1 witness had stated and what the Dunes was actually
2 paying for and the benefits, who was receiving more
3 benefits than the other. And I don't know what kind of
4 a real impact seven or 10 cents makes. I mean, perhaps
5 you can help me with that in terms of numbers and what
6 would that mean to the Dunes. Is it not worth it or --

7 COMMISSION STAFF: Well, Commissioners, I think we
8 readily admitted in our recommendation the 10 cents
9 that we were proposing was a judgment call. So,
10 certainly, seven or eight cents is as much supported as
11 anything. The total annual revenues for 10 cents is
12 \$36,500, as shown in the recommendation. So, it's not
13 going to have a major revenue impact either way. So,
14 you know, whatever is the Commission's pleasure on this
15 one.

16 COMMISSIONER KIESLING: I understand that it's
17 whatever our pleasure, but I'm also concerned because
18 we are trying to figure out how to implement the
19 statutory requirements that we take into account to
20 benefit to water and wastewater customers, as well as
21 the reuse customers in setting these rates. And, you
22 know, I don't want us to be kind of picking a number
23 arbitrarily without it being consistent with some
24 policy direction on, you know, what we're going to try
25 to do here with these things.

1 COMMISSION STAFF: I understand that,
2 Commissioner. I didn't mean to imply that --

3 COMMISSIONER KIESLING: I know.

4 COMMISSION STAFF: I guess what I'm saying is that
5 I don't think there is a lot of difference between a
6 seven-cent rate or a 10-cent rate, in that it's the
7 same -- we're looking at it the same way. Staff is
8 looking at we believe the rate should be something
9 greater than zero but on the low side, because of the
10 -- mainly because of the advantage that Palm Coast has
11 in this customer and how much they need it, and that
12 there is a possibility that the Dunes has other
13 options. Although, you know, we don't know how readily
14 available those are. So, all I'm saying is we picked
15 10 cents. It's a round number. But as far as -- I
16 don't think there is a large difference if you say
17 seven or 10, as far as it's going to send the same sort
18 of message, and it's in the same ballpark. I think
19 they're consistent with the same policy move.

20 COMMISSIONER KIESLING: Well, I have to say I
21 would be happier with seven.

22 COMMISSIONER JOHNSON: I would be happier with
23 seven, because I was headed towards zero. I would be
24 happiest with five, but I'll accept seven. I was just
25 thinking five cents. I don't know why. I understood

1 staff's rationale, and I was headed towards zero,
2 because probably during the hearing, their arguments
3 and the presentation, I thought, was quite compelling.
4 But reading it as a whole and understanding that reuse
5 is a commodity, and that both parties are benefiting
6 and trying to send the right signals, I was most
7 comfortable with five. But to get us moving and if
8 Commissioner Kiesling wants seven --

9 COMMISSIONER KIESLING: I'll take seven.

10 COMMISSIONER JOHNSON: Okay.

11 COMMISSIONER KIESLING: I'll move staff on 67 at
12 seven cents.

13 COMMISSION STAFF: Commissioners, just for the
14 recommendation statement, the resulting revenue from
15 seven cents is \$25,550 a year.

16 COMMISSIONER KIESLING: I mean, it's not a major
17 item, probably wasn't a major enough item to have spent
18 this much time on it, other than, you know, I still am
19 foundering with how to implement that statute.

20 COMMISSIONER JOHNSON: Absolutely, and that was
21 more to raise the point in the issue. And, in fact, I
22 don't want to send the wrong messages to the parties,
23 either. And I thought that Dunes had some excellent
24 arguments and points, and even if we did not have
25 codified policy to support their proposition, I thought

1 it had quite a bit of merit.

2 COMMISSIONER DEASON: Well, I was going to support
3 Flagler County's position.

4 COMMISSIONER KIESLING: Which was? Let me look at
5 it.

6 COMMISSIONER DEASON: I'm just kidding.

7 COMMISSIONER KIESLING: Thank you.

8 COMMISSIONER DEASON: They were adopting Public
9 Counsel's position, and Public Counsel had no position.

10 COMMISSIONER KIESLING: Which was no position, I
11 noticed that.

12 COMMISSIONER JOHNSON: That was the last issue for
13 me, really.

14 COMMISSIONER DEASON: The motion has been made and
15 seconded to approve staff's recommendation at a level
16 of seven cents, which you're approving the rationale
17 for having a rate.

18 COMMISSIONER KIESLING: Yes.

19 COMMISSIONER JOHNSON: Sure. That's fine.

20 COMMISSIONER DEASON: Without objection, show that
21 approved.

22 COMMISSIONER KIESLING: And then I would move
23 staff on 68 and 69.

24 COMMISSIONER DEASON: Without objection, show
25 staff's recommendation approved. Any other matters?

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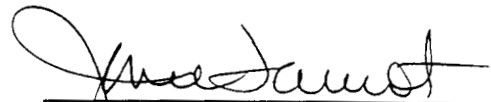
CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, JANE FAUROT, Court Reporter, do hereby certify that the foregoing proceedings was transcribed from cassette tape, and the foregoing pages numbered 1 through 76 are a true and correct record of the proceedings.

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

DATED THIS 18th day of October, 1996.



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