BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Application for Certificates to provide Water and Wastewater Service in Clay County by Point Water and Sewer, Inc.)	DOCKET NO. 961321-WS Date Submitted for Filing: May 23, 1997

PREHEARING REBUTTAL TESTIMONY OF PHILLIP DISQUE ON BEHALF OF POINT WATER AND SEWER, INC.

Q. Please state your name and business address.

A. My name is Phillip Disque, CPA and my business address is 707 S.E. 3rd Avenue, Suite 400, Fort Lauderdale, FL. My telephone number is (954) 764-4500 and my fax number is (954) 764-0761.

Q. What is your profession?

A. I am a Certified Public Accountant for Point Water and Sewer, Inc. (hereinafter referred to as "PWS").

Q. Is it necessary for PWS to have a high rate base in order to be financially able to operate the facility?

A. It is not necessary to have a high rate base in order to operate the facility if the cash flow and/or the assets are available to PWS which allows it to meet all of its financial needs. This is a small plant with revenue needs of less than $50,000.00 a year according to the PSC. In calculating its rates, the PSC took into consideration all of the factors of operation with respect to this utility. PWS, in addition thereto, has the ability to borrow more than sufficient assets in order to operate and address all of its regular financial and capital needs. As you know, the plant is already constructed and operating and therefore no substantial capital investment will be required now or in the near future. To the extent capital investment is necessary, PWS could create additional cash flow by deferring principal and interest payments to IGR or borrow against its assets based on IGR's agreement to subordinate.

Q. Does a low equity affect PWS' financial ability?

A. No. The amount of equity of PWS is irrelevant to its financial ability. Many successful businesses have either a negative or low amount of equity. There is no correlation between the amount of equity in a business and its financial viability. The low equity also reflects the fact during the past two years that PWS has operated the facility, that the PPOA, has not paid sufficient amounts to operate the facility. The rates as set by the PSC address all of the operating and financial issues regarding the operation of the plant. Prior to the implementation of the PSC rates, PWS was receiving reimbursement for only certain expenses and therefore did not receive sufficient funds in which to operate which would ultimately result in a low or negative equity.

Q. Will PWS be able to satisfy its debt obligations?

A. Over time, PWS, with a positive cash flow, will be able to make payments for its debt and interest. This is not a major concern at this time since IGR has already agreed, to the extent necessary, to forebear interest and principal payments to allow PWS to maintain a positive cash flow. That agreement eliminates any concern about the current debt adversely impacting PWS.

Q. Does the acquisition in the future of capital equipment concern you?

A. No. PWS, in light of its agreement with IGR, is able to borrow and invest in new equipment. In addition, the rate base would be increased to cover the equipment over time.

Q Does a low return on the rate base adversely impact PWS?

A. No.

Q. Will PWS lose money in the future based on the current rates?

A. It is assumed that the PSC determines rates that allow a utility to be viable. Because of the forbearance agreement, PWS theoretically could be viewed as having no debt service. We have to assume the PSC knows how to properly set rates.

Q. Will the economy of scale adversely affect PWS?

A. As you know, PWS can increase its customer base by an additional 15 townhomes if the 15 undeveloped lots are in fact developed. Obviously, this would create a greater economy of scale. However, since the rates are sufficient to cover the ordinary expenses of PWS, and PWS should have a positive cash flow, the economy of scale is not relevant since PWS has the ability to provide the services within a viable rate structure.

Q. Do you anticipate that PWS will have a greater debt load in the future as a result of capital investments?

A. To the extent that PWS is required to purchase or acquire new equipment, it may have to borrow money to facilitate that. It should also be noted that if the equipment is purchased that would increase the rate base which would increase the amount of rates paid by the customers and would meet the financial needs of the utility over a period of time.

Q. Would it be more cost-effective for the customers to tie-in with the County?

A. Not necessarily. In order to tie-in, the County has calculated that the PPOA would have to pay approximately $121,991.54 and Whitney's Marina would have to pay approximately $44,272.46 of the overall $204,339.00 cost. Since it is anticipated that both the PPOA and Whitney's Marina would have to borrow this money ($166,264.00) with an interest rate of no less than ten percent (10%) per annum over ten (10) years, this would cost these two customers $2,503.75 per month over ten years or $30,000.00 a year just to tie-in. In addition, the easements, pipes, assignments, lines and equipment would have to be purchased from PWS which adds additional substantial cost. Of course, the quarterly rates of Clay County would also have to be added in. This also assumes that financing at that rate could be covered and does not include loan acquisition costs. This may explain why a tie-in has never been financially desirable for the residents in light of the substantial capital investment involved and why the residents did tie-in during the many years they controlled the facility.

Q. Do you have anything further to say?

A: Not at this time, but I may add more later.