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IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES FOR CUSTOMERS WITHIN MARICOPA COUNTY, ARIZONA

DOCKET NO. W-01427A-01-0487
DOCKET NO. WS-01428A-01-0487

NOTICE OF FILING DIRECT TESTIMONY

City of Litchfield Park, Intervenor in this action, by and through its attorneys, hereby files the Direct Testimony of Mark Cicchetti, Consultant on behalf of the City of Litchfield Park.

Respectfully submitted this 14th day of August, 2002.

MARTINEZ & CURTIS, P.C.

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PROOF OF SERVICE AND
CERTIFICATE OF MAILING

I hereby certify that on this 14th day of August, 2002, I caused the foregoing document to be served on the Arizona Corporation Commission by hand-delivering the original and ten (10) copies of said document to:

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Phoenix, Arizona 85007

With copies of the foregoing hand-delivered this 14th day of August, 2002 to:

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BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
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MARC SPITZER
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES FOR CUSTOMERS WITHIN MARICOPA COUNTY, ARIZONA)	**DOCKET NO. W-01427A-01-0487** **DOCKET NO. WS-01428A-01-0487**

DIRECT TESTIMONY OF

MARK CICCHETTI
CITY MANAGER

ON BEHALF OF

CITY OF LITCHFIELD PARK, INTERVENOR

AUGUST 14, 2002

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TO DIRECT TESTIMONY OF
MARK CICCHETTI

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND ADDRESS AND ON WHOSE BEHALF YOU ARE TESTIFYING IN THIS PROCEEDING.

A. My name is Mark Anthony Cicchetti and my business address is 2931 Kerry Forest Parkway, Suite 202, Tallahassee, Florida 32309. I am testifying on behalf of the City of Litchfield Park (the "City").

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am a Senior Financial Consultant and Manager of the Tallahassee Office for C.H. Guernsey & Co. Guernsey is an engineering, architectural and consulting firm that has been in business for over 70 years. The services Guernsey provides include: cost of service and rate studies; regulatory and litigation support; economic and financial studies; valuation studies; power supply planning, solicitation, and procurement; fuel purchasing; transmission and distribution planning and facilities design; strategic planning; telecommunications and e-business applications; architectural design for headquarters and warehouse facilities; environmental assessments; security systems, and; web site development and internet applications. For ten years prior to joining C.H. Guernsey & Co., I was President of Cicchetti & Co., a financial research and consulting firm specializing in public utility finance, economics, and regulation. I also have been employed by the Florida State Board of Administration as Manager of Arbitrage Compliance and the Florida Public Service Commission as Chief of Finance. A detailed narrative description of my experience and qualifications is contained in Exhibit MAC - 1, attached hereto.

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II. PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to address the Exceptions of the City of Litchfield Park to the 43.26% increase in water system rates and the 19.59% increase in sewer system rates imposed on City residential and commercial customers by the proposed Rate Case Settlement Agreement ("Settlement Agreement") and to recommend a methodology to mitigate the rate increase to existing customers while keeping Litchfield Park Service Company ("LPSCO") whole.

III. SUMMARY

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The LPSCO water and sewer systems are growing steadily and are expected to continue to grow at a rate of approximately 600 customers per year. A portion of the plant that is currently in rate base exceeds the amount necessary to provide water and sewer service to customers existing at the end of the test year. Furthermore, SunCor Development Company ("SunCor") is the sole shareholder of LPSCO, as well as the owner and developer of the vast majority of the land within LPSCO's certificated territory. One person, Geoffrey Appleyard, has been given primary responsibility to make the financial decisions for both SunCor and LPSCO. The Arizona Corporation Commission (the "Commission"), therefore, must closely scrutinize the dealings between the two companies to ensure ratepayers are being treated fairly and paying no more than if LPSCO was not owned by the entity that is developing the lands within the LPSCO's certificated area. The factors of steady growth, excess

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capacity and an ownership with potentially conflicting goals have led the City to oppose the Settlement Agreement as currently proposed. As discussed herein, the excess capacity relating to future customers should be eliminated from rate base and, if determined to be a prudent investment, an Allowance for Funds Prudently Invested ("AFPI"), similar to that utilized in the State of Florida, should be considered to shift the cost of this excess capacity to the future customers for whom the capacity was constructed. Additionally, as a policy matter, the Commission should require a $300 water hook-up fee as a contribution to help offset the cost of future water backbone infrastructure and treat the $1,500 hook-up fee proposed for the sewer system as a contribution instead of an advance. Finally, it is recommended that all new developments in LPSCO's CC&N be treated under the policy followed by LPSCO for persons requesting to be included within the certificated area. In particular, each development should advance not only the funds for on-site facilities associated with the development, but for all water and sewer plant that is added to meet the needs of the development, including "additional facilities required to provide pressure, storage or water supply". See, e.g., Commission Rule A.A.C. R14-2-406 (governing water main extension agreements). It is recommended that the developer receive a credit for hook-up fees that will be collected within the development against the advance requirement for backbone plant.

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IV. LPSCO IS STEADILY GROWING

Q. WHAT LEADS YOU TO THE CONCLUSION THAT LPSCO IS OPERATING TWO STEADILY GROWING UTILITIES?

A. Black & Veach prepared a feasibility report in conjunction with LPSCO's attempt to secure financing from the Industrial Development Authority of the City of Goodyear in 1999 and conservatively projected an increase of 600 water and 600 sewer customers per year for at least five years (the "B&V Feasibility Report"). Furthermore, since January 1993, the LPSCO customer count has increased from 1,567 (a total roughly the same as the 1,570 LPSCO customers residing within the City at the end of the present test year) to 5,541 water customers and 5,140 sewer customers at the end of the test year (12/31/00), representing a historical growth rate of just under 500 customers per year).

Q. IS LPSCO'S INVESTMENT IN PLANT ALSO INCREASING?

A. Yes. According to the Staff Reports, Commission Decisions and/or proposed settlement agreements, that have been filed in LPSCO's past three rate cases, LPSCO's original cost, less depreciation, rate base ("OCRB") for its water plant increased from $534,171 as of March 31, 1993 (Pre-filed Testimony of James J. Rolle), to $1,835,000 as of December 31, 1996 (Settlement Agreement) and is at $5,909,975 as of December 31, 2000 (proposed settlement agreement). The OCRB for the sewer plant has similarly increased from $634,418, $2,250,000 and $8,691,827, for the respective years. It should be noted that only one new well has been added to rate base since 1996 and no new storage. The bulk of the plant additions in the water division have been

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for pump stations, mains, meters, services and hydrants. For the sewer division the majority of the additional plant represents added treatment capacity and collector mains.

Q. DO THE FOREGOING FIGURES TEND TO CONTRADICT MR. ELLIS' ASSERTION THAT GROWTH IS NOT INCREASING THE COST PER CUSTOMER?

A. These figures demonstrate that in 1993, when the LPSCO system was generally limited to the City, the amount invested in OCRB water and wastewater plant per customer totaled $746 (($534,171 + $634,418)/1,567). In contrast, the investment in OCRB water and wastewater plant per customer today is $2,635 (($5,909,975 + $8,691,827)/5,541) or $1,889 ($2,635 – $746) more. LPSCO's replacement of unserviceable hydrants, services, and mains within the City's jurisdictional boundaries does not begin to explain this increase in cost per customer. It certainly does not explain why $1,889 more per customer of OCRB plant investment is needed today to provide the same basic level of water and sewer service to City residents as was being provided in 1993. The only reasonable explanation that has been provided to explain this increase in OCRB plant investment per customer is growth.

V. ADVANCES SHOULD BE REQUIRED TO ADDRESS CONCERNS ARISING FROM THE LPSCO/SUNCOR RELATIONSHIP

Q. WOULD YOU PLEASE EXPLAIN YOUR CONCERNS REGARDING SUNCOR'S ROLE AS BOTH PRIMARY LANDOWNER/DEVELOPER ON THE ONE HAND AND SOLE STOCKHOLDER OF THE WATER AND SEWER UTILITIES ON THE OTHER HAND?

A. As depicted on Exhibit MAC - 2 attached hereto, SunCor owns the vast majority of the land within approximately 11,000 acres encompassed by LPSCO's CC&N. In fact, "SunCor is developing approximately 9,000 acres of land within LPSCO's CC&N area and is the major developer in the area. The area is master planned by SunCor." B&V Feasibility Report. The relationship as both the owner of the water and sewer utilities, as well as the major developer within the certificated area can result in skewing the financing decisions of the utility. It is not unusual for a significant portion of plant to be financed through contributions or advances paid for by developers or the property owners to whom the developer sells land (whether developed or undeveloped). It is my understanding that Commission Rule A.A.C. R14-2-406 governing water main extension agreements in Arizona authorizes the utility to secure 100% of the any extension, including the cost of additional facilities required to provide pressure, storage or water supply for the new service as a refundable advance. In fact, LPSCO has indicated that its policy is to require developers/customers that are outside the CC&N area and wish service, to advance the costs of the water production, storage, treatments and major water lines, in addition to on-site water lines. Response to City Data Request LP-2.12. In contrast, for developers/customers inside the CC&N area,

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an area largely owned and being developed by SunCor, the water production, storage, treatments and major water lines are installed by LPSCO with either debt or equity. There is nothing inherently wrong with this policy. However, it must be recognized that by requiring an advance, the ratepayer is protected from paying a return on the plant until the development generates sufficient revenues to refund all or a portion of the funds advanced. In contrast, LPSCO's policy results in its' ratepayers paying a return and the depreciation expense on 100% of the plant from the date it is placed in service, subject, of course, to filing a rate case to include the plant.

The Commission must ask: Would LPSCO have established the same policy for developers/customers within its CC&N, as it has established for developers/customers outside its CC&N, but for the fact that the policy would have been applied largely against its sole shareholder, SunCor? Why should developers within the CC&N avoid providing advances, while developers outside the CC&N are required to pay them? The City recommends requiring both to provide advances for the facilities needed to serve the development.

Q. HOW DOES SUNCOR MAKE A DECISION ON WHETHER TO FINANCE NEW PLANT WITH EQUITY, DEBT, AN ADVANCE OR A CONTRIBUTION?

A. Mr. Appleyard serves both as Vice President and Treasurer for LPSCO and as Vice President and Chief Financial Officer for SunCor. The City took his deposition and learned that he is generally the final arbiter regarding financial decisions of this type. Mr. Appleyard indicated that he discusses the matters with LPSCO's general manager and then makes the decision. Sometimes he

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also consults with Mr. Ogden, the President and CEO of both LPSCO and SunCor. Mr. Appleyard further stated that his decisions on behalf of LPSCO were also guided by the best interest of the ratepayers. Clearly, there is a tension between Mr. Appleyard's stated intent to be guided by the best interest of the ratepayer and his duties to the shareholders of LPSCO and to his employer SunCor.

Q. WILL THE GENERAL MANAGER OF LPSCO ENSURE THAT THE INTERESTS OF LPSCO'S RATEPAYERS ARE SERVED?

A. There is always tension between a general manager's obligation to run a utility to minimize rates for the ratepayers and his duty to the company's shareholder to maximize shareholder wealth. The conflict is intensified in this case where the shareholder is the developer and the CFO for the developer/shareholder makes the financial decisions.

Q. WOULD YOU PLEASE EXPLAIN MORE FULLY WHAT YOU MEAN BY TENSION BETWEEN THESE TWO DUTIES?

A. Here is an example. Suppose a new development wants water service for potentially 1,000 new lots. The development is located a mile away from the existing facilities. Furthermore, a new well, additional storage and a booster pump are needed to provide adequate service to the development. The estimated cost to install these backbone facilities for the development is $500,000. In addition, the on-site facilities are estimated to cost another $750,000. The build out for the development is projected to take a minimum of eight years. Further, assume that the developer advances the full $1.25 million for these facilities and the most optimistic refund schedule at 10% of the revenues generated from water sales at the development over a ten-year period will provide the developer only a return of $500,000 with no interest. At the end of the ten-year period, approximately $750,000 of plant investment (less allowed accumulated depreciation) would be converted to a contribution, without ever earning a return. Furthermore, no further depreciation expense would be recovered through rates. Clearly, this is an advantageous result for the ratepayer.

On the other hand, assume the developer owns the water company and had its CFO making the financial decisions for the water company. If $750,000 is provided to the utility as equity and used to purchase a portion of the plant that will serve the development, that portion of the plant can be included in rate base immediately upon being placed into service, and the developer/shareholder can earn a return on its investment. The depreciation expense will still be recovered in rates and there will no longer be any conversion of any of this investment to a contribution. If the developer provides the remaining $500,000 as an advance, the risk of any of the $1.2 million investment in plant being treated as a contribution is minimized and the return to the developer/shareholder is maximized. Clearly this is an advantageous result for the developer/shareholder, not for the ratepayer.

In order to avoid manipulation of this situation to the disadvantage of the ratepayer, it is recommended that the Commission require LPSCO to follow its policy as enunciated for developments seeking inclusion within its CC&N for developments already located within its CC&N (i.e., require the developer to advance the funds for both on-site and backbone facilities needed to provide water and sewer services to the development). Obviously, this policy would not preclude SunCor from having a successor developer assume this obligation as part of the acquisition of property.

Q. HAS YOUR REVIEW OF THE DOCUMENTS PROVIDED BY LPSCO UNCOVERED ANY EVIDENCE THAT LPSCO IS TRYING TO MAXIMIZE ITS PROFITS ON THE BACKS OF THE RATEPAYERS?

A. There have been no memoranda or other documentary evidence discovered that demonstrate an intent on the part of either LPSCO or SunCor to harm ratepayers. On the other hand, we have found there to be no documentary evidence supporting the line extension policy of LPSCO or LPSCO's decisions to use equity, debt, advances or contributions to finance plant. The City requested copies of all documentation discussing LPSCO's policy regarding when advances are required, as well as it decisions to use equity or debt financing. The only documents provided were the final Bond documentation. It seems difficult to accept that no other documentation exists. For example, one would expect both the LPSCO or the SunCor Board minutes might include a discussion of a decision to incur debt financing approximating a third of LPSCO's current combined rate base.

Q. DID YOU FIND ANY EVIDENCE THAT SUNCOR WAS USING ITS OWNERSHIP AND CONTROL OF LPSCO IN STRUCTURING DEVELOPMENT DEALS?

A. The City did receive, after executing a confidentiality agreement, copies of certain transactions between SunCor and third party developers. Because of the confidentiality agreement, I cannot quote or provide copies of the

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Agreements themselves. However, the documents do indicate that SunCor agreed to bring water and sewer service to the boundary of the property being sold. Importantly, it must be remembered that under the advance policies previously discussed, this promise of SunCor also constituted a commitment on the part of LPSCO to fund those facilities, even though it had no agreement with the developer to serve the property. Further, SunCor agreed that it would be responsible for paying any hook-up fees that may be charged by LPSCO and agreed to oppose the implementation of hook-up fees by community facility districts ("CFD"). SunCor also agreed that it and LPSCO would support a developer's efforts to secure a certificate of assured water supply and that a portion of the LPSCO's CAP allocation would be made available to a development. SunCor also expressly agreed to use its ownership of LPSCO to secure LPSCO's cooperation with the purchaser/developer. LPSCO received no consideration under these agreements for the commitments regarding water and sewer service made by SunCor.

Q. DID YOU DISCOVER ANY OTHER QUESTIONABLE PRACTICES BETWEEN SUNCOR AND LPSCO?

A. For a period of approximately 6 to 7 years, SunCor failed to document and secure Commission approval of main extension agreements involving two major developments which it was actively developing, in particular Palm Valley Phase I and Pebble Creek.

VI. HOOK-UP FEES

Q. WHY SHOULD THE COMMISSION REQUIRE A HOOK-UP OF $300 FOR WATER CUSTOMERS AND TREAT THE $1,500 SEWER HOOK-UP FEE AS A CONTRIBUTION?

A. Requiring hook-up fees to be contributed to LPSCO for use in financing future backbone plant will help minimize LPSCO's financing requirements and will help place the cost of growth on the customers responsible for that growth. In 1996, LPSCO requested a $295 hook-up fee be instituted. In the previously cited B&V Feasibility report, it was estimated that $3,823,800 of water plant and 1800 customers would be added between 2001 and 2003. A $300 hook-up fee would represent a 15% contribution per customer, which is reasonable. Although the period cited in the B&V Feasibility Report is more than half way over, there is no reason to believe LPSCO will not continue to grow and benefit, along with current customers, from the collection of a hook-up fee. Additionally, LPSCO has agreed to a $1,500 hook-up fee for sewer service. However, LPSCO proposes the hook-up fee be treated as an advance rather than a contribution. The City believes this hook-up fee should also be treated as a contribution.

VII. AFPI

Q. WHAT IS AN ALLOWANCE FOR FUNDS PRUDENTLY INVESTED AND WHY IS IT NECESSARY?

A. A major issue confronting regulators regarding water and wastewater rates, particularly in areas with high growth, is the treatment of prudently constructed plant that is designed to meet the needs of more than just the current or test

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year customers. Generally, water and wastewater systems are built to serve entire developments all at once or in large phases. Building small additions to handle growth in the short-term is prohibitive due to diseconomies of scale. Consequently, in situations where plant in service exceeds the needs of existing customers, a method should be developed to place the costs associated with expected growth on future customers so existing customers do not bear the costs through current rates. Concerns regarding current customers bearing the costs associated with expected growth can be of particular interest when the resultant rate increases are significant, as is the case in this proceeding or where the service area has a relatively high percentage of retirees or persons living on fixed incomes.

A method that allows prudent plant costs associated with expected growth to be passed on to the future customers that will be served by that plant is the "Allowance for Funds Prudently Invested" ("AFPI") method. Under the AFPI Method, a carrying charge is developed that covers the full cost of the plant to be used by future customers and is collected from the new customers at the time of connection.

Q. SHOULD CURRENT LPSCO CUSTOMERS BEAR THE COSTS ASSOCIATED WITH FUTURE CUSTOMERS?

A. Not if it can be helped. "A cost standard of ratemaking has been most generally accepted in the regulation of the level of rates charged by private utility companies."[1] Correspondingly, a generally accepted ratemaking

[1] "*Principles of Public Utility Rates*," Bonbright, Danielsen, and Kamerschen, Public Utilities reports, Inc., Second Edition, pg. 110.

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premise is that costs should be placed on the cost-causer to the greatest extent possible. In the interest of fairness, rates should be structured to place the costs of expected growth on future customers. This can be accomplished by developing an AFPI charge that is recovered from new customers at the time of connection. Between the rates collected from current customers and the AFPI charge collected from new customers, LPSCO would be kept whole.

Q. PLEASE EXPLAIN HOW THE AFPI METHOD WOULD WORK.

A. The AFPI method allows a utility to earn a fair return on prudently constructed plant that is going to serve future customers through a charge that recovers all costs associated with expected growth including a fair return on investment. To calculate the one-time charge that is due the month that the customer connects to the system, the following information is necessary:

- Cost of the qualifying asset excluded from rate base.
- Gallonage capacity, in the form of residential equivalent units ("REU's"), of the plant not utilized.
- Annual depreciation expense.
- Allowed overall rate of return.
- Weighted cost of equity.
- Marginal income tax rate for the utility.
- Annual property tax associated with future use plant.
- Depreciation rate for the asset.

The AFPI calculation allows for recovery of a fair rate of return on plant, any unfunded expenses, depreciation, any unrecovered O&M associated with the qualifying plant, income taxes, and any state regulatory assessment fees. The cost is calculated for 1 residential equivalent unit for as many years out as the

Commission deems reasonable. In Florida, the charge is calculated out five years. The charges are paid by all future customers at the time of connection until the existing plant reaches its designated capacity in REU's. Exhibit MAC-3 attached to my testimony shows how the AFPI charge is calculated for the LPSCO water system. The number of future customers in the calculation (1,591) is the difference between the design capacity as shown on MSJ-1, page 10 (7,060) and the actual customers in the test year (5,541). An analysis of plant in rate base indicates there is even a greater excess of distribution and transmission plant currently in service. The amount of qualifying assets in the AFPI calculation ($1,622,292) associated with the future customers was determined by multiplying the future customers by the average investment per customer as shown on DWE-2. Data to calculate the specific impact, on rates, of incorporating an AFPI charge and reducing rate base was not available to me at the time of filing this testimony. However, such rates can and should be calculated for the LPSCO system in this case.

Q. HOW CAN THE COMMISSION ASSURE THAT COLLECTING AFPI CHARGES FROM FUTURE CUSTOMERS IN LIEU OF CASH FROM EXISTING CUSTOMERS WILL NOT IMPAIR THE FINANCIAL INTEGRITY OF LPSCO?

A. Alternatives to assure that a utility maintains its financial integrity while collecting AFPI charges from future customers in lieu of cash from existing customers include: 1) incorporating a margin reserve in the calculation of rate base with a corresponding offset to the number of REU's used to calculate the AFPI charge and, 2) running a financial integrity test to increase the amount of rate base up to the point that assures the company has the opportunity to maintain a reasonable cash coverage ratio, as well as other measures of financial integrity, as determined by the Commission.

Under the margin reserve approach, the Commission would specify a percentage of plant to include in rate base above the amount used to serve existing customers that would serve as a buffer to recognize customers that may come on line after the test year. Under the financial integrity test approach, pro forma financial statements are produced that determine the expected cash coverage ratio, and other measures of financial integrity, given the rate case parameters. The expected financial integrity measures are then evaluated to determine their adequacy. If the Commission determines the company's financial integrity would not be maintained, rate base can be adjusted until the utility's financial integrity is expected to be maintained.

VIII. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The factors of steady growth, excess capacity and an ownership with potentially conflicting goals have led the City to oppose the Settlement Agreement as currently proposed. The LPSCO water and sewer systems are growing steadily and are expected to continue to grow at a rate of approximately 600 customers per year. A portion of the plant that is currently in rate base exceeds the amount necessary to provide water and sewer service to existing customers. Furthermore, SunCor Development Co. is the sole shareholder of LPSCO, as well as the owner and developer of the vast majority of the land within LPSCO's certificated territory. SunCor has vested one person with the general responsibility to make the financial decisions for both SunCor and LPSCO. After closely scrutinizing the dealings between the two companies to ensure ratepayers are being treated fairly and paying no more than if LPSCO was not owned by the entity that is developing the lands within the LPSCO's certificated area, the Commission should, in the interest of fairness, structure rates to place the costs of expected growth on future customers. This can be accomplished by requiring a hook-up fee for new water and sewer customers, requiring LPSCO to charge advances for all new development, and instituting an AFPI charge to be recovered from new customers at the time of connection.

The AFPI method allows a utility to earn a fair return on prudently constructed plant that is going to serve future customers through a charge that recovers all costs associated with expected growth including a fair return on investment. Implementation of an AFPI charge in this docket would reduce the amount of rate increase, help place the cost of growth on the cost-causer, and be more fair to existing customers.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

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Experience and Qualifications

I received a Bachelor of Science degree in Business Administration in 1980 and a Master of Business Administration degree in Finance in 1981, both from Florida State University. Upon graduation I accepted a planning analyst position with Flagship Banks, Inc., a bank holding company. As a planning analyst, my duties included merger and acquisition analysis, lease-buy analysis, branch feasibility analysis, and special projects.

In 1983, I accepted a regulatory analyst position with the Florida Public Service Commission. As a regulatory analyst, I provided in-depth analysis of the cost of equity and required overall rate of return in numerous major and minor rate cases. I reviewed and analyzed the current and forecasted economic conditions surrounding those rate cases and applied financial integrity tests to determine the impacts of various regulatory treatments. I also co-developed an integrated spreadsheet model which links all elements of a rate case and calculates revenue requirements. I received a meritorious service award from the Florida Public Service Commission for my contributions to the development of that model.

In February 1987, I was promoted to Chief of the Bureau of Finance. In that capacity I provided expert testimony on the cost of common equity, risk and return, corporate structure, capital structure, and industry structure. I provided technical guidance to the Office of General Counsel regarding the development of financial rules and regulations. In addition, I authored the Commission's rules regarding diversification and affiliated transactions, chaired the Commission's Committee on Leveraged Buyouts, supervised the finance bureau's regulatory analysts, co-developed and presented a seminar on public utility regulation to help educate the

Florida Public Service Commission attorneys, and provided technical expertise to the Commission in all areas of public utility finance for all industries.

In February 1990, I accepted the position of Chief of Arbitrage Compliance in the Division of Bond Finance, Department of General Services. As Manager of the Arbitrage Compliance Section, I was responsible for assuring that over $16 billion of State of Florida tax-exempt securities remained in compliance with the federal arbitrage requirements enacted by the Tax Reform Act of 1986. I provided investment advice to trust fund managers on how to maximize yields while remaining in compliance with the federal arbitrage regulations. I designed and implemented the first statewide arbitrage compliance system which included data gathering, financial reporting, and computation and analysis subsystems.

In July 1990, I founded Cicchetti & Company. Through Cicchetti & Company I provided financial research and consulting services, including the provision of expert testimony, in the areas of public utility finance, economics, and regulation. Topics I have testified on include cost of equity, capital structure, corporate structure, regulatory theory, cross-subsidization, industry structure, the overall cost of capital, incentive regulation, the establishment of the leverage formula for the water and wastewater industry, reconciling rate base and capital structure, risk and return, and the appropriate regulatory treatment of construction work in progress, used and useful property, construction cost recovery charges, and the tax gross-up associated with contributions-in-aid-of-construction.

In January, 2001, I joined C.H. Guernsey & Co. as a Senior Financial Consultant and Manager of the Tallahassee, Florida Office.

In 1985, I was certified by the Florida Public Service Commission as a Class B Practitioner in the areas of finance and accounting.

In June, 1985, I published an article in Public Utilities Fortnightly titled "Reconciling Rate Base and Capital Structure: The Balance Sheet Method." In September, 1986, I was awarded third place in the annual, national, Competitive Papers Session sponsored by Public Utilities Reports, Inc., in conjunction with the University of Georgia and Georgia State University, for my paper titled "The Quarterly Discounted Cash Flow Model, the Ratemaking Rate of Return, and the Determination of Revenue Requirements for Regulated Public Utilities." An updated version of that paper was published in the June, 1989 edition of the National Regulatory Research Institute Quarterly Bulletin. I subsequently served twice as a referee for the Competitive Papers Sessions. On June 15, 1993, I published an article on incentive regulation in Public Utilities Fortnightly titled "Irregular Incentives." On September 1, 2002, I will have an article published in Public Utilities Fortnightly titled, "Gas Distribution: A Higher Risk Business."

I am a past President and past member of the Board of Directors of the Society of Utility and Regulatory Financial Analysts ("SURFA"). I was awarded the designation Certified Rate of Return Analyst by SURFA in 1992. I am a member of the Financial Management Association International and have been listed in Who's Who in the World and Who's Who in America.

I have made public utility and finance related presentations to various groups such as the Southeastern Public Utilities Conference, the National Society of Rate of Return Analysts, the National Association of State Treasurers, and the Government Finance Officers Association.

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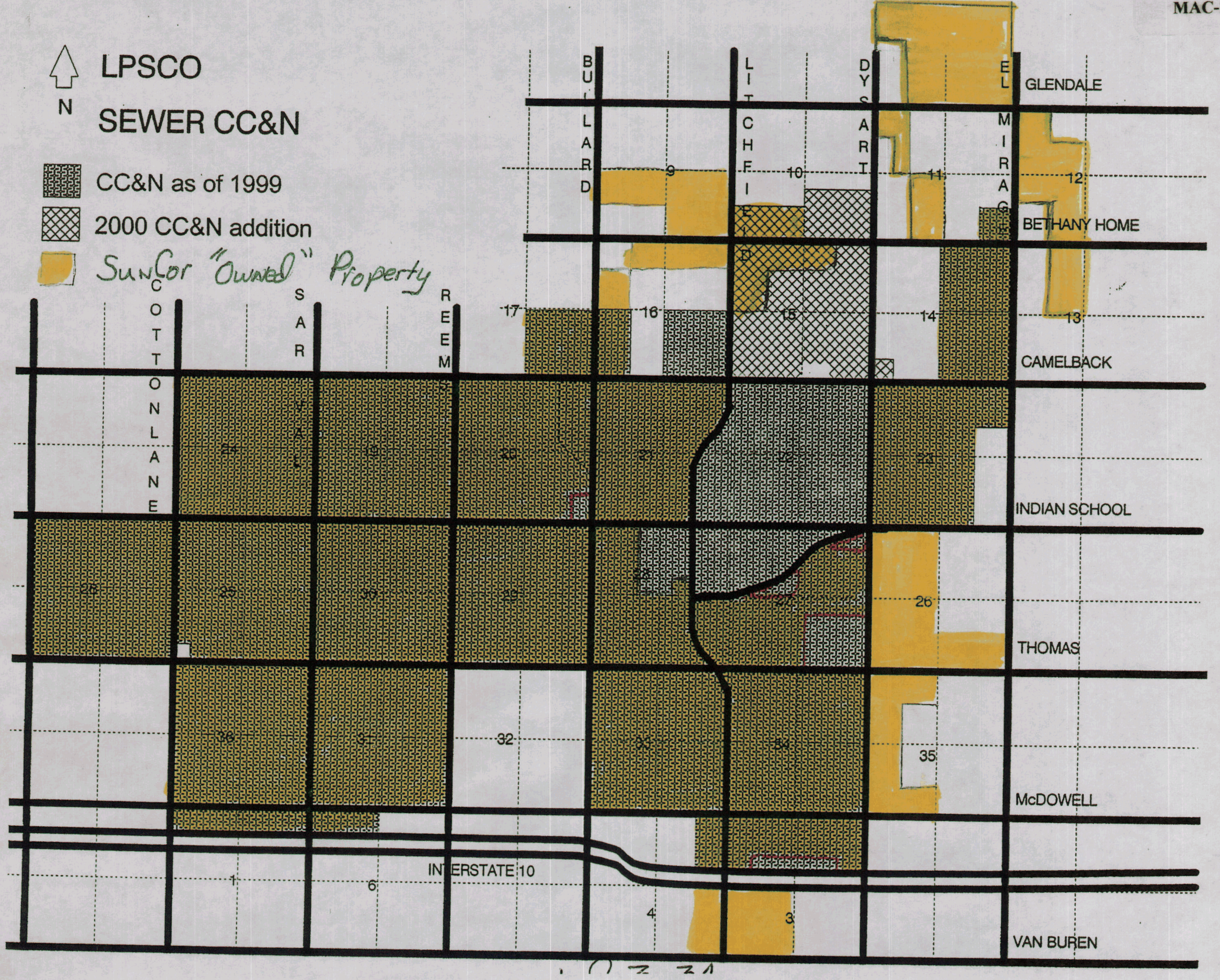
EXHIBIT
MAC-2



Allowance for Funds Prudently Invested
Calculation of Carrying Costs for Each REU:

Cost of Quailfying Assets:	$	1,622,292
Divided By Future REU:		1,591
Cost/REU:	$	1,019.67
Multiply By Rate of Return:		8.54%
Annual Return Per REU:	$	87.03
Annual Reduction in Return: (Annual Depreciation Expense per REU Times Rate of Return)	$	2.28
Federal Tax Rate:		31.63%
Effective State Tax Rate:		4.76%
Total Tax Rate:		36.39%
Effective Tax on Return: (Equity % Times Tax Rate)		30.06%
Provision For Tax: (Tax on Return/(1-Total Tax Rate))		47.26%

Annual Depreciation Expense:	$	42,504
Future REU's:		1,591
Annual Depr. Cost per REU:	$	26.72
Annual Propery Tax Expense:	$	32,418
Future REU's:		1,591
Annual Prop. Tax per REU:	$	20.38
Weighted Cost of Equity:		7.05%
Divided by Rate of Return:		8.54%
% of Equity in Return:		82.60%
Other Costs:	$	0
Future REU's:		1,591
Cost per REU:	$	0.00

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Exhibit MAC-3

Allowance for Funds Prudently Invested
Calculation of Carrying Costs for Each REU:

Information Needed

1.	Cost of Qualifying Assets	$	1,622,292
2.	Capacity of Qualifying Assets		1,038,923 GPD
3.	Number of Future Customers		1,591 REU
4.	Annual Depreciation Expense	$	42,504
5.	Rate of Return		8.54%
6.	Weighted Cost of Equity		7.05%
7.	Federal Income Tax Rate		31.63%
8.	State Income Tax Rate		6.97%
9.	Annual Property Tax	$	32,418
10.	Other Costs	$	0
11.	Depreciation Rate of Assets		2.62%
12.	Test Year		2000

Allowance for Funds Prudently Invested
Calculation of Carrying Costs for Each REU:

	2000	2001	2002	2003	2004
Unfunded Other Costs:	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Unfunded Annual Depreciation:	26.72	26.72	26.72	26.72	26.72
Unfunded Property Tax:	20.38	20.38	20.38	20.38	20.38
Subtotal Unfunded Annual Expense:	$ 47.09	$ 47.09	$ 47.09	$ 47.09	$ 47.09
Unfunded Expenses Prior Year:	0.00	47.09	94.18	141.27	188.36
Total Unfunded Expenses:	$ 47.09	$ 94.18	$ 141.27	$ 188.36	$ 235.46
Return on Expenses Current Year:	4.02	4.02	4.02	4.02	4.02
Return on Expenses Prior Year:	0.00	4.02	8.04	12.06	16.08
Return on Plant Current Year:	87.03	84.75	82.47	80.19	77.91
Earnings Prior Year:	0.00	87.03	183.23	289.38	406.33
Compound Earnings from Prior Year:	0.00	7.43	15.64	24.70	34.68
Total Compounded Earnings:	$ 87.03	$ 183.23	289.38	406.33	535.00
Earnings Expansion Factor for Tax:	1.47	1.47	1.47	1.47	1.47
Revenue Required to Fund Earnings:	$ 128.16	$ 269.82	$ 426.15	$ 598.37	$ 787.86
Revenue Required to Fund Expenses:	47.09	94.18	141.27	188.36	235.46
Subtotal:	$ 175.25	$ 364.00	$ 567.42	$ 786.73	$ 1,023.32
Divided by Factor for Regulatory Assessment Fee	1	1	1	1	1
REU Carrying Cost for 1 Year:	**$ 175.25**	**$ 364.00**	**$ 567.42**	**$ 786.73**	**$ 1,023.32**

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Allowance for Funds Prudently Invested
Calculation of Carrying Cost Per REU Per Month:

	2000	2001	2002	2003	2004	2005
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January	14.60	190.98	380.96	585.70	806.45	1,023.32
February	29.21	206.71	397.91	603.97	826.16	1,023.32
March	43.81	222.44	414.86	622.25	845.88	1,023.32
April	58.42	238.17	431.81	640.52	865.59	1,023.32
May	73.02	253.90	448.76	658.80	885.31	1,023.32
June	87.63	269.63	465.71	677.08	905.03	1,023.32
July	102.23	285.36	482.66	695.35	924.74	1,023.32
August	116.84	301.09	499.61	713.63	944.46	1,023.32
September	131.44	316.82	516.57	731.90	964.17	1,023.32
October	146.04	332.55	533.52	750.18	983.89	1,023.32
November	160.65	348.28	550.47	768.45	1,003.60	1,023.32
December	175.25	364.00	567.42	786.73	1,023.32	1,023.32