

BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 010503-WU

In the Matter of

APPLICATION FOR INCREASE IN  
WATER RATES FOR SEVEN SPRINGS  
SYSTEM IN PASCO COUNTY BY  
ALOHA UTILITIES, INC.

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VOLUME 10

Pages 1336 through 1446

PROCEEDINGS:

HEARING

BEFORE:

CHAIRMAN LILA A. JABER  
COMMISSIONER BRAULIO L. BAEZ  
COMMISSIONER MICHAEL A. PALECKI

DATE:

Friday January 11, 2002

TIME:

Commenced at 9:10 a.m.  
Concluded at 5:10 p.m.

PLACE:

Clarion Hotel  
5316 U. S. Highway 19 North  
New Port Richey, Florida

REPORTED BY:

LINDA BOLES, RPR  
Official FPSC Reporter

APPEARANCES:

(As heretofore noted.)

DOCUMENT NUMBER - DATE

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## P R O C E E D I N G S

(Transcript follows in sequence from Volume 9.)

MR. DETERDING: The utility calls Steve Watford.

CHAIRMAN JABER: Thank you.

## STEPHEN WATFORD

was called as a rebuttal witness on behalf of Aloha Utilities, Inc., and, having been duly sworn, testified as follows:

## DIRECT EXAMINATION

BY MR. DETERDING:

Q Mr. Watford, please state your name and employment address.

A Stephen Watford, 6915 Perrine Ranch Road, New Port Richey, Florida.

Q And you're the president of Aloha Utilities?

A Yes, I am.

Q And you have provided direct testimony previously in this proceeding?

A Yes.

Q And you prepared in conjunction with my office a document referred to as the Rebuttal Testimony Of Stephen Watford consisting of 48 pages?

A Yes, I did.

Q And if I asked you those questions today, would your answers be the same?

A Yes. I have two minor corrections.

1 Q Okay.

2 A On page four of my rebuttal testimony, line seven, I  
3 believe we need to strike after A, "response to Staff's first  
4 set of interrogatories" and insert "late-filed exhibit to my  
5 deposition."

6 Then on line 12 of the same page, "October 22nd"  
7 actually needs to be "October 19th." And that's the only  
8 changes.

9 Q You have prepared in conjunction with the preparation  
10 of your testimony several exhibits, have you not?

11 A Yes, I have.

12 Q And those were prefiled as SGW-1 through SGW-8;  
13 correct?

14 A That's correct.

15 MR. DETERDING: Commissioners, I'd like to have those  
16 marked for identification.

17 CHAIRMAN JABER: Yes. SGW -- actually we should  
18 probably insert his testimony into the record first.

19 MR. DETERDING: Okay. Please.

20 CHAIRMAN JABER: The prefiled rebuttal testimony of  
21 Stephen G. Watford is inserted into the record as though read.  
22 And SGW-1 through 8 --

23 MR. DETERDING: Correct.

24 CHAIRMAN JABER: -- are composite Exhibit 29.

25 (Exhibit 29 marked for identification.)

1 MR. DETERDING: Thank you.

2 BY MR. DETERDING:

3 Q Do you have any corrections or changes to make to  
4 those exhibits, Mr. Watford?

5 A No, I don't.

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1           BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2                   ALOHA UTILITIES, INC.

3                           DOCKET NO. 010503-WU

4                               APPLICATION FOR WATER RATE INCREASE OF

5                                   ALOHA UTILITIES, INC. IN PASCO COUNTY

6                               REBUTTAL TESTIMONY OF STEPHEN G. WATFORD

7 Q.    Please state your name and employment address.

8 A.    Stephen G. Watford, Aloha Utilities, Inc., 6915 Perrine  
9        Ranch Road, New Port Richey, Florida 34655.

10 Q.   In what capacity are you employed by Aloha Utilities,  
11        Inc.

12 A.    I am the Utility's President.

13 Q.    How long have you been so employed?

14 A.    I have been an officer of the Utility since 1986 and the  
15        President of the Utility for approximately seven years.  
16        I have been employed with Aloha since 1975.

17 Q.    What is the purpose of your rebuttal testimony?

18 A.    The purpose of my testimony is to address several basic  
19        issues. First is the issue on in-house costs related to  
20        this rate proceeding. I have attached hereto, as **Exhibit**  
21        **SGW-1**, a schedule showing the approximate total cost for  
22        this rate case to date, including notices and filing fees  
23        and incidentals as well as estimates for these and travel  
24        to complete the case and Mr. Stallcup's comments on this  
25        issue. In order to estimate the cost of notices, we

1 utilized our experience from the last couple of notices  
2 we have had to issue as a basis for estimating the costs  
3 of the two expected additional notices in this case. The  
4 great majority of the in-house costs are related to the  
5 noticing and the filing fee with some incidentals for  
6 copying and travel related items. Along with all other  
7 rate case expenses, we will update our total estimate of  
8 rate case costs as a late-filed exhibit in accordance  
9 with standard Public Service Commission ("PSC" or  
10 "Commission") practice, in order to allow the Commission  
11 to have the most up to date information concerning rate  
12 case costs at the time it makes its final decision.

13 Q. What is the second issue you feel you need to address?

14 A. The second issue is the conservation programs that the  
15 Utility has proposed for recovery in this case. In our  
16 original filing, we included a proposal that the Utility  
17 would recover its basic revenue requirement from the  
18 first tier of rates. In addition, we proposed that the  
19 second tier be utilized for the purposes of funding the  
20 conservation programs that the Utility and the Southwest  
21 Florida Water Management District (SWFWMD) had agreed  
22 upon. Any revenues from the second tier of rates above  
23 those needed to fund these conservation programs could be  
24 utilized for purchases of County water above those  
25 estimates ultimately included in rate setting. Any

1 remaining funds could be used for funding of projects  
2 such as the reuse facilities and/or funding of the  
3 substantial feasibility study that we have been  
4 discussing with the SWFWMD to review an R/O facility as  
5 a possible alternative supply. We believe these are all  
6 worthwhile and appropriate items for recovery through  
7 rates. The reason we chose, in August, to request them  
8 in the manner in which we did, rather than as a basic  
9 component of the revenue requirement, was two fold.  
10 First, it was not clear at that time what the specific  
11 conservation measures would be, much less what the cost  
12 might be related to them or to the other items.  
13 Secondly, we recognized that the effects of repression  
14 from the new rate structure and increased costs are  
15 unique and unpredictable. We therefore felt that the way  
16 we chose for recovery of these items was the best one  
17 available at that time. It is certainly within the  
18 Commission's discretion to agree that these funds would  
19 be utilized for any or all of these proposed components,  
20 or handled in some other way. However, it is clear that  
21 the conservation programs at least recommended and agreed  
22 to by SWFWMD, if not required by the date of the  
23 Commission's final decision in this case, should be  
24 recognized in rate setting, or we will have to pursue a  
25 separate and costly proceeding to recover those costs as

1 soon as they are approved in the next few weeks. I have  
2 attached hereto a listing of those conservation programs  
3 and their estimated costs of \$155,000 as **Exhibit SGW-2**  
4 which were developed in conjunction with and the approval  
5 of the SWFWMD staff in recent months. These have been  
6 provided to the Commission staff and the other parties  
7 through a ~~response to Staff's First Set of~~ **late-filed exhibit to my deposition.**  
8 ~~Interrogatories~~. The SWFWMD has already approved these  
9 programs and costs as being appropriate for  
10 implementation though they are not yet required by Order,  
11 which we anticipate will be forthcoming shortly. This  
12 information was provided to the parties on October ~~22,~~ <sup>19</sup>  
13 2001. To the extent the Commission or its staff needs  
14 any further clarification of these costs, we will be more  
15 than happy to provide that. However, I believe this  
16 gives a fairly detailed assessment of those costs and the  
17 SWFWMD witnesses have discussed, in some detail, the  
18 specifics underlying the benefits to be gained from  
19 implementation of these conservation programs, which they  
20 have had a major hand in developing for Aloha.  
21 The SWFWMD does not develop these programs based upon  
22 whether or not they will "pay for themselves" by reduced  
23 consumption or otherwise reduce cost. That is not the  
24 goal of the SWFWMD in requiring these conservation  
25 measures. Instead, the idea is to reduce consumption of

1 the water resource, or at least increase awareness of  
2 water usage and the precious nature of the resource. It  
3 is not to reduce cost to a utility and in fact, the  
4 SWFWMD's own staff has specifically indicated that this  
5 is not a key factor to them in either designing or  
6 approving the conservation plans for utilities, including  
7 the one which we have negotiated with them. To the  
8 extent that implementation of these programs would result  
9 in increased water costs to the customer, the SWFWMD  
10 would agree that furthers their goal as well. Increased  
11 cost to the end customer is in fact the single biggest  
12 factor that would result in savings of water. It is in  
13 fact true that these conservation measures may result in  
14 reduced consumption. However, for the most part, no one  
15 is sure whether they will or will not result in reduced  
16 consumption. Even if they do, it is unlikely from my  
17 review of these conservation measures, and the  
18 information supplied by the SWFWMD concerning their  
19 effectiveness, that any of them will "pay for themselves"  
20 in reduced consumption. It is therefore unreasonable to  
21 set rates assuming such cost savings. The Commission has  
22 the oversight and review authority after the fact, to  
23 determine whether or not implementation of the  
24 conservation measures causes reduced consumption and  
25 reduce costs and to adjust rates appropriately if need

1 be. For the time being, however, these costs must be  
2 recognized in order for the Utility to comply with its  
3 Water Use Permit.

4 To the extent the Commission believes that these should  
5 more appropriately be included in the basic revenue  
6 requirement under the first tier of rates, we certainly  
7 have no objection to that change in treatment of these  
8 costs, we simply did it the way we did because of the  
9 unknown nature of those costs at the time of filing the  
10 original Application. The filing of rebuttal testimony  
11 is our first opportunity to provide detail concerning  
12 those costs within the record of this case.

13 If the Commission fails to recognize these costs  
14 altogether, it will simply force the Utility to delay  
15 implementation of those programs, as desired by the  
16 SWFWMD and the Utility will also have to file a separate  
17 limited proceeding in order to seek recovery of those  
18 costs immediately after, if not before, the conclusion of  
19 this case. Doing so will entail substantial additional  
20 cost.

21 Q. What is the next issue you believe needs to be addressed?

22 A. The next issue I believe needs to be addressed is the one  
23 on the quality of water service provided by Aloha. This  
24 issue has three separate aspects. One is the area of  
25 customer satisfaction and/or complaints, the second is

1 the question of the quality of water provided, and the  
2 third is the status of the pilot project. Mr. Larkin  
3 provided direct testimony suggesting that the quality of  
4 service provided by Aloha was unsatisfactory, though he  
5 was rather vague in his statements about what constituted  
6 unsatisfactory service as provided by the Utility. Mr.  
7 Durbin, for the Commission staff, provided testimony  
8 concerning the number of complaints lodged with the PSC  
9 and some analysis of those complaints in comparison to  
10 other companies. While Mr. Durbin draws no conclusions  
11 from that testimony, I believe that there are several  
12 misleading, if not inaccurate, statements contained  
13 within his testimony and schedules.

14 Finally, there is some discussion within the testimony of  
15 Mr. Larkin and Mr. Bidy about the status of the pilot  
16 project undertaken by Aloha for the purposes of  
17 determining the best available method for removal of  
18 hydrogen sulfide from the Utility's source water. I will  
19 try and address each of these three components of quality  
20 of service separately.

21 Q. Please address the issue of customer complaints.

22 A. The most comprehensive discussion is the testimony of Mr.  
23 Durbin of the PSC staff. Mr. Durbin has compiled  
24 statistics concerning complaints lodged against Aloha  
25 Utilities in the last 2 3/4 years. Mr. Durbin's

1 statistics show that in less than 1% of the cases of  
2 customer complaints (two complaints), Aloha has been  
3 found to be in violation of either rule or tariff.  
4 That's an average of less than one complaint per year  
5 where the Utility is found to have done anything wrong.  
6 I personally believe that is a very good record. While  
7 there are explanations in the case of both allegedly  
8 valid complaints, suffice it to say that the Utility  
9 corrected the error and satisfied the Commission that  
10 they had taken care of the issue. In both cases, we gave  
11 the customer benefits as a compensation for the error  
12 that were not otherwise required anywhere by Commission  
13 rules, statutes or the Utility's tariff, but simply were  
14 provided to the customer for the purpose of demonstrating  
15 to the customer that we sincerely regretted the error.  
16 Mr. Durbin also notes that the Utility was late in  
17 responding to eleven customer complaints (approximately  
18 4%) over this 2 3/4 year period. There were extenuating  
19 circumstances in many of these alleged late filings, that  
20 we do not believe should be counted against Aloha. I  
21 have attached hereto a schedule as **Exhibit SGW-3**, which  
22 outlines the circumstances surrounding Aloha's response  
23 to each of these alleged late responses to complaints.  
24 In five of the eleven cases, we contend that we were not  
25 late in providing a response. In the case of Mr. Dennis

1 Winchester, while the staff only states that we were one  
2 day late in providing the response (outside the 15 days  
3 normally allowed), we have a facsimile confirmation  
4 showing that we did in fact file a response on the due  
5 date which was October 17, 2001. We then sent a  
6 confirmation to the Commission the next day showing that  
7 the facsimile had also been sent to the customer (which  
8 confirmation was excluded from the original reply).  
9 Apparently, this second copy was incorrectly logged as  
10 our response. Our response to the customer complaint was  
11 timely.

12 In the case of customers McKay, Gover, Arseanau, and  
13 Myers' complaints, the staff apparently sent those  
14 complaints to the Utility's old office fax number after  
15 the Utility had moved from those offices in December, and  
16 had officially notified the Commission of the move.  
17 Apparently, the word did not get through to the Division  
18 of Consumer Affairs and into their official records for  
19 approximately two months, although it was correctly  
20 posted on the PSC's company information page on the PSC  
21 website. Therefore, some of the customer complaints  
22 ended up being sent to the wrong number. In any case,  
23 when we found out about the existence of the complaint,  
24 we called the PSC and asked that they resend it to our  
25 new number. In each case, we filed a response in less

1 than the normal 15 days required from the date we  
2 received it at our then official contact number. In the  
3 McKay case, we were notified that the customer had chosen  
4 to close the complaint and therefore, we did not respond,  
5 assuming that no response was necessary to a voluntarily  
6 withdrawn complaint.

7 In at least three of the remaining six allegedly late  
8 responses, the PSC facsimile failed to accept our faxed  
9 response, and so we sent it by mail on the due date.  
10 Therefore, it arrived a day or two late and was marked by  
11 the Commission staff as late. While this is a somewhat  
12 unusual occurrence, it does occur, and we do not believe  
13 that Aloha should be held responsible when we are unable  
14 to fax our reply (as is permitted and the norm).

15 As noted in my exhibit, there are explanations to each  
16 and every allegedly late response. However, suffice it  
17 to say that we do not permit our staff to respond to the  
18 PSC Consumer Affairs Department in an untimely manner and  
19 as you can see, there are explanations concerning each of  
20 these.

21 Based upon these explanations, we believe there were zero  
22 late responses that were not justified. However, even if  
23 there were three late complaint responses, or six or even  
24 the eleven alleged by Mr. Durbin, that is very reasonable  
25 in over a 2 3/4 year period. Even in the worst case

1 scenario, less than 4% of our responses are late. Based  
2 upon our review, it is at most 2% and even those have  
3 some reasonable explanation and are rarely more than a  
4 day or two late.

5 Thirdly, Mr. Durbin provides an analysis of the timing of  
6 all customer complaints. It is interesting to note that  
7 there are basically five peak months during this 2 3/4  
8 year period in the filing of these complaints. Three of  
9 these relate primarily to what are referred to as  
10 "service complaints" (May 2000, January 2001, July 2001)  
11 and two relate primarily to what are referred to as  
12 "billing complaints" (December 2000, March 2001). There  
13 are explanations for each of these peaks that shows why  
14 they are not occurring in cases such as those compared by  
15 Mr. Durbin that do not involve ongoing rate or other  
16 formal proceedings. While I will give some insight into  
17 each and every one of these peaks, I first want to note  
18 three major faults related to this complaint history and  
19 Mr. Durbin's comparative analysis:

20 1) As Mr. Durbin noted in his deposition, he did not  
21 review the other utilities cited as comparable to  
22 determine whether any were involved in rate  
23 proceedings or other contested proceedings before  
24 the PSC during the period of time utilized for this  
25 comparison. I know from experience that complaints

1 are always higher during the processing of such  
2 formal cases. In fact, in rate proceedings, a  
3 Utility is required by the PSC to give at least two  
4 formal notices to each customer, wherein the  
5 customers are actually encouraged to call or write  
6 the PSC and provide their comments or concerns. In  
7 our case, a sewer rate case was ongoing from April  
8 of 2000 through April of 2001. This water case  
9 began with the request for a limited proceeding and  
10 that was followed by the filing of this rate case.  
11 All of which began in early 2001 and obviously  
12 continues through the present. This is by far the  
13 highest period, on average, shown in Mr. Durbin's  
14 JRD-2 exhibit for both service and billing  
15 complaints. Failure to compare Aloha to only those  
16 with ongoing rate proceedings (especially two  
17 separate ones) makes such a comparison  
18 unreasonable.

- 19 2) No attempt has been made to segregate water  
20 complaints from sewer complaints or the Aloha  
21 Gardens system from the Seven Springs system of  
22 Aloha. It is therefore impossible to tell from Mr.  
23 Durbin's schedule, which of these complaints relate  
24 to Seven Springs, much less its water system alone.
- 25 3) The period chosen for analysis is certainly

1           questionable. For the five years prior to 2000,  
2           the Utility averaged less than 25 complaints per  
3           year. In 2000 and 2001, this average has  
4           approximately tripled. The reason is obvious. The  
5           Utility's rate cases and other proceedings before  
6           the Commission have increased the customer contacts  
7           with the PSC substantially. The quality of the  
8           water provided to the customers has actually  
9           increased over the last two years, because of the  
10          utility reaching full optimization of its corrosion  
11          control program in accordance with the agreed upon  
12          parameters per the DEP approved program. The  
13          customer service procedures and complaint handling  
14          have also been refined and improved over that  
15          period. Even the Management Audit undertaken by  
16          the PSC staff notes these improvements.

17          For each and every one of these reasons, I believe Mr.  
18          Durbin's analysis is not a fair representation of Aloha's  
19          customer complaint level, nor is it fair to compare the  
20          Utility to the others listed in his Exhibit JRD-3.  
21          Attached to my testimony as **Exhibit SGW-4** is a graph  
22          showing PSC complaints per year per 1,000 customers. As  
23          you can see, the effect of the ongoing proceedings of the  
24          last several years is clearly apparent. When you look at  
25          time prior to the last several years, you can see that

1 our complaint ratio is much lower, averaging less than  
2 3 complaints per 1,000 customers per year. This is a  
3 very favorable ratio compared to the companies Mr. Durbin  
4 used in his analysis and in fact, would place Aloha in  
5 the bottom half of the range of companies that Mr. Durbin  
6 used in his analysis.

7 Q. What about the issue of the five peaks you spoke about?

8 A. Yes. I would like to provide some details concerning  
9 each of these five peaks:

10 1) May and June 2000 - The Utility filed its Seven  
11 Springs sewer rate increase request in April of  
12 2000. In accordance with PSC rules, we sent out an  
13 initial Customer Notice explaining the underlying  
14 causes of the sewer rates increase immediately  
15 after filing. As noted earlier, these notices  
16 specifically encourage customers to voice any  
17 concerns. Therefore, I believe this accounts not  
18 only for the spike in complaints during the month  
19 of May, but also into June. Most of the complaints  
20 in May were water quality related, and 3/4 of the  
21 complainants did not contact Aloha before  
22 contacting the PSC on these specific water quality  
23 complaints, and three had never complained to Aloha  
24 about water quality concerns. This certainly makes  
25 it clear that the complaints were in response to

1 the notification, if not some other organized  
2 effort to encourage customers to contact the PSC.  
3 While this does not diminish the validity of the  
4 customers' complaints, it certainly indicates the  
5 reason for those complaints and therefore makes  
6 these complaint levels not comparable to a utility  
7 not involved in such a proceeding.

8 2) December 2000, January 2001 - December and January  
9 have a total of approximately 33 complaints. Of  
10 those, 19 are complaints from the Ashley Place  
11 Apartments. A situation arose there relating to  
12 deposit and customer billing that was in no way the  
13 Utility's fault, as well as being beyond the  
14 Utility's control. A new owner of the apartment  
15 complex contacted the Utility a few months before  
16 this, in late Summer or early Fall of 2000. They  
17 asked that all apartment customers' individual  
18 billings be discontinued and that in the future all  
19 bills be sent to the apartment complex management.  
20 They completed service applications for each  
21 apartment changing the accounts back to the  
22 apartment complex owner's name. The Utility had no  
23 choice but to comply with this request. As we did  
24 so, each of the individual customers received  
25 credit for their deposit, which rendered their

1 bills much lower than normal, and then they ceased  
2 receiving bills. However, as soon as the apartment  
3 complex management realized that they would be  
4 responsible, not only for paying these bills, but  
5 for collecting any costs from the customers to  
6 cover those bills, they changed their minds and  
7 asked that we reinstate individual service to the  
8 apartments. The individual apartment customers  
9 were rightfully upset. However, this is not a  
10 matter to be upset at Aloha over, but instead,  
11 should be taken up with the apartment management,  
12 since it was fully within their discretion and the  
13 Utility was obligated to follow the instructions  
14 from the apartment owner. If these complaints are  
15 removed from January and February, the total number  
16 of complaints for the two month period is a  
17 relatively modest six to seven per month. In early  
18 January, the Utility implemented a substantial  
19 increase in sewer rates per its request, after  
20 expiration of the eight month file and suspend  
21 period. As part of that implementation in early  
22 December, the Utility notified the customers of the  
23 new rates being implemented and the reason  
24 therefore. The customers received that notice in  
25 early December, and their first bill for service

1 under the new rates in early to mid January.  
2 Therefore, it is not surprising that the increased  
3 number of complaints occurred in those two months,  
4 or in the two months that followed in February and  
5 March.

6 3) March 2001 - In addition to just beginning service  
7 at the new rates in March of 2001, the customers  
8 received the final notice of the sewer rate  
9 increase at the beginning of this month, as the  
10 sewer case came to a close. You will note that  
11 here and in December 2000 and January 2001 the  
12 billing complaints reach their highest level. This  
13 makes it obvious that these complaints were in  
14 response to the rate increases occurring in those  
15 months.

16 4) July 2001 - 17 of the 23 complaints received in  
17 July of 2001 related to the copper corrosion issue.  
18 The customers were well aware through press  
19 accounts that the Utility was planning to file for  
20 a rate increase in its water system at the end of  
21 July. It is again interesting to note that of the  
22 23 total complaints received in this month, 17 were  
23 related to the copper corrosion issue. Over 2/3 of  
24 these had never before contacted the Utility with a  
25 copper corrosion, water quality, or any other type

1 of complaint, and 12 of the total 17 contacted us  
2 on the same day they contacted the PSC. In other  
3 words, they did not give the Utility an opportunity  
4 to try and satisfy their concern before filing a  
5 complaint with the PSC.

6 It must also be pointed out that the PSC recently  
7 conducted a management audit of Aloha. The findings of  
8 the management audit clearly indicated that Aloha is  
9 effectively meeting and handling its customer service  
10 obligations. The PSC audit staff wrote the following in  
11 their executive summary:

12 "However, based upon employee interviews,  
13 documents, survey results, and Aloha's new customer  
14 service database, the degree of satisfaction with  
15 Aloha's overall customer service function seems to  
16 be high.

17 Additionally, customer problems reflected in  
18 inquiries to the Commission have stabilized in  
19 recent years. BRR Staff's review did not identify  
20 any significant service inadequacies."

21 The management audit also found that:

22 "The overall survey results indicated that Aloha's  
23 customers are generally satisfied with Aloha's  
24 customer service, the timeliness of response, and  
25 the overall handling of various customer requests."

1 Q. The second area of customer satisfaction which you  
2 discussed, was water quality. What comments would you  
3 like to make in that regard?

4 A. Mr. Larkin has at least made some comments about the  
5 quality of water provided by Aloha. While he has  
6 provided absolutely no specifics, it is important to note  
7 what has gone on with regard to the water quality of this  
8 company, in previous cases, and the findings regarding  
9 the water itself. This Utility has gone through an  
10 unprecedented investigation of the quality of the water  
11 that it provides. There have been enumerable tests on  
12 the source water and inspections of the final water and  
13 review of all regulatory agency records concerning the  
14 Utility's compliance with their standards. The end  
15 result has always been that the Utility is providing  
16 clean and clear water to the point-of-delivery of the  
17 customers' homes, in compliance with all regulatory  
18 standards. This has been the case throughout the last  
19 six years where this issue has been reviewed and  
20 investigated to unprecedented levels. The DEP, the PSC,  
21 and several consulting engineers and labs, have all found  
22 this to be the case and at no time has the quality of the  
23 water provided by the Utility ever been suggested to be  
24 below regulatory standards, by any person knowledgeable  
25 in the area. If anything, the quality of water provided

1 by Aloha has actually increased since those last cases,  
2 because of optimization of our corrosion control program  
3 approximately one and a half years ago.

4 As to the black water issue, the Commission not only has  
5 investigated this in detail with regard to Aloha, but  
6 has, at the direction of Commissioner Jaber, put together  
7 an interagency task force, which performed a detailed  
8 review of the issue statewide and among other findings,  
9 noted that the problem existed throughout the state,  
10 especially in a corridor from the Tampa Bay area up  
11 through Jacksonville. That task force published a  
12 detailed report on the subject.

13 In conclusion, the quality of water provided by Aloha is  
14 still, and has been throughout the last six years of  
15 constant investigation of the issue, in compliance with  
16 all regulatory standards. The DEP witness is offering  
17 testimony in this case to that effect, and several DEP  
18 witnesses in the past have done likewise. While there is  
19 certainly a concern with copper corrosion in some  
20 customer's homes, we have offered about every alternative  
21 we can to assist the customers, including continuing to  
22 provide them educational pamphlets when they experience  
23 this problem. Hopefully, if we in fact do go to a  
24 revised treatment process, including R/O and/or MIEX, the  
25 changes inherent there will also substantially assist in

1 reducing the occurrence of copper corrosion in those  
2 homes. We continue to review these issues and to seek a  
3 situation where ultimately no customers will experience  
4 that copper corrosion problem. However, this is far  
5 different than suggesting that Aloha is providing poor  
6 quality of water, because in fact, it is not and there is  
7 no scientific basis for suggesting that it is.

8 Q. Please discuss the issue of the pilot project status.

9 A. Both Mr. Bidy and Mr. Larkin have suggested that the  
10 pilot project has been "put on hold." This is not true.  
11 We have spent substantial amounts of money on this pilot  
12 testing of the MIEX treatment process, in order to remove  
13 hydrogen sulfide. Given the changes that we now have  
14 learned are going to occur in the coming years, both from  
15 the chemical makeup of water being provided by Pasco  
16 County and by the increased reliance on some other source  
17 long-term, it would be wholly imprudent for the Utility  
18 to ignore those known changes and proceed with the next  
19 major phase of the pilot project, even if we were at that  
20 stage (which we are not). The resulting conclusions and  
21 indicated treatment processes would then be unworkable  
22 with those known changes in the water expected to be  
23 received in the coming years. However, we have not  
24 reached a point where we have stopped moving forward with  
25 the pilot project, we are simply accumulating the massive

1 data which we have collected in the first phase, and are  
2 preparing for installation of the scaled down model  
3 treatment process that we expect to begin testing at the  
4 beginning of 2002. This is where the Utility will expend  
5 the large sums of money originally estimated, which will  
6 no doubt total more than that estimated in the original  
7 pilot project estimate recognized by the Commission in  
8 the previous proceeding. In addition, we will probably  
9 be simultaneously undertaking review and feasibility  
10 studies at approximately three times the cost of the  
11 pilot project toward obtaining alternative water  
12 supplies. By the time this case goes to hearing, pursuit  
13 of that feasibility study will very likely be a  
14 requirement of the SWFWMD. That too will have to be  
15 coordinated with the pilot project to ensure  
16 compatibility. We believe that the MIEX process will  
17 factor into the future of the water supply for Aloha.  
18 However, it would be irresponsible to look at that single  
19 component in a vacuum. The progress to date has been  
20 very encouraging with the MIEX process. Therefore, the  
21 suggestion by either Mr. Bidy or Mr. Larkin that the  
22 pilot project is on hold, much less that it will cost  
23 less than the figure estimated and required to be  
24 recognized as working capital in the last proceeding is  
25 absurd. We actually expect to have substantially more

1           invested in the pilot project than the original estimate,  
2           because of the additional consideration of the new source  
3           of water from the County, and its effect on that proposed  
4           process, than was fully proposed for recognition in that  
5           last Order. In addition, we are undertaking an R/O  
6           feasibility study with the approval, if not requirement,  
7           of the SWFWMD that will also cost substantially more than  
8           the pilot project, and will likely affect the pilot  
9           project and its cost. It should be noted that we have  
10          accounted for the pilot project, and included it in  
11          working capital, exactly as we were ordered to do in the  
12          Commission's Order from last summer that addressed the  
13          accounting treatment for the pilot project. As to the  
14          comments from Mr. Larkin and Mr. Bidy about the progress  
15          of the pilot project, there were no specific deadlines,  
16          and we have certainly pursued the pilot project with due  
17          diligence. We have kept the Commission staff informed of  
18          our progress and have never received any comments from  
19          the staff that they felt things were moving too slow, or  
20          that we were headed in any wrong direction.

21    Q.    Mr. Fletcher provided some testimony concerning the issue  
22           of an appropriate royalty for water acquired under rights  
23           owned by related parties. Please respond.

24    A.    Yes. Actually, I find it amazing the amount of attention  
25           being focused on one of the lowest cost sources of water

1 that we have available to us. Instead of trying to take  
2 actions that could possibly cause us to lose the low cost  
3 water source, I would have thought the staff would have  
4 embraced it. However, Mr. Fletcher has testified  
5 exclusively on this issue. The real issue here has been  
6 lost in the discussion. The primary issue has to be  
7 securing a source of water and the cost of that water.  
8 That is the only rational basis for trying to compare the  
9 relative worth of the various water sources. However,  
10 his concern is that he believes the Utility somehow has  
11 the responsibility to prove "the original cost" of the  
12 property utilized for extracting this water "when first  
13 devoted to public service." There are several errors in  
14 his logic:

15 1) First of all, this property has never been devoted  
16 to public service. Instead, it has been leased  
17 under a royalty type arrangement, just as the  
18 property of the Mitchell's has been leased under a  
19 royalty type arrangement. Therefore, even if the  
20 Commission were to consider some basic property  
21 value, they would have to also consider the fact  
22 that we would have to condemn that property and go  
23 through that very costly process and we would have  
24 to do so today, not 25 years ago. While the  
25 Commission did not specifically endorse the

1 arrangements with the related party, they did  
2 endorse the appropriateness of the royalty  
3 arrangement with a third party, upon which the  
4 Utility reasonably relied in making similar  
5 arrangements with a related party. It cannot  
6 reasonably be said now that the Utility should not  
7 have entered into the royalty arrangements, after  
8 the Commission specifically recognized such an  
9 arrangement for an unrelated third party.

10 2) It is only reasonable that the Utility relied on  
11 the Commission's decision regarding payment of a  
12 royalty for all water, as it did in 1978 for the  
13 third party transaction and which arrangement has  
14 not been challenged for over 20 years. Until  
15 recently, there was absolutely no question of the  
16 appropriateness of this arrangement and in fact,  
17 the Commission had not only previously approved it,  
18 but it had been reflected in the Annual Reports  
19 filed by the Utility for all of the intervening 22  
20 years with no question from the PSC. Therefore, it  
21 is unreasonable to suggest that the Commission has  
22 not previously approved this arrangement, much less  
23 to now go back and try to assess what the Utility  
24 "could have done" 25 years ago instead. The  
25 Commission must review the arrangement based on the

1 current conditions. The Utility is able to obtain  
2 bulk raw water from an unrelated third party at  
3 \$.10/thousand gallons. The Utility is able to  
4 obtain treated water from the County at  
5 \$2.35/thousand gallons. The related party has  
6 agreed to sell treated water to Aloha at the same  
7 price charged by the County, which is obviously the  
8 market value. Since there are no other  
9 alternatives available, the Utility is much better  
10 off paying the royalty it has been paying to the  
11 related party than it is paying either the County  
12 price for treated water, or seeking some other  
13 alternative source (none of which are known to be  
14 available at this time). The review of this cost  
15 must be based upon the current alternatives  
16 available to the Utility and in that light, it is  
17 the best alternative that the Utility has to  
18 provide quality water service to its customers at  
19 the cheapest possible price. Therefore, Mr.  
20 Fletcher's suggestions are unreasonable ones.

21 3) The Utility would have to pay for not only property  
22 rights, but also all of the equipment located on  
23 the related party's property, because that  
24 equipment belongs to the landowner. In our  
25 opinion, that would render the arrangement with the

1 related party even more favorable, based upon a  
2 royalty, rather than acquiring land, especially in  
3 light of the Utility's ability to move its well  
4 locations should the wells cease to function. The  
5 landowner has also always paid the property taxes  
6 as due on these properties.

7 4) Finally, the staff of the Commission seems to  
8 believe that if they abrogate the contract between  
9 Aloha and Tahitian development or Interphase by  
10 changing the price agreed upon between the parties,  
11 that the Utility will be able to purchase that  
12 water at whatever price the Commission says. This  
13 is not the alternative available to the Utility.  
14 Instead, I've defined the alternatives available  
15 for purchasing water, and the only currently  
16 available alternative is to buy treated water from  
17 the County at \$2.35/thousand gallons. In light of  
18 this, not only is the price paid by Aloha to the  
19 related party well below market, it is also the  
20 only available alternative to Aloha purchasing this  
21 treated water from the County presently. If the  
22 Commission is to deny recognition of the contracted  
23 for cost between the parties, then they should  
24 grant to Aloha rates to cover purchasing all water  
25 from Pasco County, or to purchase treated water

1 from the related party at a cost similar to that  
2 charged by the County.

3 5) There seems to be a suggestion within Mr.  
4 Fletcher's testimony that the Utility could have  
5 the permits moved to new well locations on property  
6 that it purchased. I have also seen responses from  
7 the SWFWMD that might possibly be read by some to  
8 suggest that we could actually move those permits.  
9 However, we discussed on numerous occasions, with  
10 the staff of the SWFWMD, a proposal to move some  
11 existing wells, including ones we were thinking  
12 about purchasing, in order to increase our capacity  
13 in the last few years and were informed that under  
14 the current SWFWMD policy, that those would be  
15 subjected to all the same filing, modeling,  
16 technical requirements, as a new permit submittal,  
17 and we have learned very well that new permits are  
18 denied in virtually every case and that the  
19 likelihood of our getting such a new permit was  
20 very small. In other words, we have tried to move  
21 other wells and have learned that the likelihood of  
22 receiving approval of such a change is very, very  
23 small.

24 For all the above reasons, it is not only unreasonable,  
25 after all these years, to second guess the agreement

1 between the Utility and the related parties, it is also  
2 contrary to previous findings of the Commission. We  
3 have to focus on the pertinent question and that is, what  
4 is the cost of the water available to the Utility from  
5 this source compared to the cost from other sources.  
6 Ultimately, it leaves the Utility in the precarious  
7 position of having to purchase all of its water from the  
8 County and incur substantial additional costs, which  
9 would then have to be borne by the ratepayers.

10 Q. There has been an issue raised about the new employees,  
11 either because of vacant positions, or because of new  
12 employees that the Utility has added in order to provide  
13 better quality of service. Let me ask you first, the  
14 reason why these new employees have been added?

15 A. Those employees were added for several reasons. First of  
16 all, in our old location our offices were too small to  
17 accommodate anymore employees, even though we were in  
18 desperate need of additional employees. The Commission's  
19 own management audit also made it clear that they saw the  
20 need for these additional employees. In order to improve  
21 customer service and keep up with the growing customer  
22 base, it is only natural that now and then you will have  
23 to add additional employees.

24 Q. Ms. DeRonne has proposed to eliminate all of those  
25 positions that are new and even suggests the

1           appropriateness of excluding some of the employees where  
2           there were currently vacant positions. Do you have any  
3           comments in this regard?

4    A.    Yes. The Utility will never be able to keep and/or hire  
5           the needed employees to continue to provide high quality  
6           of service and hopefully to improve customer service, if  
7           the Commission accepts Ms. DeRonne's proposal. In fact,  
8           all of the new employee positions and all of the vacant  
9           positions, have now been filled as of the date of my  
10          filing this testimony in mid December and we expect to  
11          keep them filled for the long run. The only position  
12          remaining unfilled is that of the Utility Director, which  
13          we hope to have filled in the next month or so, and it  
14          will certainly be filled before the time these rates go  
15          into effect. We have previously interviewed suitable  
16          applicants and in fact offered the position to a  
17          gentleman. However, after several months of negotiation,  
18          and his initially agreeing to take the position, he chose  
19          to take another position to avoid having to relocate his  
20          family. We have re-advertised the position and have  
21          several good candidates that we are presently  
22          considering. We anticipate this position will be filled  
23          by the date of the hearing or shortly thereafter. This  
24          position is as much needed as the others, in order to  
25          allow the Utility to perform more budgeting and

1 management functions that even the management audit  
2 performed by the PSC indicates are necessary, but which  
3 the Utility management staff is unable to perform because  
4 of other demands and the growth within the system that  
5 has occurred over the last several years with no  
6 commensurate change in management.

7 For all of these reasons, and because Ms. DeRonne herself  
8 agreed that if the positions were filled by the date of  
9 the hearing they should be considered, we believe all of  
10 the costs of these new employees and the vacant  
11 positions, must be considered in final rate setting in  
12 order to allow the Utility to cure a longstanding under  
13 staffing problem, and continue to provide a high quality  
14 and hopefully even improved quality of water and customer  
15 service.

16 Q. Mr. Larkin has suggested that the Utility could have  
17 filed this case with the wastewater rate case and as  
18 such, the rate case costs related to this case should not  
19 be allowed for recovery. Do you have any comment in this  
20 regard?

21 A. Yes. Mr. Larkin's concern is misplaced. He has provided  
22 no evidence whatsoever that the Utility could have filed  
23 for this water case at the time the wastewater case was  
24 filed. The wastewater case was originally filed in April  
25 of 2000. As Mr. Nixon has noted, there have been two

1 full rate investigations and analyses by the Public  
2 Service Commission, the last one ending just this last  
3 Summer in August of 2001, both of which declined to give  
4 the Utility any increased water rates, and in fact  
5 suggested that the Utility was slightly overearning. The  
6 only way that the Utility could have possibly been able  
7 to justify a rate increase was if it had proposed to  
8 begin purchasing water from Pasco County several years  
9 ago and the Commission declined. In that case, the cost  
10 to the customers would have been higher in the long run,  
11 because that additional purchased water cost would have  
12 far outweighed any savings by combining two rate cases.  
13 Aloha prudently investigated the other less costly  
14 alternatives to purchasing water from the County, before  
15 ultimately reaching the conclusion that it must do so.  
16 This has only benefitted Aloha's customers.  
17 In effect, the customers would have lost much more if the  
18 Utility had gone that route.  
19 To my knowledge, Mr. Larkin's proposal is not only  
20 contrary to reason, it is contrary to law. I have never  
21 heard of a case in Florida or any other jurisdiction  
22 where such a proposal has been made, much less accepted.  
23 As Mr. Nixon notes, the Utility went so far as to ask for  
24 consideration of increased purchased water requirements  
25 approximately one year ago, and the Commission declined

1 to even consider those additional costs in that rate  
2 investigation.

3 Q. Do you have any comments or suggestions concerning the  
4 testimony of Mr. Stewart and Mr. Stallcup concerning the  
5 projections of gallons sold for the projected test year  
6 2001?

7 A. Yes. There are substantial problems with both of their  
8 proposals. However, first I would like to offer a little  
9 background into what Aloha proposed in its filing with  
10 regard to the number of gallons sold to be utilized in  
11 setting rates for the projected test year 2001. Aloha's  
12 Seven Springs service territory began by serving small  
13 retirement homes in a very large development known as  
14 Veterans Village and other similar developments  
15 surrounding it. Those properties consisted almost  
16 exclusively of relatively small homes with small yards  
17 with a retiree customer base. As such, water usage has  
18 historically been very low for that group of Aloha's  
19 customers. As Veterans Village and similar developments  
20 reached build out, the new areas where development was  
21 occurring and continues to occur in the eastern portions  
22 of Aloha's territory began to take on a different  
23 character and demographic, with the general change in  
24 this southern Pasco County demographic. Instead of  
25 retirees and small homes, Pasco County has become a

1 bedroom community for the Tampa area. As such, we have  
2 seen a gradual shift in the type of homes serviced from  
3 the small homes in the Veterans Village area with a  
4 mainly retiree population, to medium sized homes with a  
5 mix of families and retirees in some of the newer  
6 subdivisions, and now to the construction of larger homes  
7 with larger yards and a majority of family type  
8 residents, with more than two persons per household on  
9 average. Attached as **Exhibit SGW-8** are copies of several  
10 advertisements for new homes in the service territory  
11 which are typical of all new customers, as well as those  
12 expected to be added for the foreseeable future. These  
13 are much different than the average of those constructed  
14 in the service area 10 or more years ago. This change in  
15 the demographic in Aloha's territory is readily apparent  
16 from not only a tour of the areas served, but also from  
17 a review of the usage patterns of the areas where Aloha  
18 has remaining connections for the future within its  
19 system. We have done the analysis and provided it to the  
20 parties in this proceeding, which clearly demonstrates  
21 that the areas where development is expected in the  
22 coming years are all in areas where average usage per  
23 household is at least 500 GPD/ERC, if not higher. Based  
24 upon this very apparent and substantial change in  
25 demographic, we were urged by members of the Commission

1 staff, at the time of seeking test year approval in this  
2 case, to project the 2001 test year usage with  
3 recognition of this demographic shift in consumption. In  
4 response to that suggestion, we have taken the calendar  
5 year 2000 actual consumption levels and projected them  
6 forward in 2001, based upon a 500 GPD average usage by  
7 all new customers in the projected year. This is in  
8 keeping with what we were urged to do by members of the  
9 Commission staff.

10 Q. What has been proposed as an alternative to Aloha's  
11 projection method by Mr. Stewart and Mr. Stallcup, and  
12 what problems do you have with it?

13 A. Both Mr. Stewart and Mr. Stallcup have taken different  
14 approaches to projecting 2001 gallons sold. It should be  
15 kept in mind that the purpose of the projections for  
16 gallons sold for the test year is to reflect what can be  
17 expected in the future, as far as consumption by the  
18 Utility's customers, not just to place a figure for  
19 gallons sold matched up with other test year statistics.  
20 Mr. Stewart, after all his analysis, has simply stated  
21 that he believes that the year 2000 does not include a  
22 reasonable base year consumption figure, because of the  
23 ongoing drought in the area. This contention underlies,  
24 to a great extent, the proposal by Mr. Stallcup as well.  
25 Mr. Stewart has discussed the reason why he believes that

1 2000 is not a representative year upon which to base  
2 future projections, and then has simply taken the average  
3 consumption per ERC for the last five years, as the  
4 projected future consumption per ERC for all customers in  
5 the projected test year 2001. This effectively brings  
6 Aloha's consumption back to approximately 1997 levels,  
7 for a Utility who has seen growth in consumption each and  
8 every year. The Utility has a long history of ever  
9 increasing usage per ERC. It is wholly inappropriate to  
10 assume this will cease to exist and even reverse itself  
11 (as both Mr. Stewart and Mr. Stallcup have effectively  
12 done). Since rates are set for a proposed four year  
13 period, during which they will be presumed to be  
14 effective, such a proposal is not only inappropriate for  
15 test year 2001 projections, but it is also inappropriate  
16 and unreasonable for the years into the future during  
17 which these new rates will be in effect.

18 The underlying presumption that the drought has affected  
19 consumption in 2000, and only 2000, is not a reasonable  
20 one because the SWFWMD has implemented increasingly stiff  
21 watering restrictions to deal with exactly that problem.  
22 If anything, due to the watering restrictions (which may  
23 be rescinded at any time), water usage has been repressed  
24 during the drought, not artificially increased. As I  
25 noted, the Utility has seen a gradual increase in

1 consumption each and every year during its history and to  
2 the extent a drought exists, it has existed for many  
3 years, not just the historic test year 2000. Watering  
4 restrictions from the SWFWMD have been in effect for  
5 several years, which would diminish any affect which  
6 would normally be expected in a drought. In addition,  
7 there is absolutely no proof that the general drought  
8 conditions have ended, and no one in a position to know  
9 is projecting that those conditions are ending. Since we  
10 are utilizing only a four year horizon for the period of  
11 time rates will be in effect, the Commission should not  
12 base its rate setting on a presumption that a  
13 longstanding condition will end when there is no real  
14 evidence to support that contention.

15 Q. What about the testimony of Mr. Stallcup? How has he  
16 proposed to set consumption levels in the projected test  
17 year?

18 A. Mr. Stallcup has used a complicated model to project  
19 gallons sold, based upon use of a Moisture Deficit  
20 Variable (MDV). By doing this, he has attempted to tie  
21 various weather conditions, including temperature and  
22 rainfall, to consumption levels and then to predict 2001  
23 consumption based upon this factor. It is unclear at  
24 this time whether or not the conditions which his model  
25 projects, will in fact exist during the period of time

1 rates are expected to be in effect. More importantly,  
2 his model totally ignores the very clear existence of a  
3 demographic shift resulting in greater consumption per  
4 ERC for all new connections. Mr. Stallcup has totally  
5 ignored the ever increasing consumption per ERC for new  
6 customers. This very obvious change has historically  
7 trended up over the last 10 years beginning with the  
8 development of the Trinity Community. Because that shift  
9 is dramatic, it affects the average consumption per ERC  
10 and should be used to calculate the proposed test year  
11 consumption levels. We have done substantial analysis to  
12 review this demographic shift and prepared several  
13 schedules which reflect it.

14 Attached as **Exhibit SGW-5** is a chart showing a linear  
15 regression analysis showing increasing usage per ERC over  
16 the last six years with a projection for 2001. There is  
17 nothing to indicate that this trend will not continue.  
18 In fact, if watering restrictions are rescinded, they  
19 will probably increase drastically. All of the other  
20 proposals for projected usage puts 2001 consumption at  
21 pre-1996 levels and that is not only counter intuitive,  
22 but if you are at all familiar with our service area,  
23 impossible. Also attached to my testimony as **Exhibit**  
24 **SGW-6** is a listing of water usage by subdivision, showing  
25 usage over the last six years, as well as the 12 month

1 period used to project water usage in the MFRs. These  
2 are real numbers from experience, not projections of  
3 unknown reliability. These represent the gallonage being  
4 used in all of our subdivisions. You can clearly see  
5 that the usage in Thousand Oaks and Fox Hollow are well  
6 above 500 GPD/ERC and these are the areas where all of  
7 our new homes will be constructed. Mr. Porter used this  
8 data in his testimony, but it is clear that if anything,  
9 we have underestimated the future water demands of our  
10 customers. We have in fact taken the proposed rates that  
11 Mr. Stallcup provided in Late-Filed Exhibit No. 7 to his  
12 deposition that he contends come out of his analysis, and  
13 inserted them into the SWFWMD model and have found that  
14 they produce a substantial revenue shortfall. A summary  
15 of these results is attached hereto as **Exhibit SGW-7**.  
16 Mr. Stallcup's testimony proposes the use of a multiple  
17 regression model that allegedly takes into account many  
18 other factors (because of the use of the MDV) to forecast  
19 the projected test year consumption levels. He notes  
20 that this is superior to a time trend regression analysis  
21 as used by Aloha, because it takes into account other  
22 changes and conditions which exist. However, a review of  
23 the historic information clearly indicates that the model  
24 used by Mr. Stallcup and the staff, deviates  
25 substantially from the trends within the Utility's

1 consumption per ERC levels that have existed in the past  
2 and can be expected to exist into the future. It cannot  
3 possibly be a superior methodology if the end results  
4 ignore the changes that the Utility has seen throughout  
5 its history. The staff position has focused on one  
6 variable that the staff believes has a high correlation  
7 with customer consumption and attempted to apply it to  
8 the coming year, without regard to any other variables  
9 that may be even more pertinent to the projection of  
10 future consumption. That is our problem with the  
11 proposal by the staff. In addition, the staff's proposal  
12 substantially reduces the number of gallons that the  
13 Utility can expect to sell in the future years below  
14 levels that the Utility has experienced in recent times.  
15 This places an extremely large risk on the Utility that  
16 if consumption is above the substantial reductions  
17 predicted by staff's model, that the Utility will be  
18 buying water at a marginal cost above the marginal  
19 revenue to be received from these customers. As such,  
20 the Utility will not only not be able to meet its  
21 authorized rate-of-return, it will begin losing money  
22 very quickly if that circumstance occurs.

23 Q. Do you have any comments with regard to Ms. DeRonne's  
24 testimony and proposal?

25 A. Yes. Ms. DeRonne has expressed a concern that the

1 Utility will continue to exceed its Water Use Permit and  
2 as such, will be able to achieve additional operating  
3 income because of the use of maximum permit levels in  
4 this case. There is very little basis for concern that  
5 the Utility will be pumping above those permit limits.  
6 In fact, because of the potential substantial penalties  
7 that the SWFWMD has made clear will result from any  
8 significant exceedence of permit levels, it is very  
9 unlikely that there will be such exceedences of any  
10 material nature. In fact, because the maximum allowed  
11 levels have been used in rate setting, the likelihood of  
12 the Utility not being able to pump at the maximum level  
13 on any given day, month, or year and because of the  
14 restrictions placed on the Utility for pumpage limits  
15 that use each of those separate time frames, it is much  
16 more likely that the Utility will not be able to pump  
17 water at a level exactly equal to its maximum permit  
18 levels and will fall under that amount. As a result, the  
19 cost of purchased water will increase above the levels  
20 recognized in rate setting in this proceeding under the  
21 current proposals. In addition, as I hope I have made  
22 clear above, the potential for shortfall, even with an  
23 equal amount of either under or over pumpage from the  
24 Utility's wells, weighs much more heavily on the  
25 Utility's earnings being harmed than it does toward the

1 customers being harmed by any exceedence, simply because  
2 of the high marginal cost of each additional thousand  
3 gallons of water, which the Utility must purchase, in  
4 comparison to its cost of pumping and treating that  
5 water.

6 Ms. DeRonne has proposed that this case be held open for  
7 some sort of monitoring, in case the Utility does exceed  
8 its permit levels for pumped water. As noted, we do not  
9 believe there is much likelihood of that and any  
10 potential deviation from the SWFWMD permit is likely to  
11 be substantially to the detriment of the Utility. Even  
12 though this is predicted to be the case, we do not  
13 believe that a separate monitoring is appropriate,  
14 anymore in this case than in cases where a Utility has  
15 within its control, the ability to modify other  
16 recognized expenses in order to gain additional operating  
17 income. There is really no difference from the issue  
18 Ms. DeRonne is discussing then a myriad of other issues,  
19 or potential expenses, that could be adjusted to achieve  
20 greater earnings. However, because of the factors that  
21 I have discussed above, being outside the Utility's  
22 control and their substantial potential affect on the  
23 Utility, we believe that to the extent that the  
24 Commission proposes to do monitoring of earnings and  
25 purchased versus pumped water, that monitoring must

1 include recognition of the possibility that the Utility  
2 will not achieve its permit levels, and to the extent  
3 there is any either "true up" of any past under or  
4 overages or potential to reestablish rates on a going  
5 forward basis, those must work both ways for all  
6 potential problems resulting from deviations of water  
7 purchased versus water pumped.

8 As we have noted, there must also be recognition that the  
9 consumption levels predicted by the staff and by Mr.  
10 Stewart or by the Utility, to the extent any of those are  
11 adopted in setting final rates, that the Utility will not  
12 be able to pay for purchased water if consumption  
13 actually exceeds the levels predicted by those witnesses  
14 or by the rates as finally established in this case. We  
15 understand the concern that generally when the Commission  
16 sets rates with projections, the case is not held open  
17 and we are generally in favor of that finality. However,  
18 to the extent the case is held open, it must recognize  
19 the fact that this case differs from the ordinary case,  
20 both in the amount of the predicted reduction in  
21 consumption and the reasons for that predicted reduction  
22 and the fact that any significant deviation from those  
23 projected consumption levels can have substantial effects  
24 on the Utility. Therefore, any jurisdiction that the  
25 Commission retains for monitoring must incorporate those

1 potentialities as well, and the need for increased rates  
2 or possibly surcharges for past under sales.

3 In addition to the extent any monitoring is ultimately  
4 required in the Commission's Final Order, additional  
5 administrative costs must be recognized in rate setting  
6 in this proceeding. While we do not know the particulars  
7 of what will be expected from the Utility in that  
8 monitoring, we would suggest that at a minimum, if  
9 quarterly reports are filed on purchased and pumped  
10 water, that an additional \$10,000 per year of annual  
11 expense be recognized by the Commission, in order to  
12 allow the Utility to prepare, file, and answer any  
13 questions concerning those reports. Depending upon the  
14 level of scrutiny, the monitoring requirements, and  
15 additional proceedings that may follow short of formal  
16 hearing, that should be sufficient for basic monitoring  
17 and reporting. Therefore, we believe the Commission must  
18 include such costs, to the extent that monitoring is  
19 required.

20 Q. As I understand it, Mr. Stallcup's proposal for rate  
21 setting also includes shifting substantial fixed costs  
22 from the base portion of the Utility's rates, to the  
23 variable or gallonage charge. Is that correct?

24 A. Yes. While the Utility shifted some of the fixed costs  
25 to the gallonage rate, the staff proposal has gone much

1 farther. Generally speaking, from a historical and  
2 general regulatory philosophy perspective, fixed costs  
3 should be recovered through the base charge and variable  
4 costs recovered from the gallonage charge. This has  
5 always been the maxim under which the Public Service  
6 Commission has operated, as I understand it, in setting  
7 Utility rates. This is so that the Utility will be able  
8 to recover its fixed costs regardless of consumption  
9 levels, and its variable costs will flow with variable  
10 revenues, thus helping to solidify the likelihood of  
11 recovering all costs and minimizing the likelihood of  
12 over or under earnings situation occurring. In this  
13 case, in order to set base rates that were not  
14 outrageously high, we had to work with the model supplied  
15 by Dr. Whitcomb and the SWFWMD to shift some of the fixed  
16 costs into the gallonage rates. We were willing to  
17 consider that additional risk, at least for the purposes  
18 of this case, without any additional recognition of that  
19 risk in rate-of-return or otherwise. However, the  
20 staff's proposal, as we understand it, would shift even  
21 more of the fixed costs into the gallonage charge,  
22 thereby further increasing the risk on the Utility. Upon  
23 review of Mr. Stallcup's worksheets, it appears that a  
24 substantial quantity (almost equal to water sales in  
25 lower sales months of the last year) of water will have

1 to be sold just to meet the fixed costs of the Utility,  
2 much less enabling the Utility to meet its variable  
3 costs. Mr. Stallcup furnished, in a late-filed exhibit  
4 to his deposition workpapers, spreadsheets, along with  
5 other items for review. One of the items provided by Mr.  
6 Stallcup was a schedule illustrative of the rates using  
7 his proposed methodology for setting final rates in this  
8 case. In which he appears to contradict his own  
9 testimony which states: "However, due to revenue  
10 stability concerns, the BFC allocation percentage should  
11 not be decreased to the point that the new BFC is less  
12 than the current BFC." In his late-filed exhibit, he  
13 proposes a base charge of \$6.18, which is lower than our  
14 current base facility charge. To my knowledge, no  
15 additional recognition of that increased risk has been in  
16 any way recognized by the Commission staff, or proposed  
17 for recognition by the Commission staff in this case, or  
18 in any other previous case. While we don't know if the  
19 Commission has done such a shift of fixed costs into  
20 gallonage charges in other cases, as has been done here  
21 or to the extent it has been done here, we believe it  
22 substantially increases the risk upon the Utility to do  
23 so and believe to the extent it is proposed, that it must  
24 be recognized in rate setting in the form of a higher  
25 rate-of-return, or some other recognition of the

1 substantial increased risk that this places on the  
2 Utility.

3 Q. There is a proposal to make an adjustment to the salary  
4 of a Mr. Painter, because his salary was allocated fully  
5 to the wastewater case in the Utility's recent wastewater  
6 rate case. Do you have any comments with regard to this  
7 proposed adjustment?

8 A. Yes. Originally, the staff had proposed an allocation of  
9 Mr. Painter's salary for the portion of that salary  
10 related to Seven Springs water versus Seven Springs  
11 wastewater. They are now proposing to eliminate his  
12 salary altogether, because it was recognized in the last  
13 rate case as being related to wastewater, a couple of  
14 years ago. The fact of the matter is, his salary should  
15 not be removed in total, because his job description has  
16 changed since the time of the wastewater rate case. Mr.  
17 Painter is now a supervisor over water and wastewater  
18 operations, whereas at that time, he related solely to  
19 wastewater. His old position has now been occupied by  
20 the addition of new employees, who have taken over a  
21 portion of his old wastewater related duties. As he has  
22 moved up into a higher supervisory level, he now deals  
23 with both water and wastewater issues in that new  
24 position. As such, the circumstances that existed in the  
25 wastewater case are no longer applicable in this case.

1 It is simply a change of his duties since the wastewater  
2 case, and a replacement of the duties that he formerly  
3 performed for the wastewater system two years ago, by a  
4 new employee. As such, no adjustment is appropriate,  
5 other than that originally proposed to properly allocate  
6 Mr. Painter's salary between the two systems.

7 Q. Do you have any further testimony to provide at this  
8 time?

9 A. No. I do not.

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1 BY MR. DETERDING:

2 Q Please provide us an extremely brief summary of your  
3 testimony.

4 A I will be extremely brief. My rebuttal testimony  
5 covers quite a few points, but I'm just going to probably stand  
6 on the rebuttal testimony as filed.

7 Simply the first issue that I covered was rate case  
8 expense. I believe it's relatively self-explanatory.

9 The next issue was the conservation programs and  
10 specifically the proposal we put forth of recovering the cost  
11 of these conservation programs within the second tier of the  
12 rate structure we proposed and how we believe that balances the  
13 risk versus the unknowns in this case and provides for the,  
14 meeting the desires of the district as well as providing some  
15 level of security to the company with the many unknowns that  
16 are involved here.

17 The third issue, and it's kind of the broader one, I  
18 guess, it really has three parts, but it was related to quality  
19 of service. And the first one there was addressing customer  
20 complaints and I really won't go into that. We provided quite  
21 a detailed explanation of that and I believe you saw most of  
22 that resolved, I believe, with Mr. Durbin last evening.

23 And the second one is water quality, and certainly I  
24 assume we'll talk about that before I'm done up here.

25 And the third one is the status of the pilot project,

1 and certainly you've gotten a lot of information on that. I  
2 can certainly affirm what you've heard so far. And to the  
3 extent there's any other details I can fill in, I certainly  
4 will.

5           The next issue that I addressed was the royalty  
6 issue, and I guess maybe I took more of a matter of fact  
7 approach to the thing. It's simply, it seems almost in this  
8 discussion that it's been lost that the true issue here is what  
9 alternatives are available to the utility and the relative  
10 costs of those. And, you know, quite simply if we lose that  
11 source, the only other source we have is \$2.35. And we can  
12 call it market price or we can call it all sorts of different  
13 issues. That's what's available to this company. And to the  
14 extent they're set aside, then we need to be provided with rate  
15 relief to secure that water through Pasco County's interconnect  
16 at a much higher cost.

17           The next issue was restructuring the employees and  
18 implementing some of the requests or recommendations, I should  
19 say, within the management audit and trying to improve the  
20 quality of service provided to our customers and meet the needs  
21 of a growing company and being able to not only continue to  
22 provide quality service but to improve upon that and do better.

23           The next issue I talked about, and I think Mr. Nixon  
24 went on quite detailed about it, I won't even address it, was  
25 in response to Mr. Larkin's proposal of the fact that this

1 basically should have just been totally disallowed because  
2 somehow we should have filed a rate case before.

3           The next issue which I talk about in pretty good  
4 detail, and I guess I have probably the most personal knowledge  
5 on it because I've there been the longest and have seen day to  
6 day the changes, is this proposal that we put forth. And it's  
7 basically addressing Mr. Stallcup's testimony about the  
8 demographic shift that has occurred in our area and the greatly  
9 increased usage we're seeing in the new communities and our  
10 concern that just taking a, you know, some sort of a rolling  
11 average or whatever moving forward doesn't recognize the trends  
12 that exist in our area. And certainly we, you know, I mean,  
13 the point of being here is to address the future water needs of  
14 this company. That's what's driving this case. And we don't  
15 want that to be short-changed in any way because we certainly  
16 don't want to come back a year from now and have to do it  
17 again.

18           And very similar to that, the next issue that I  
19 addressed was in relation to the model. And I believe we are  
20 basically in agreement with all parties at this point as to the  
21 use of the model. That wasn't the case obviously when I filed  
22 the rebuttal testimony, but I believe that's pretty much the  
23 case here now. And that completes my summary.

24           MR. DETERDING: The witness is tendered for cross.

25           CHAIRMAN JABER: Okay. Ms. Lytle, do you have any

1 questions?

2 MS. LYTLE: I have no questions.

3 CHAIRMAN JABER: Mr. Wood?

4 MR. WOOD: I have a couple.

5 CROSS EXAMINATION

6 BY MR. WOOD:

7 Q Mr. Watford, is Riverview located at the, at 54, 054  
8 and Little Road, is that part of your service area?

9 A Riverview is actually located down I-75.

10 Q I might have the wrong, I might have the wrong name.  
11 Located at the corner of, right behind the K-Mart there at 54,  
12 054 and Little Road.

13 A Are you talking about Riverside?

14 Q River --

15 A Okay. I'm sorry. The old 54?

16 Q Yes.

17 A Yes.

18 Q That's in your service area?

19 A Just about in the center, as a matter of fact.

20 Q Okay. At Seven Springs and Perrine Ranch going back  
21 east into where Lexington Homes is located, have you been in  
22 either one of those locales recently?

23 A In Seven Springs?

24 Q No. No. On Seven Springs Road.

25 A Seven Springs Boulevard?

1 Q Little Road about two-and-a-half blocks in from where  
2 your house or your office is located.

3 A I have been to Lexington Oaks.

4 Q Lexington Homes is building there. Right at --  
5 instead of turning at the stop light coming out of your office,  
6 if you go straight across the road.

7 A Yes, I have.

8 Q You've been back in there?

9 A Yes.

10 Q In those two locations I just asked about, would you  
11 tell us what kind of homes are in there?

12 A The last time I was in there they were just  
13 completing development of the project across the street from  
14 our office.

15 Q Uh-huh.

16 A And what was the other one you referenced?

17 Q Riverside was the first one.

18 A Riverside Village? They're quarter to slightly  
19 larger acre lots. If you're talking about size, probably I  
20 would guess on the average three to four bedroom homes, many  
21 pools, certainly large yards. It's one of our older  
22 communities. It's been around for --

23 Q You're not talking about the place that I am talking  
24 about.

25 A Well, sir, I'm talking about Riverside Village, which

1 is right behind the K-Mart Center on Little Road and 54.

2 (Simultaneous conversation.)

3 CHAIRMAN JABER: Mr. Wood, Mr. Wood, I need you to  
4 talk one at a time. He is, he's trying, he's trying to talk  
5 about what you're talking about.

6 MR. WOOD: He's not into the area that I'm talking  
7 about.

8 CHAIRMAN JABER: All right. Well, be more specific  
9 with your question and maybe he'll, he'll know where the  
10 subdivision is.

11 BY MR. WOOD:

12 Q The specific area is as you go, if you went straight  
13 east from old 54, back in there with the new construction.

14 A I'm not exactly sure where you're talking about,  
15 Mr. Wood. What's back there is Riverside Village. There is an  
16 apartment complex back there named Ashley Place Apartments  
17 that's, I don't know, been around for quite a few years.

18 Q Uh-huh. And then there's the, this division that I'm  
19 asking you about.

20 CHAIRMAN JABER: Do you know the name of it, Mr.  
21 Wood?

22 MR. WOOD: I thought it was, I thought it was  
23 Riverview, but apparently I'm mistaken on that. I should have  
24 done a better job of researching.

25 CHAIRMAN JABER: Is there a Riverview Subdivision

1 over there?

2 THE WITNESS: The only Riverview I know is nowhere  
3 near our service area. It's down I-75 by Gibsonton.

4 BY MR. WOOD:

5 Q Okay. We'll just, we'll drop the Riverview off.

6 Lexington Homes, do you know what kind of homes they  
7 have in there?

8 A I don't, honestly I don't know that they've actually  
9 completed any homes to date. It's a very new subdivision. I  
10 can check. I believe they were listed on our, our inventory or  
11 our listing of available sites, if I have that up here.

12 Q You don't have to look it up any further.

13 If I told you that those were attached villas, would  
14 you believe that?

15 A That wouldn't surprise me.

16 Q Because that's what the sign on the corner says.

17 A Okay.

18 Q Have you ever checked -- you talked about in there  
19 demographics. Have you ever checked out in front of your  
20 office between about 8:00 and 9:00 the number of school busses  
21 being bussed from Holiday?

22 A I can't say I've performed that specific test, no.

23 Q Then you talk about the new schools that are in the  
24 area. How can you say that all of the growth is in the new  
25 developments when so many students are being bussed from

1 Holiday?

2 A Well, obviously I don't believe that they are being  
3 bussed from Holiday because they have schools in Holiday.

4 Q Well --

5 A I know that specifically in conversations with the  
6 school board and negotiations of developers' agreements and so  
7 forth with them as far as trying to get development projects  
8 underway, they just recently completed Mitchell High School,  
9 Mitchell Middle School, a brand new elementary school and, you  
10 know, we already had schools out there, but they had just  
11 completed new ones which they actually deemed to be their mega  
12 schools. And as I understand it, the day they opened their  
13 doors they were over the state required or state recommended  
14 classroom size because they were overfull.

15 And I can tell you I have sat right in the parking  
16 lot of YMCA right in the center of our service area especially  
17 during the summer and watched school bus after school bus after  
18 school bus bringing children into their day program there,  
19 hundreds and hundreds of children there every day.

20 Q Did you, when you were dealing with the school board,  
21 did you ever ask them to see the boundaries of their districts?

22 A No. That, that would be irrelevant to what we do.

23 Q But isn't that, but isn't that part of what you're  
24 testifying here to that the demographics are changing so much?

25 A Certainly. I have seen the districts. I did not get

1 them from the school board. They're published in the  
2 newspaper.

3 Q Have you, have you seen that they do bus children to  
4 the high school and middle school from Holiday?

5 A That's not my recollection. I remember the district  
6 showing the school right in the center of the school district.  
7 Now I'm not saying that they lie in the district with our  
8 service area because that certainly isn't the case, but --

9 Q Would you stand out in front of your office tomorrow  
10 or Monday and count the busses as they go by?

11 A Probably not.

12 Q Quality of service, you've talked a great deal about  
13 quality of service. In the past five years, six years have you  
14 done any random sampling with the exception of the survey run,  
15 ordered by the Commission on what the customers think of your  
16 service?

17 A Well, in the last five years, no. We, you know, we  
18 have a continuous feel for that because we interact with our  
19 customers every day, first of all. But, second of all, the  
20 Commission themselves did an analysis of that and found an  
21 extremely favorable customer service satisfaction level.

22 Q Don't you think that you should run surveys to find  
23 out what the people are thinking about you, you know, a four or  
24 five question survey?

25 A I'm not particularly adverse to that. That might be

1 a good idea.

2 Q And shouldn't it have been something that's been  
3 going on all along so we can get the feel for this?

4 A Well, as I said, I believe we have a continuous level  
5 of input back from our customers. And, as I said, the Staff  
6 just themselves completed an analysis of that exact question  
7 and found it to be very favorable.

8 There always has to be a cost benefit analysis of  
9 something like that done and I am, I believe I'm aware of cases  
10 where this Commission has disallowed expenses for exactly those  
11 sorts of things. But all of those things are obviously a  
12 judgment call.

13 Q But don't you think that it's something that should  
14 be put into place with the number of people who have come out  
15 to the various hearings on this thing over the past five years?

16 A Well, Mr. Wood, obviously the preeminent issue here  
17 is the dealing with the black water problem. And there isn't a  
18 human being on this planet that wishes more than I do that that  
19 problem would disappear and never, ever be seen again.

20 We are the ones who have expended great sums of money  
21 in trying to deal with that issue and are continuing to and, if  
22 you've been listening to the testimony in this case, are going  
23 to be expending an extraordinary amount of funds in the future  
24 trying to produce a better and higher quality product of water.  
25 But if you've been listening, there have been many, many

1 experts that have testified in this case that it's not just  
2 that easy to, to solve.

3 CHAIRMAN JABER: Mr. Watford?

4 THE WITNESS: Yes, ma'am.

5 CHAIRMAN JABER: From the customer testimony the  
6 first day came the suggestion, I think it was Dr. Kurien, and  
7 then your attorney acknowledged that you all had been thinking  
8 about it as well, a citizens advisory committee. How would you  
9 recommend that that be initiated and, you know, how would you  
10 recommend that it be set up and who would be part of that?

11 THE WITNESS: That's an excellent question. As I  
12 believe Mr. or, I'm sorry, Dr. Kurien himself indicated, he had  
13 spoken with my assistant just the day before and she had  
14 related to me that there appeared to be maybe a certain ability  
15 that the gentleman might have to kind of bridge some areas and  
16 we were very sensitive to that. And as a matter of fact, the  
17 evening before that we had discussed that because we've  
18 discussed that previously.

19 And I -- in responding to that let me just say one  
20 thing. This company, I and no consultant that has ever been  
21 authorized by this company has ever said that these people  
22 don't have a problem. I have been in their homes, I have seen  
23 the black water. I have sent pictures of the black water to  
24 this Commission showing them pictures of the water coming in  
25 the home and the water drawn from a back tub. Nobody is

1 discounting that, nobody is blaming the customers, nobody is  
2 trying to spite the customers or any of the other things that,  
3 that tend to be alleged.

4 CHAIRMAN JABER: Would you -- do you agree, do you  
5 agree then that some sort of citizens advisory committee or  
6 some sort of stakeholder group may go a long way in assisting  
7 you in the dialogue with the citizens that receive service from  
8 your company?

9 THE WITNESS: I absolutely do. And --

10 CHAIRMAN JABER: So you don't have any problem with  
11 setting up a citizens advisory committee?

12 THE WITNESS: No. And, as a matter of fact, we have  
13 attempted to do that in the past. And we had several --

14 CHAIRMAN JABER: Okay. How would you recommend that  
15 it be comprised?

16 THE WITNESS: I'm sorry. Well, I can tell you what  
17 we did before.

18 CHAIRMAN JABER: Okay.

19 THE WITNESS: We sent letters to all the homeowners  
20 association presidents that we could specifically identify.  
21 Sometimes that's kind of hard because there's subcategories  
22 within the homeowners associations. We try to maintain a list  
23 of who those, who those individuals are and update them as best  
24 we can and invite them to participate in something like that.  
25 The -- I will have to say the response we got was very poor.

1 We did have two individuals come and agree to meet with us.  
2 Mr. Porter and I met with them, discussed forming that  
3 committee and --

4 CHAIRMAN JABER: You know, the past is the past.

5 THE WITNESS: Yes.

6 CHAIRMAN JABER: This is not a trick question. It  
7 really isn't. I'm trying to develop a record based on an idea.

8 THE WITNESS: Uh-huh.

9 CHAIRMAN JABER: So you sent a letter of invitation.  
10 Would it be more effective, do you think, to assign the  
11 homeowners associations presidents maybe to a citizens advisory  
12 committee?

13 THE WITNESS: Sure. That was, that was what we were  
14 attempting to solicit from them because honestly we don't know  
15 a lot of them and we don't know the internal makeup. You have  
16 a master association and 20 subassociations, so it gets kind of  
17 difficult to figuring out who exactly represents who.

18 CHAIRMAN JABER: And how often --

19 THE WITNESS: But, yes, we would.

20 CHAIRMAN JABER: And how often would you suggest they  
21 meet?

22 THE WITNESS: We would make that the pleasure of the  
23 board. I'm not adverse to meeting monthly or however often  
24 they would choose to do that.

25 CHAIRMAN JABER: All right. And how many people

1 would you recommend be on the board?

2 THE WITNESS: I would say, totally subject to check  
3 because sure as I'm sitting here running through it in my mind  
4 I'd leave out somebody and I don't want to hurt anybody's  
5 feelings, but it would probably be, if we tried to limit it to  
6 the heads of what they call master associations, about a dozen  
7 or so.

8 CHAIRMAN JABER: Okay.

9 THE WITNESS: I think.

10 CHAIRMAN JABER: Right. And who from the utility  
11 absolutely has to be on the board?

12 THE WITNESS: I would say myself. And to the extent  
13 that it were necessary, and it probably would be especially at  
14 an initial phase, I would want to have our engineering  
15 representative there.

16 CHAIRMAN JABER: All right. And you certainly agree  
17 that Dr. Kurien is an excellent intermediary.

18 THE WITNESS: He certainly impressed me that way,  
19 yes.

20 CHAIRMAN JABER: And you wouldn't have any objection  
21 to Dr. Kurien being on the board?

22 THE WITNESS: Not at all.

23 CHAIRMAN JABER: Thank you. Mr. Wood, do you have  
24 any other questions?

25 MR. WOOD: Yeah. One last question.

1 BY MR. WOOD:

2 Q And I think we covered some of this yesterday in your  
3 direct testimony. On the demographics again, there is no  
4 scientific determination of the demographics of the new area;  
5 is that correct?

6 A Well, I don't know exactly. I guess it would depend  
7 on the definition of scientific. But if you look at the  
8 exhibit to my testimony that is labeled SGW-6, you will see a  
9 listing of the subdivisions that we serve and you will see the  
10 usage that occurs in those various subdivisions on an average  
11 daily basis. And we don't really need to do a whole lot of  
12 scientific analysis when we've got the actual usage data and  
13 what those customers use.

14 Q So you really don't know what the demographics really  
15 is?

16 A I know -- again, it would depend on your definition  
17 of demographics. I know what the --

18 Q I'll take your definition.

19 A I'm sorry?

20 Q I'll take your definition. You defined it as the  
21 type of people who are moving into the area.

22 A Well, I'm not sure that was exactly my definition.  
23 But for the purposes of this exercise, the whole point of  
24 discussing demographics is to try to relate that to water use.  
25 We have that data, we have every bill record onboard our

1 computer system for the last six years that's ever been  
2 generated, and we can produce that data quite readily and have.  
3 And it's not really a matter of forecasting or anything else.  
4 These are bills that were rendered based upon usage in various  
5 communities.

6 MR. WOOD: Uh-huh. I'll let it go at that.

7 CHAIRMAN JABER: Thank you, sir.

8 Dr. -- Dr. Burgess. Mr. Burgess?

9 CROSS EXAMINATION

10 BY MR. BURGESS:

11 Q Mr. Watford, I just have some questions about the  
12 groundwater withdrawal compliance plan, specifically the  
13 \$155,000 I believe that you have as the current approximate  
14 price tag associated with it.

15 A Yes.

16 Q Now my understanding is that, am I correct, that  
17 originally you were seeking the expenditures associated with  
18 this to be incorporated, to be covered by the highest block of  
19 rates; is that right? Have you filed it?

20 A In our initial filing, yes. That was the,  
21 Mr. Burgess, that was the way we structured that. And I think  
22 I elaborated why, you know, in my testimony.

23 We're not really adverse to that being included in  
24 the revenue requirement and somewhat assume that that's the way  
25 it would migrate. But at the time it was actually filed we

1 didn't know those numbers with any specificity.

2 Q Okay. But one way or another you're seeking cost  
3 recovery for it and you would agree that all of it is geared  
4 toward conservation for the most part?

5 A Yes.

6 Q And but my understanding from what I've read is that  
7 you do not believe any repression associated with it should be  
8 calculated into the purchased water?

9 A No. I don't believe that's the case at all. As it  
10 relates to our filing, Mr. Nixon in his calculation did an  
11 initial five percent repression in the calculation of the MFRs  
12 relating to that.

13 Q I --

14 A I'm sorry. The other repression that has been talked  
15 about at much greater length has to do with the inclining block  
16 rate structure.

17 Q Okay. So the five percent that Mr. Nixon had was for  
18 these specific items and the, the -- what is the amount that  
19 you have for the inclined block rate structure?

20 A In our initial filing?

21 Q What is it that you're seeking at this point?

22 A Basically I'm -- well, let me look before I misstate  
23 it. I believe it's attached as an exhibit, the actual model  
24 run.

25 The actual repression that we're seeking is actually

1 the output of the model spread over, adopting in essence  
2 Dr. Whitcomb's recommendation that 50 percent of that  
3 repression be captured in that first year. And at this point  
4 as far as what's attached to my prefiled, that's actually been  
5 changed. Mr. Stallcup referenced the depositions that were had  
6 and the modifications that were done. But it's approximately  
7 somewhere in the neighborhood of 15 percent overall, half of  
8 that being captured, I believe, in that first year.

9 Q Okay. And I just want to make certain though that  
10 your position now is, your position is that it is the sum of  
11 the two repressions; in other words, both should be calculated,  
12 both repression from the inclining block rate structure and  
13 from the expectation of, of what will be reduced as a result of  
14 these programs?

15 A Well, again, that's the way we filed, I believe. And  
16 now it's my understanding that with the exhibit that was passed  
17 around today by Mr. Stallcup, if, and honestly you're not  
18 asking the right one, but it's my understanding that he then  
19 backed that out of his calculation. And I believe we have  
20 pretty much concurred with that in respect of him bringing in  
21 the, the additional variable, I guess is the best way to say  
22 it, as it relates to the watering restrictions. But we are  
23 still -- I mean, at this point in our testimony we are not  
24 adverse to, I guess, moving away from the funding it solely  
25 from the second tier. But our testimony is still standing as

1 is.

2 MR. BURGESS: Thank you, Mr. Watford. That's all I  
3 have.

4 CHAIRMAN JABER: Thank you. Ms. Lytle?

5 MS. LYTLE: I have no questions.

6 CHAIRMAN JABER: Okay. Staff?

7 MR. JAEGER: I have just a few.

8 CROSS EXAMINATION

9 BY MR. JAEGER:

10 Q Mr. Watford, is the Utilities Director position still  
11 not filled?

12 A I have not had time to get it filled because I've  
13 been too busy with this cause, but it should be filled any day.

14 Q I think you initially, you thought you had it filled  
15 at one time; is that correct?

16 A Yes, that's correct. And there was a fair amount of  
17 time involved with that because the gentleman who agreed to  
18 take the job actually worked for another utility who is in the  
19 process of being bought out and he, he had committed to stay  
20 there until the buyout was completed. And then he advised us  
21 that he was not going to be able to relocate to the area, so we  
22 readvertised for the position. And I hope they've got me a  
23 whole list of interviews scheduled for next week.

24 Q And when did that man decline the Utility Director's  
25 position that he had initially accepted?

1           A     Ralph, I think it was late summer. I don't recall  
2 the exact date.

3           Q     And from the date he declined the position, how many  
4 interviews have you held?

5           A     None. We had to readvertise the position and get it  
6 in the American Waterworks Journal and so forth.

7           Q     You readvertised, put it in the American Waterworks  
8 Journal. What other steps have you taken to try to get more  
9 applicants?

10          A     Oh, I've got plenty of applicants. I just have to  
11 have time to sit down and talk to them.

12          Q     Have you taken any other steps other than what you  
13 just said?

14          A     Yes. We advertise in, in many sources, Florida Water  
15 Resource Journal, American Waterworks Association Journal,  
16 three or four different web sites related to the industry, even  
17 local ads in local newspapers.

18          Q     As we sit here today, all positions except the  
19 Utility Director position, are they still filled?

20          A     Yes, they are.

21          Q     And I don't want to belabor the fact, I think  
22 Mr. Porter went into it in great detail about the R0  
23 feasibility study. Did you listen to his testimony?

24          A     Yes. But I'm not sure exactly what you're  
25 specifically referring to.

1 Q Did you disagree with any of his timetables or what  
2 he said about the R0 feasibility study or do you have anything  
3 to add to what he said?

4 CHAIRMAN JABER: Mr. Jaeger, I think you need to ask  
5 him a more specific question.

6 THE WITNESS: If you really want --

7 CHAIRMAN JABER: Mr. -- no. No. No.

8 MR. JAEGER: I just wanted --

9 CHAIRMAN JABER: Mr. Porter testified that in his  
10 best guess it would take a year to complete an R0 feasibility  
11 study. Do you have --

12 THE WITNESS: The feasibility -- I'm sorry.

13 CHAIRMAN JABER: Do you have any other information or  
14 changes to his guess for the time line?

15 THE WITNESS: That is the approximate time line as I  
16 recall it in the draft consent order at this time, and that's  
17 pretty much what everybody in the industry has told us is  
18 pretty standard for that.

19 CHAIRMAN JABER: Mr. Jaeger, go ahead.

20 BY MR. JAEGER:

21 Q So is the utility proposing to increase its plant  
22 capacity charge in this rate case?

23 A In this rate case? No. We have another docket  
24 that's open right now that's specifically addressing that  
25 issue, although we're certainly not adverse to it. And I won't

1 go into the whole thing about level of contributed property at  
2 this point. I think it's in the record.

3 Q Isn't it true that Interphase no longer has a fee  
4 simple interest in the property on which Wells Numbers 6 and 7  
5 are located?

6 A That's correct.

7 MR. JAEGER: I'd like to have identified as Exhibit  
8 Number 30 the property tax invoices provided in the utility's  
9 supplemental response to Staff's POD4.

10 CHAIRMAN JABER: Exhibit 30 is identified as --

11 MR. JAEGER: Property tax invoices --

12 CHAIRMAN JABER: Yeah. I'm just looking for a short  
13 title. Supplemental response to Staff's POD4.

14 (Exhibit 30 marked for identification.)

15 BY MR. JAEGER:

16 Q Please -- this was provided by the utility's  
17 attorney; is that correct?

18 A Yes.

19 Q Please turn to the next to the last page and the  
20 third to the last page and that's the one we'll be looking at.

21 A I'm sorry. Next to the last page and third to the  
22 last page?

23 Q Yeah. The -- I'm not sure what really the third page  
24 from the back is called. But go to the one that says, "Well  
25 Number 6" on the bottom right. You got that?

1 A Yes.

2 Q Okay. For Well Number 6 doesn't this show the land  
3 to be owned by several condo associations?

4 A That's what it says. Yes.

5 Q And also for Well Number 7, that's the next page,  
6 it's owned by the Heritage Lake Community Association?

7 A Yes.

8 Q Do these associations have any relationship to Aloha?

9 A No, they don't, other than I believe they are  
10 customers for.

11 Q And for each of those well sites doesn't that invoice  
12 show no tax due?

13 A I see that the current tax has been paid. Is that  
14 your question?

15 Q Let's talk about Well Number 6. What do you show as  
16 paid?

17 A I was -- under where it says, "amount due," it says,  
18 "receipt and amount paid."

19 Q Well, turn to the page just above Well Number 6. I'm  
20 sorry. Go to the last page. The very last page showing Wells  
21 3 and 4, it shows amount due \$10,570.56; is that correct?  
22 That's in the bottom left under "current tax."

23 A Yes.

24 Q There's no similar dollar amount shown in either 6 or  
25 7; is that correct?

1 A That's correct.

2 Q Do you know how much it would cost Tahitian and  
3 Interphase to provide Aloha treated water?

4 A No, I don't.

5 MR. JAEGER: Chairman Jaber, I'd like to have  
6 identified as Exhibit Number 31 Aloha's response to Staff's  
7 second set of interrogatories. That's regarding the utility's  
8 purchase for all water transactions.

9 CHAIRMAN JABER: Okay. Exhibit 31 is Aloha's  
10 response to Staff's second set of interrogatories.

11 (Exhibit 31 marked for identification.)

12 BY MR. JAEGER:

13 Q And is it correct that you declared that the  
14 responses to these interrogatories were true and correct to the  
15 best of your knowledge?

16 A Yes.

17 Q And with regard to Aloha's response to interrogatory  
18 26B, isn't it correct that the wells initially installed by  
19 Mitchell, Tahitian and Interphase have not been relocated?

20 A I'm sorry. Ask -- is it not true that they have not  
21 been relocated?

22 Q Isn't it correct that the wells initially installed  
23 by Mitchell, Tahitian and Interphase have not been relocated?

24 A That's correct.

25 Q And with regard to Aloha's response to interrogatory

1 27, isn't it correct that Aloha began extracting raw, raw water  
2 in 1977 from Wells Numbers 3 and 4; is that correct?

3 A I believe that's -- yes, that's what it says.

4 Q And in 1981 from Well Number 6?

5 A Yes.

6 Q And in 1982 from Well Number 7; is that correct?

7 A That's what it says.

8 Q Now with regard to interrogatory 29B and C, isn't it  
9 correct that Staff requested the total royalties Aloha has paid  
10 Tahitian and Interphase since the utility first began  
11 extracting raw water from those wells, that's Wells 3, 4, 6 and  
12 7?

13 A Yes. That's what the questions appear to say.

14 Q But isn't it correct that the utility indicates that  
15 prior to 1992 the amount of royalties paid is not available?

16 A Well, it says that it's not specifically delineated;  
17 therefore, it's not available, yes. And not delineated in  
18 earlier annual reports, I believe.

19 Q That information wasn't provided though, was it not?

20 A I'm sorry?

21 Q You did not provide prior to 1982 the amount of  
22 royalties paid, is that correct, 1992, prior to that?

23 A No. It looks like we provided 1992 through 2000.

24 CHAIRMAN JABER: Mr. Jaeger, could you bring the  
25 microphone closer to you?

1 MR. JAEGER: I'm sorry.

2 BY MR. JAEGER:

3 Q Isn't it correct that Aloha can't determine how much  
4 royalties it paid Tahitian from 1977 to 1991?

5 A I don't, I don't believe we could, not specifically,  
6 no. I believe it's inclusive in the annual report and there  
7 certainly are no requirements to keep records back that far  
8 under NARUC or anything else that I'm aware of.

9 Q But the total royalties paid to Tahitian and  
10 Interphase from 1992 to 2000 is in excess of \$1 million; is  
11 that correct? That's attachment A.

12 A Yes, that appears to be the case.

13 Q You may have answered it, but I want to make sure.  
14 Isn't it correct that Aloha cannot determine how much royalties  
15 it paid Interphase from 1981 to 1991?

16 A I thought I did answer that. I thought it was from  
17 '92 through 2000.

18 Q I was talking about '77 to '91 for Tahitian and then  
19 '98, 1981 to 1991 for Interphase.

20 A I'm sorry. What was the question?

21 CHAIRMAN JABER: Do you -- yeah. Do you need him to  
22 repeat the question?

23 THE WITNESS: Yes.

24 CHAIRMAN JABER: Mr. Jaeger, start over with the  
25 question and be careful with the years, because I have to tell

1 you I couldn't follow it either.

2 MR. JAEGER: Okay.

3 BY MR. JAEGER:

4 Q For Interphase they began purchasing water in 1981,  
5 and so from 1981 to 1991 you cannot tell us what you paid in  
6 royalties to Interphase; is that correct?

7 A I don't believe so.

8 Q I, I don't understand your response. Is it correct  
9 that you cannot give us the royalties?

10 A Well, I can't do it from here. And I had my staff  
11 research it and, no, I don't believe we can. That's why we  
12 responded as we did.

13 Q And the same for Tahitian, you began purchasing in  
14 1977, and so from 1977 to 1991 you cannot tell how much  
15 royalties it paid Tahitian?

16 A That's correct.

17 MR. JAEGER: Okay. Chairman Jaber, I'd like to have  
18 identified as Exhibit Number 32 the related party purchased  
19 water agreements. And this was in response to OPC POD1.

20 CHAIRMAN JABER: Okay. Exhibit 32 will be related  
21 party purchased water agreements in response to OPC POD1.

22 (Exhibit 32 marked for identification.)

23 BY MR. JAEGER:

24 Q Would you take a minute and look those agreements  
25 over?

1 (Pause.)

2 Mr. Watford, maybe it'll help you out. I'm not going  
3 to ask you specific questions about the agreements themselves.  
4 I'm actually concerned as to whether there are any other  
5 agreements that you know of.

6 A What other kind of agreements are you referring to?

7 Q Do these agreements reflect all the agreements  
8 between Aloha and its related parties for the purchase of raw  
9 water?

10 (Pause.)

11 A They appear to, Ralph, without spending an awful lot  
12 of time just reading them all and trying to connect dates  
13 together.

14 MR. JAEGER: Okay. The last thing I have I'd like to  
15 have identified as Exhibit Number 33, and it's Aloha's response  
16 to Staff's discovery that includes the Mitchell purchased water  
17 agreements.

18 CHAIRMAN JABER: Okay. Exhibit 33, Aloha response to  
19 Staff discovery that includes the Mitchell purchased water  
20 agreements.

21 (Exhibit 33 marked for identification.)

22 BY MR. JAEGER:

23 Q I believe you initially entered into an agreement  
24 with Mitchell and then modified that agreement subsequently; is  
25 that correct, Mr. Watford?

1 A Aloha did, yes.

2 Q Yes. And do these agreements reflect all the  
3 agreements between Aloha and Mitchell for the purchase of raw  
4 water?

5 (Pause.)

6 A Ralph, I believe they do. But it's not often in this  
7 company I get to say these actually predate me being there.

8 Q But those do appear to be the appropriate agreements;  
9 is that correct?

10 A Certainly the last one is the one that's operational  
11 today, and I believe the one that's also attached to it is the  
12 one before that. I'm not aware of any that were prior to 1972,  
13 I believe it was.

14 MR. JAEGER: Okay. I have no further questions at  
15 this time. I think Ms. Espinoza has a few.

16 MS. ESPINOZA: I do.

17 CROSS EXAMINATION

18 BY MS. ESPINOZA:

19 Q Good afternoon, Mr. Watford.

20 First, do you recall at your last deposition an  
21 off-the-record conversation that we had regarding updated  
22 actual consumption data through the Year 2001?

23 A Yes. I recall that same conversation about a half an  
24 hour ago.

25 Q Yes. And do you recall because of time constraints

1 at the deposition that we had agreed that rather as a  
2 late-filed exhibit to the deposition you would be willing to  
3 provide us that information as a late-filed exhibit at the  
4 hearing?

5 A Yes. And that's fine.

6 Q And just to be clear, the information that I would  
7 like is billed consumption data by customer class by month for  
8 the months of July 2001 through December 2001 to the extent  
9 that it's available. And I understand December may not be  
10 available right now.

11 A Okay. Just so we are clear, you want -- I'm sorry.  
12 I wasn't -- Marty was writing.

13 Q Bill consumption data --

14 A Bill consumption by class.

15 Q By class, by month just for the second half of 2001  
16 to the extent that it's available.

17 A Okay. Well, I don't believe December is available  
18 quite yet. I don't know what the time frame on the late-filed  
19 is. It could possibly become available.

20 Q Okay.

21 A But we certainly can give you through November.

22 MS. ESPINOZA: And may we please identify this  
23 late-filed exhibit as Exhibit 34?

24 CHAIRMAN JABER: Yeah. Late-filed Exhibit 34, Staff,  
25 is the bill consumption data by customer class by month for the

1 second half of 2001 to the extent that it's available.

2 MS. ESPINOZA: Do you want a shorter title or is that

3 --

4 CHAIRMAN JABER: It's too late.

5 MS. ESPINOZA: Okay. That works.

6 (Late-filed Exhibit 34 identified.)

7 BY MS. ESPINOZA:

8 Q And this is also related, and we spoke about this  
9 earlier, regarding information about purchased power and  
10 chemicals for the same period of time, would that information  
11 be available?

12 A You're not inferring that was previously agreed to,  
13 are you?

14 Q No. No.

15 A Okay. Because it wasn't.

16 Q I'm just saying I did mention it to you earlier.

17 CHAIRMAN JABER: What is it, Ms. Espinoza, that you  
18 want?

19 MS. ESPINOZA: Information -- well, purchased power  
20 and chemicals for the second half, again, of 2001 to the extent  
21 that it's available. And Mr. Watford had previously indicated  
22 that this might be a little more difficult to obtain because of  
23 accounting, the books aren't complete.

24 THE WITNESS: Yes. And typically the, I mean, the  
25 year-end books would not close for several months yet prior to

1 preparing the annual report. So, I mean, we can give you what  
2 we have. That's realizing that at this point they're  
3 unreviewed and that's, I think, the best we can do at this  
4 point.

5 CHAIRMAN JABER: In two weeks' time would you be able  
6 to update it through the end of the year from what is it, June,  
7 I guess they're asking for June 2001 through December 2001?

8 THE WITNESS: I'm sorry. I'm looking at my --

9 CHAIRMAN JABER: Mr. Deterding, I think he's, he's  
10 seeking guidance.

11 THE WITNESS: I'm looking more, actually I'm looking  
12 at Bob.

13 CHAIRMAN JABER: Well, here's what we'll do. I've  
14 been looking for a good place to take a five-minute break.  
15 Staff, get with Mr. Deterding and Mr. Watford. Give me a short  
16 title for a late-filed exhibit when we come back on the record.

17 MS. ESPINOZA: Thank you.

18 (Brief recess.)

19 CHAIRMAN JABER: Let's reconvene.

20 Okay. Ms. Espinoza, you were trying to identify a  
21 late-filed exhibit and there was some confusion as to whether  
22 Mr. Watford could even provide it.

23 MS. ESPINOZA: Yes. I believe we agreed that it'll  
24 be called or that they can provide it to the extent that it's  
25 available, and this will be Late-Filed Exhibit Number 35 and

1 the title will be Aloha's purchased power and chemicals for the  
2 last half of 2001 to the extent it's available.

3 THE WITNESS: That's correct.

4 CHAIRMAN JABER: Okay.

5 MS. ESPINOZA: And then I guess we would ask that it  
6 would be provided within two weeks like the rest of the  
7 late-filed exhibits.

8 CHAIRMAN JABER: Right. Exhibit 35 is a late-filed  
9 exhibit and it will be Aloha's power, purchased power and  
10 chemicals expenses for the last half of 2001 to the extent the  
11 information is available.

12 And actually this would be a good time to say that  
13 all of the late-filed exhibits would be due two weeks from  
14 today, and that would be the 25th. All right.

15 Go ahead, Ms. Espinoza.

16 (Late-filed Exhibit 35 identified.)

17 BY MS. ESPINOZA:

18 Q Mr. Watford, you were here yesterday for the  
19 testimony of district witness Parker; correct?

20 A Yes, I was.

21 Q And do you recall hearing him testify that there are  
22 certain conservation measures that are already required as part  
23 of the utility's water use permit and by the district  
24 regulations?

25 A I remember, I don't remember exactly what he said,

1 but I remember something generally that there is, that, I  
2 believe it was something along the lines that conservation is  
3 encouraged by the water use permit.

4 Q Okay. So, well, do you agree with the statement that  
5 a utility's water use permit has specific conservation measures  
6 that are required by that document?

7 A I guess it depends on how you define conservation  
8 measures. No, I don't really agree with. I don't believe  
9 there's any specific conservation programs that are required in  
10 the water use permit. Like I said, I believe there's some  
11 general statements that, you know, the utility shall try to  
12 encourage conservation and there are certain regulatory  
13 parameters that are certainly required, you know, contained  
14 within the water use permit that deal with filing annual water  
15 audits that Mr. Parker talked about and so forth. But that, I,  
16 at least in my mind that's more of a regulatory function just  
17 like some of the reports we have to file with the Commission.

18 Q So is it, is it fair to characterize your testimony  
19 that to the extent that you're aware the water use permit that  
20 Aloha has does not specifically require specific conservation  
21 measures?

22 A If there's something specific in the permit that you  
23 want to direct me to and ask me questions about.

24 Q No.

25 A No, I don't -- as we have been discussing here,

1 conservation programs such as these mixed media messages and,  
2 you know, low flush toilet programs and rebates for customers  
3 and things like that, no, I don't believe those are. But like  
4 I said, there is, replete in all of the water management  
5 documents are statements about encouraging conservation.

6 Q Okay. Turning to Exhibit 2 of your rebuttal  
7 evidence, SGW-2, would you agree that you've included this  
8 exhibit to your testimony to indicate the agreed upon programs  
9 and associated expenses that Aloha is requesting recovery  
10 through rates?

11 A Yes.

12 Q And you would also agree that the total of the  
13 associated expenses as represented by this document total  
14 \$155,000?

15 A I believe that's correct. Yes.

16 Q And do you also agree that your testimony is that  
17 this document will eventually become part of the utility's  
18 consent order with the district?

19 A Yes. I, I believe that's correct.

20 Q And you were here when Ms. Lytle of the district made  
21 it clear to the Commission that the consent order is still in  
22 draft form?

23 A I presume it's in draft form until it's executed.  
24 Although I might, I feel like I need to point out to expand on  
25 that a little bit, I don't believe anything that's contained in

1 this exhibit is really a subject of any issues between the  
2 district and us. The district participated largely in the  
3 development of the components of this. It's other issues  
4 within the consent order that we're still talking about, so.

5 Q I guess my question then is as, as president of Aloha  
6 Utilities and with this exhibit attached to your rebuttal  
7 testimony are you representing to the Commission that all of  
8 the measures in this document as well as the associated program  
9 expenses in this document have, in fact, been agreed to by the  
10 district, meaning that to the extent that there are any changes  
11 in the draft consent order, that no changes will be made to any  
12 element of, of this particular exhibit?

13 A Well, obviously I can't speak for the district. And,  
14 again, until it's actually executed, I don't believe in the  
15 last several drafts there have been any changes to this  
16 portion. As a matter of fact, I believe this was, I believe  
17 the components that are, that are here in the specific demand  
18 site conservation programs were resolved at the mediation that  
19 took place back in October. And there might have been some  
20 minor changes, but as far as the components, the costs that  
21 were associated with them, I believe they were agreed to by the  
22 district, again, realizing we've already been through the  
23 governing board approval and all that kind of stuff. But until  
24 the agreement gets executed, I can't really say that the  
25 district might not tell me tomorrow that they've changed their

1 mind about everything, if that's your question.

2 MR. DETERDING: Commissioners, may I interrupt here.  
3 I've just spoken to Ms. Lytle. We expect this thing to get  
4 finalized quickly, and we will be glad to file that consent  
5 agreement with this attachment or with the final conservation  
6 or whatever compliance program, which includes the conservation  
7 measures, with that just as, the minute it is executed and we  
8 would be glad to make that a late-filed exhibit.

9 MS. ESPINOZA: That's really the point that I'm  
10 trying to get. We haven't really been able to establish from  
11 any witness, district or otherwise, any sort of time frame, and  
12 I realize that you can't give us one, but I guess if that would  
13 be possible to provide it as soon as it is in final form.

14 CHAIRMAN JABER: Well, Mr. Watford, what, can you  
15 give me a solid time frame for when you expect that the consent  
16 order would be executed?

17 THE WITNESS: I, I really can't say that, not within  
18 the kind of time window I know that you're looking for.

19 CHAIRMAN JABER: I'm trying to make a distinction  
20 between, you know, do you think it's weeks, do you think it's  
21 months?

22 THE WITNESS: I think it's really days. If we can --  
23 honestly, we've been busy. So certainly I think, you know, we  
24 can put our best efforts forward.

25 I think that -- I mean, conceptually 99.9 percent of

1 it's, I think, there.

2 CHAIRMAN JABER: Okay. Is there any objection to  
3 having a late-filed exhibit of the consent order?

4 MR. BURGESS: We have no objection.

5 CHAIRMAN JABER: All right. The reason I was asking,  
6 Mr. Watford, is if it fits into the two-week time frame. I  
7 just don't want it to be done after, after we vote.

8 MR. DETERDING: I understand, Commissioner, and I  
9 don't think that's the, the expectation of anyone.

10 CHAIRMAN JABER: All right. Let's identify it.

11 THE WITNESS: I'm sorry. Could I, could I confer  
12 with counsel for one second about the timing on that?

13 CHAIRMAN JABER: Sure.

14 THE WITNESS: Would that be a problem?

15 CHAIRMAN JABER: Sure.

16 (Pause.)

17 CHAIRMAN JABER: All right. Late-filed Exhibit 36  
18 will be the consent order, the Water Management District/Aloha  
19 consent order. Is there anything else, Staff, that would go  
20 with that?

21 MS. ESPINOZA: Just to specify that it would be the  
22 final consent order.

23 MS. LYTLE: Well, it would be the consent order  
24 executed by Aloha and by the district's executive director. It  
25 would not be assigned a final order number until it was

1 approved by the governing board. The governing board will not  
2 approve it until the next governing board meeting, which is the  
3 last Tuesday in January.

4 CHAIRMAN JABER: All right. Final consent order  
5 entered into between the district and Aloha, recognizing that  
6 it may have not been in front of the board before you file it,  
7 and that would be a two-week time frame. Mr. Watford, two  
8 weeks?

9 THE WITNESS: Yes. Just to expand on that, and I  
10 don't know if this helps in this proceeding or not, we're  
11 willing and able to commit to these programs to the extent the  
12 Commission deems them appropriate and funds them, honestly,  
13 irrespective of whether that consent order were executed or  
14 not. And I just wanted to go ahead and say that because we  
15 concur with the programs and believe it's beneficial to the, to  
16 the resource and to the customers as well.

17 (Late-filed Exhibit 36 identified.)

18 CHAIRMAN JABER: Ms. Espinoza?

19 MS. ESPINOZA: I have no further questions.

20 CHAIRMAN JABER: Commissioners?

21 COMMISSIONER PALECKI: I have one question, and I  
22 hope it doesn't throw a monkey wrench into this two-week time  
23 period, but it has to do with reverse osmosis study, which I  
24 believe is part of the agreement; is that correct?

25 THE WITNESS: Yes, sir.

1           COMMISSIONER PALECKI: I guess my problem is, and I  
2 go back to Mr. Porter's testimony, he's now talking about how  
3 you're going to be teaming up with Pasco County on the water  
4 chemistry compatibility issue and perhaps even on some of the  
5 MIEX issues. And I view the RO study and a RO plant as  
6 something that might be very appropriate for your company to  
7 enter into with other utilities, either governmental utilities  
8 or privately-owned. I can very much see Aloha as being a team  
9 member with other utilities and perhaps owning a 20 percent  
10 share in an RO facility.

11           At the same time, in order for Aloha to conduct  
12 engineering studies in an RO facility on a stand-alone basis,  
13 to me that's something that might just be throwing away the  
14 hard-earned money of, of the ratepayers of this utility.

15           Is there any way you could talk with the Water  
16 Management District about teaming up with other utilities to  
17 explore other water sources such as reverse osmosis?

18           THE WITNESS: I believe -- well, we have discussed  
19 that with the Water Management District. And I guess the best  
20 response that I could give to you at this point in time is the  
21 current iteration, if you will, of the consent order addresses  
22 kind of a multi-tiered approach to solving the water supply  
23 issue.

24           Obviously the first step is this, purchasing this  
25 water from Pasco County. The second step is to move forward on

1 an RO facility. The third step as it currently exists is if,  
2 in fact, that feasibility study fails, for whatever reason it  
3 is deemed infeasible, that there is an opportunity to pursue an  
4 alternative.

5           Obviously, I can't speak for the Water Management  
6 District as I sit here. I'm not adverse to what you're  
7 proposing and it had previously been discussed in negotiations  
8 with the district. I think there's probably some timetable  
9 issues that, given our geographic location and so forth, and  
10 I'm not really prepared right now to, to address -- there is a,  
11 there is one of the Tampa Bay Water RO plants being sited  
12 relatively near our western service area. As a matter of fact,  
13 we intended to probably at this stage of the game, and it's  
14 very preliminary and we already have our hydrologists working  
15 on the RO question and feasibility issues, we are looking at,  
16 very strongly at the west side to in essence build an RO plant  
17 that would hopefully down the road serve all of our customers,  
18 the Aloha Gardens customers as well, and it's very preliminary  
19 at this point.

20           It's just a, the search for the perfect location is,  
21 is started at this point already, even getting a jump on the  
22 execution of the consent order in essence because there are  
23 some very tight time frames that are being proposed by the  
24 district as far as us being able to comply with the various  
25 aspects of that. And I honestly don't know what the time frame

1 is for that Tampa Bay Water plant and I certainly can't speak  
2 to the, to the willingness of the district to wait on that, if  
3 that doesn't fit within the time frame that we're already  
4 pretty much committing to.

5 COMMISSIONER PALECKI: How much will it be to, how  
6 much will the engineering cost for the RO study? What are we  
7 talking about?

8 THE WITNESS: Well, the feasibility study, the  
9 numbers run anywhere from \$700,000 to a million dollars, to in  
10 essence ask the question is it feasible.

11 COMMISSIONER PALECKI: And that's what you need to  
12 complete within a one-year period?

13 THE WITNESS: That is, that is what has been  
14 discussed, yes, in the one year time frame. The actual  
15 construction is obviously much longer than that, and the number  
16 that's kicked around by people who have already been through it  
17 is four to five years.

18 COMMISSIONER PALECKI: And you have no problem with  
19 Aloha on a stand-alone basis completing that feasibility study?  
20 I guess you don't because you've already, I guess, agreed in  
21 essence with the Water Management District on it.

22 THE WITNESS: Well, as a matter of fact, even in our  
23 earlier discussions with Office of Public Counsel they have  
24 agreed it's really the only option that we have in front of us.

25 COMMISSIONER PALECKI: Are there other utilities such

1 as Port Richey, New Port Richey that you could share in, in  
2 building an RO plant and in conducting these studies?

3 THE WITNESS: It gets real complicated real quick.  
4 There is the Tampa Bay Water Association. The City of New Port  
5 Richey is a member of that, and I'm kind of speaking in someone  
6 else's realm here, but Hillsborough County, Pinellas County,  
7 City of St. Petersburg are all members of that organization.  
8 And as I understand it, a contractor under Tampa Bay Water is  
9 actually the one constructing the desal plants that will  
10 ultimately be providing the water to Tampa Bay Water, who will  
11 then distribute it to Pasco County, who will then sell it to  
12 us.

13 Obviously you can see just based on the price we're  
14 paying today for water from Pasco County, if it goes through  
15 those steps, we're, we're concerned that we might be getting  
16 water coming in the door at six or 7,000, six or seven dollars  
17 per thousand by the time the desal plant comes online. Tampa  
18 Bay Water sells it to Pasco, Pasco marks it up and sells it to  
19 us. And I'm certainly not a legal expert on the Tampa Bay  
20 Water agreement, but I believe as, as best I understand it,  
21 Commissioner Palecki, I don't believe that we would be eligible  
22 to be a member of Tampa Bay Water. I believe there are only  
23 municipals that are members of that and that the requirement  
24 exists within that agreement that other utilities or in this  
25 case Aloha Utilities in Pasco County is required to buy from

1 the member government, being Pasco County in our case.

2 So it's a great idea and I can see years of legal  
3 issues associated with it is my, is my only caveat. And those  
4 were some of the same discussions that we already had with the  
5 Water Management District.

6 And, again, I'm not an attorney and I'm not that  
7 well-versed in the, in the master Tampa Bay Water agreement,  
8 but I believe we're prohibited from being a member, which is  
9 the only way, I think, that we can in essence get the water at  
10 the price that everybody else does.

11 COMMISSIONER PALECKI: Thank you.

12 CHAIRMAN JABER: Mr. Deterding?

13 REDIRECT EXAMINATION

14 BY MR. DETERDING:

15 Q Mr. Watford, when would the utility realize the  
16 consumption benefits from implementing the conservation  
17 measures agreed to with the Water Management District?

18 A The consumption -- you mean the conservation  
19 benefits? It's my understanding most of those programs take  
20 years before they begin to pay for themselves, at least as it  
21 relates to even an end user investing in whatever the  
22 particular conservation measure is. But even as I've briefly  
23 gone through that exhibit that was provided, it's reflected in  
24 most of them five-year increments and 20 years savings plans.  
25 So a very long time. Certainly not whenever you have to expend

1 the money to put the program in place.

2 Q So you anticipate that you'll expend the money, get  
3 some conservation benefits and some more the next month and  
4 some more the next month, is that your understanding of how it  
5 works?

6 A Well, and I think it's even more diverse than that.  
7 I mean, it depends obviously on the conservation program. I  
8 don't know what or how big a lag there is, for instance, in  
9 mixed media messages and the conservation reaction and effect  
10 that that has.

11 You know, certainly a specific device that's  
12 installed at the home would begin working whenever the device  
13 is installed, if that's the particular program that you're  
14 talking about. But as it relates to -- one of the components  
15 of our plan is, is customer, consumer education and  
16 conservation education. Generally those things take years  
17 before they actually reap the full benefits of the program.

18 Q Okay. So to the extent that the Commission  
19 recognizes the reduction repression resulting from these  
20 conservation programs, do you believe they should take into  
21 account only some portion of the ultimate repression or  
22 conservation?

23 A Well, yes. I think only the portion that, in fact,  
24 was actually realized would even be appropriate.

25 But the other side of that discussion obviously is as

1 these programs are more effective, consumption will go down.  
2 Revenue will go down proportionately.

3 Q To the agreements with the related party for water  
4 purchase, did Interphase retain the rights to withdraw water  
5 from properties which it sold?

6 A Yes, it did. I believe it was 630 acres.

7 Q So would you believe that that would affect the value  
8 of the land when sold?

9 A Certainly it would, and depress it.

10 Q Okay. Does the Mitchell agreement in your opinion  
11 allow the location of a ten-acre plant site without payment for  
12 that land?

13 A No. It doesn't say that at all. I mean, we've  
14 always interpreted that in essence to be an option agreement  
15 and, you know, indicating a willingness that he would enter  
16 into negotiations to, to sell us a site. But, and it also  
17 specifically limits the location of it to a particular area  
18 that wasn't advantageous really to the utility as the service  
19 area developed. You have to remember these were entered into,  
20 this was nothing but all pasture land.

21 Q Do the agreements with the related parties bar  
22 obtaining a plant site?

23 A No, absolutely not.

24 Q Do you believe you could negotiate one with those  
25 related parties, if you needed one?

1           A     Yes.  If, in fact, there was some failure of a well  
2  or something like that and obviously to the extent we could  
3  deal with all the permitting issues that went along with that,  
4  I'm sure that they would not be adverse to that at all.

5           Q     There's a provision, if you'll refer to the  
6  agreements, either one of the related party agreements in  
7  paragraph eight.  And these, these agreements are relatively  
8  similar, are they not, both the related parties and the one  
9  with the Mitchell?

10          A     Yes, they are.

11          Q     Okay.  There is a provision, I believe, that is in  
12  all three of these agreements.  I believe it's the third to the  
13  last sentence of paragraph eight beginning, "It is agreed,  
14  however."

15          A     Yes.

16          Q     Would you read that sentence, please?

17          A     It says, "It is agreed, however, that the owner may  
18  use those amounts required for the furtherance of their  
19  agricultural business and agricultural use, that these rates  
20  shall be included in but superior to any use or withdrawal  
21  designated by any governmental body, and that the owner will  
22  cooperate in every manner with the utility in the Southwest  
23  Florida Water Management District."

24          Q     How do you read that, those, that last part of that  
25  paragraph?  What is it?

1           A     Well, it clearly puts our withdrawal rates under  
2 these agreements and an inferior rate to the owner agreement,  
3 to the owner's right to withdraw.

4           Q     Is there a difference between what that provision  
5 would mean to Mitchell and what it would mean to Tahitian and  
6 Interphase?

7           A     Well, certainly there is, there's several  
8 distinctions.

9                     Number one, Mr. Mitchell and the Mitchell ranch is a  
10 large agricultural facility, over thousands of acres with a lot  
11 of demands and water needs of his own to further his ranching  
12 business. But I guess even more so the issue is it eliminates  
13 control of in essence who had the access to that water under  
14 the related party agreements. Clearly the related parties and,  
15 therefore, through the related parties the relation between the  
16 related party and Aloha had the ability to determine who has  
17 access to that water, where under the Mitchell agreement, if  
18 Mr. Mitchell decided that he needed all of the water, in  
19 essence we would have no water under that agreement.

20           Q     Okay. And, and I don't believe you went the extra  
21 step to tell me what the distinction between Mitchell and  
22 Tahitian and Interphase are. Are they agricultural operations?

23           A     Oh, I'm sorry. No, they're not.

24           Q     And would you expect them to ever, even in 1978 to  
25 ever have a significant need to utilize that provision?

1 A No, they don't. No, they haven't.

2 MR. DETERDING: Okay. That's all I have.

3 CHAIRMAN JABER: Thank you. Mr. Watford, thank you.

4 (Witness excused.)

5 MR. DETERDING: I'd move Exhibit 29.

6 CHAIRMAN JABER: Exhibit 29 admitted into the record  
7 without objection.

8 (Exhibit 29 admitted into the record.)

9 CHAIRMAN JABER: Staff, Exhibits 30 through 33?

10 MS. ESPINOZA: Yes.

11 MR. JAEGER: Yes.

12 CHAIRMAN JABER: Without objection Exhibits 30  
13 through 33 are admitted into the record.

14 (Exhibits 30, 31, 32 and 33 admitted into the  
15 record.)

16 CHAIRMAN JABER: 34, 35 and 36 are late-filed  
17 exhibits.

18 MR. DETERDING: I have one other exhibit that, that  
19 we, we intend to file, and that is the response to customer  
20 concerns that is always filed in these. I don't believe that  
21 was ever identified or marked.

22 CHAIRMAN JABER: I don't think it was either.  
23 Exhibit 37 is a late-filed exhibit. It will be Aloha's  
24 responses to the customer service portion of the hearing.  
25 (Late-filed Exhibit 37 identified.)

1 CHAIRMAN JABER: Now, Mr. Deterding, you're clear on  
2 what that means; right?

3 MR. DETERDING: Excuse me?

4 CHAIRMAN JABER: You're clear on what that means?  
5 It's the way you handled the responses last time in the last  
6 proceeding; right? You -- what is it you did in your response  
7 to the customer service portion in the last proceeding?

8 MR. DETERDING: We investigated the issues raised by  
9 those customers and, and wrote up a, a customer-by-customer  
10 response stating what we found from review of our records and  
11 facilities and, my recollection, the customers' homes in some  
12 cases.

13 CHAIRMAN JABER: Okay. Any objection to that?

14 MR. BURGESS: No. I, I think -- my -- it always can  
15 cause a problem, it's an area that can cause a problem. One of  
16 the areas that I think is important that companies stay away  
17 from, from our standpoint obviously, as the Commission decides  
18 on this, but it is any kind of characterization of what the  
19 customers' new position is or that they're now happy or  
20 something along those lines because that's something that's  
21 hearsay, and especially if it's counter to what the customer  
22 stated on the record when they could be cross-examined.

23 MR. DETERDING: I agree and we will stay away from  
24 that.

25 CHAIRMAN JABER: Mr. Deterding, as I recall, that

1 process worked really well in the last proceeding.

2 MR. DETERDING: We tried very hard in that case to,  
3 to do a thorough investigation of each customer's situation so  
4 we could report to the Commission what we found and, and what  
5 we proposed to that customer and offered them some kind of  
6 advice to the extent there was something we could help them  
7 with. So I thought we did a very thorough job and, and was  
8 pleased with that, and I believe many of the customers were,  
9 though I certainly don't want to speak for them.

10 CHAIRMAN JABER: Right. And as I recall, Public  
11 Counsel did not object to that exhibit. So if you could stay  
12 away from any characterizations or any objectionable material,  
13 that would serve everyone well.

14 MR. DETERDING: Right. We'll do that.

15 CHAIRMAN JABER: Great. That's Exhibit 37. And that  
16 brings us to Mr. Deterding's testimony.

17 MR. WHARTON: I think the parties have reached an  
18 agreement that Mr. Deterding's testimony can be inserted into  
19 the record as though read by stipulation.

20 CHAIRMAN JABER: Okay.

21 MR. BURGESS: We would stipulate.

22 MR. WHARTON: Without cross-examination.

23 CHAIRMAN JABER: All right. The prefiled rebuttal  
24 testimony of F. Marshall Deterding shall be inserted into the  
25 record as though read.

1           BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2                   ALOHA UTILITIES, INC.

3                           DOCKET NO. 010503-WU

4                                   APPLICATION FOR WATER RATE INCREASE OF

5   ALOHA UTILITIES, INC. IN PASCO COUNTY

6   REBUTTAL TESTIMONY OF F. MARSHALL DETERDING

7    Q.    Please state your name and employment address.

8    A.    F. Marshall Deterding, Rose, Sundstrom & Bentley Law  
9           Firm, 2548 Blairstone Pines Drive, Tallahassee, Florida  
10           32301.

11   Q.    Please give us a brief outline of your background and  
12           experience with regard to water and sewer regulation in  
13           Florida.

14   A.    After graduation from Florida State University with a  
15           B.S. in Accounting in August 1976, I began work with the  
16           Florida Public Service Commission in January 1977 as an  
17           auditor, and ultimately an analyst dealing with rate case  
18           matters a great deal of my time. I was always involved  
19           in water and water utilities with a little experience in  
20           some of the other regulated industries. I left the  
21           Florida Public Service Commission in August 1982 to  
22           attend law school. After my first year of law school, I  
23           began clerking with the Tallahassee office of the Miami  
24           law firm of Meyers, Kennon, Lovitson, Frank and Richards  
25           in August 1983. I continued to clerk for this firm

1 throughout the remainder of my law school career. In May  
2 1985, I became employed full-time by that law firm as an  
3 associate. Ultimately, that firm became what is now  
4 known as Rose, Sundstrom & Bentley. I am now one of the  
5 four senior partners in that firm. Throughout this time,  
6 I have worked almost exclusively in the area of PSC  
7 regulation of private water and sewer utilities.

8 Q. Have you represented Aloha Utilities throughout this  
9 water rate case proceeding.

10 A. Yes. I have. I have been the attorney primarily  
11 responsible for processing Aloha's application for rate  
12 increase for its Seven Springs water system.

13 Q. What is the purpose of your testimony here today.

14 A. To sponsor all of the exhibits related to legal rate case  
15 expense for this proceeding.

16 Q. With regard to the issue of rate case expense, have you  
17 prepared schedules to show the total amount of legal rate  
18 case expense expended by Aloha.

19 A. Yes. I have prepared a schedule of actual expenses to  
20 date and also a calculation of the estimated legal cost  
21 to complete this rate case. These are attached as part  
22 of Exhibit RCN-14 to Mr. Nixon's testimony. Copies of  
23 all of my bills related to this rate proceeding and  
24 detail concerning the basis for my estimate to complete  
25 are included in Robert Nixon's Testimony.

1 Q. Do you believe that the Utility's expenditures on rate  
2 case expense, to date and in your estimate, have been  
3 reasonable in light of the requirements imposed within  
4 this rate case.

5 A. Yes. I believe the Utility and my office have been as  
6 efficient as is humanly possible in expending only that  
7 time and energy necessary to deal with the issues that  
8 have arisen during this rate case and that we have done  
9 everything within our power to try and keep rate case  
10 expense cost to a minimum where we could. I believe all  
11 of the expenses incurred by the Utility for the time and  
12 energies of my firm and cost incurred in that  
13 representation have been prudent and appropriate. I  
14 would like to note that in keeping with the Commission's  
15 standard policy, we would like to provide supplemental  
16 information concerning actual rate case cost as a late  
17 filed exhibit after the hearing, to update the actual  
18 cost and revise slightly the estimated cost to provide  
19 the Commission with the most accurate figures in all  
20 areas of rate case expense.

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1 CHAIRMAN JABER: And, Mr. Wharton, there are no  
2 exhibits to his testimony?

3 MR. WHARTON: That's correct.

4 CHAIRMAN JABER: Okay. And, Staff, do you have a  
5 CASR?

6 That concludes the testimony; correct?

7 MR. JAEGER: Yes.

8 CHAIRMAN JABER: And we've covered all the exhibits.  
9 So what are the dates for briefs? Why don't you go ahead and  
10 announce that.

11 MR. JAEGER: Okay. We're contemplating transcripts  
12 being done on January the 25th, briefs being due on February  
13 the 8th, for a Staff recommendation to be filed on March 21st  
14 for the April 2nd agenda.

15 CHAIRMAN JABER: Is there anything else that needs to  
16 come up in this proceeding before we adjourn? Mr. Burgess?

17 MR. BURGESS: No.

18 CHAIRMAN JABER: Mr. Wood?

19 MR. WOOD: Nothing.

20 CHAIRMAN JABER: Ms. Lytle?

21 MS. LYTLE: Nothing.

22 CHAIRMAN JABER: Aloha?

23 MR. WHARTON: No.

24 CHAIRMAN JABER: Great. Staff, are we all done?

25 MR. JAEGER: I believe that does it.

1           CHAIRMAN JABER: On behalf my fellow Commissioners,  
2 we want to thank you all for the professionalism you all have  
3 shown in this proceeding. Thanks.

4           COMMISSIONER PALECKI: Thank you.

5           CHAIRMAN JABER: This hearing is adjourned.

6           (Hearing concluded at 5:10 p.m.)  
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STATE OF FLORIDA     )  
  
                              :  
  
COUNTY OF LEON        )

CERTIFICATE OF REPORTER

I, LINDA BOLES, RPR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript, constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 24TH DAY OF JANUARY, 2002.

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LINDA BOLES, RPR  
FPSC Official Commissioner Reporter  
(850) 413-6734

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STATE OF FLORIDA )

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## CERTIFICATE OF REPORTER

COUNTY OF LEON )

I, LINDA BOLES, RPR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript, constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 25TH DAY OF JANUARY, 2002.

  
LINDA BOLES, RPR  
FPSC Official Commissioner Reporter  
(850) 413-6734