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P R O C E E D I N G S

(Transcript continues in sequence from Volume V.)

CHAIRMAN BEARD: You're on, Matt.

## CROSS EXAMINATION

BY MR. FEIL:

Q Good evening, Mr. Ludsen.

A Good evening.

Q Mr. Ludsen, when does the Utility normally begin amortizing rate case expense?

A Normally, it would be at the time your final rates become effective.

Q Is this based on the premise that the rate case costs are recovered prospectively?

A That's based on the premise that your expenses, recovery of expenses, should match your recovery of revenues. And you have those expenses included in your final rate revenues.

Q Isn't it correct that the Utility will convert to the accrual method for accounting for postretirement benefits in 1993?

A I'm not familiar with that issue.

Q All right. Do you recall Mr. Gangnon saying that when he was on the stand? (Pause)

I could just go the next question if you don't know.

1           A     Okay. I don't really know.

2           Q     Okay. How will the amortization of rate case  
3 expense affect the Utility's earnings during the period  
4 that interim rates were collected? (Pause)

5                     Let me rephrase this. Would you agree that  
6 it would not affect?

7           A     I would agree that it would not affect it  
8 since it's a perspective adjustment; only to the extent  
9 that you have a deferred asset and you're not  
10 recovering that asset during that period.

11          Q     If the postretirement benefits were going to  
12 be accounted for in the accrual basis starting in 1993,  
13 the same would be true with regard to those expenses,  
14 would it not?

15          A     I don't feel like I'm the person to answer  
16 that question again.

17          Q     All right. If expenses such as rate case  
18 expense are prospective in nature, should they be  
19 included when the Commission evaluates whether or not  
20 interim rates should be refunded? (Pause)

21          A     I would say that normally they are, in most  
22 jurisdictions.

23          Q     You say that normally they are included?  
24 You've already said that the accounting treatment for  
25 the rate case expense doesn't affect earnings during

1 the period that interim rates are collected, though,  
2 correct?

3 A That's correct.

4 Q So wouldn't it logically follow that it would  
5 not be included when calculating a refund of interim  
6 rates?

7 A I guess basically what I said is normally  
8 they are in most jurisdictions. But I can understand  
9 where an argument can be made where they wouldn't be  
10 included, yes.

11 MR. FEIL: All right. Mr. Chairman, may I  
12 have an exhibit number for what the witness/Chair has  
13 in front of it? It is labeled, "Response to Staff  
14 Interrogatory 7."

15 CHAIRMAN BEARD: It will be Exhibit No. 66.

16 (Exhibit No. 66 marked for identification.)

17 Q (By Mr. Feil) Mr. Ludsen, do you recognize  
18 this document?

19 A Yes, I do.

20 Q You prepared the response to this  
21 interrogatory, did you not?

22 A Yes, I did.

23 Q Do you agree that the allowed provision for  
24 postretirement benefits should reduced by 18.02%?

25 A Yes, and it should be capitalized, included

1 in rate base.

2 Q If postretirement benefits were not actually  
3 accrued in 1991, why would construction costs in 1991  
4 or before include any provision for postretirement  
5 benefits?

6 A Because you're setting your rates to recover  
7 a level of postretirement benefits equivalent to the  
8 914,574, whether it be in the expense side or whether  
9 it be in the rate base side.

10 Q But if there were no postretirement benefits  
11 prior to 1991, why would the postretirement benefits  
12 appear in the construction costs or in the capitalized  
13 amount?

14 A Because you're setting rates for the future.

15 Q How would you assign that to rate base?

16 A For the purpose of the rate case, I guess I  
17 would just include it as a lump-sum entry for rate  
18 determinations. Spread across based on your number of  
19 customers, similar to the expense side.

20 Q In other words, like general plant?

21 A Yes.

22 Q Mr. Ludsen, if you could refer to what has  
23 been labeled as Exhibit No. 23, it was the Request for  
24 Production of Document No. 28 from OPC.

25 I didn't hand it to you, but it's been

1 identified previously as an exhibit. (Pause)

2 do you have that in front of you?

3 A No, I don't. It's coming here. (Witness  
4 provided a document.)

5 What is the title?

6 Q Pardon me?

7 A What is the title of that document?

8 Q "OPC Document Request No. 28." It has been  
9 identified as Exhibit 23. (Pause)

10 COMMISSIONER EASLEY: That would have been  
11 from Friday, wouldn't it?

12 MR. FEIL: Pardon me?

13 COMMISSIONER EASLEY: That would have been  
14 Friday, wouldn't it?

15 MR. FEIL: Yes.

16 We're having a copy carried over to you.

17 (Witness provided a document.)

18 WITNESS LUDSEN: Thank you. (Pause)

19 Q (By Mr. Feil) Are you ready for a question,  
20 Mr. Ludsen?

21 A Yes.

22 Q Doesn't this show that bonuses were paid to  
23 employees in 1991 for superior performance in 1990?

24 A That's correct.

25 Q Okay. Did the reported amount for test year



1 salaries in the MFRs include the amounts paid as  
2 bonuses? (Pause)

3 A Yes.

4 Q Isn't it correct that the 5% increase  
5 requested by the Company was applied to the base salary  
6 plus the bonus for those persons who received bonuses?  
7 (Pause)

8 A It was -- would you repeat the question  
9 again?

10 Q Isn't it correct that the 5% pay increase  
11 requested by the Company was applied to the base salary  
12 plus the bonuses for those persons who received  
13 bonuses?

14 A I'm not certain on that. I think the bonus  
15 is separate. I think the base salary, the 5% increase  
16 is applied first.

17 Q So if we refer to a B-5 or B-6 schedule,  
18 we'll be able to see that the bonuses were taken out  
19 when the 5% pay increase was calculated? (Pause)

20 A I guess I'd have to check on it.

21 Q How about if I come back to that?

22 A Okay.

23 COMMISSIONER EASLEY: Well, as long as you're  
24 going to come back to it, I'll need to be refreshed on  
25 the 3.5 and the 1.5. Because I thought only 3.5

1 actually went into the base, based on the testimony we  
2 had Friday.

3 WITNESS LUDSEN: Yes, the --

4 COMMISSIONER EASLEY: So if you are going to  
5 come back to it, just help me with that one.

6 WITNESS LUDSEN: The 3.34 was the -- 3.33 was  
7 the actual merit increase; and the bonus portion of  
8 that was .75, which is put on top of the 3.33%. And  
9 then the adjustment beyond that to get to the actual  
10 5.54 or 5.54% related to other adjustments such as  
11 promotion or equity adjustments and step adjustments.

12 Q (By Mr. Feil) Perhaps it would help if you  
13 referred to Exhibit FLL-7, attached to your prefiled  
14 rebuttal. (Pause)

15 Specifically, if you could look at Page 5 of  
16 30 on FLL-7. (Pause) Doesn't this indicate that the  
17 5% was applied to the base salary, including the  
18 bonuses?

19 A It is what I would say is that the 5.34 in  
20 total is the composite increase over the base salary.  
21 That's the total increase according to this.

22 Q Which figure are you referring to?

23 A The 5.34%.

24 Q All right.

25 A So that would be over the base. That would

1 be over the base salary.

2 Q Mr. Ludsen, could you refer to the other  
3 exhibit I brought over to you, which is, I believe it's  
4 labeled the Utility's or Southern States' pleading in  
5 the acquisition adjustment docket.

6 MR. FEIL: Mr. Chairman, may I have an  
7 exhibit number for that?

8 CHAIRMAN BEARD: That's this?

9 MR. FEIL: Yes, sir.

10 CHAIRMAN BEARD: No. 67.

11 MR. FEIL: Short title could be "Southern  
12 States Acquisition Investment Brief."

13 CHAIRMAN BEARD: Okay.

14 (Exhibit No. 67 marked for identification.)

15 Q (By Mr. Feil) Mr. Ludsen, the Company spent  
16 -- according to Exhibit No. 61, a response to a PSC  
17 interrogatory -- some \$15,000 researching acquisition  
18 adjustment policies. And part of that expense,  
19 apparently, was spent researching acquisition  
20 adjustment policies of other states. Is that correct?

21 A Yes, that's my understanding.

22 Q Could you refer to Page 11 of that document,  
23 Exhibit No. 67. (Pause)

24 There's a section there that's labeled "Other  
25 Jurisdictions," and it goes from approximately Page 11

1 to Page 14.

2 Mr. Ludsen, is it fair to say that this is  
3 the culmination of the Messer, Vickers firm research on  
4 acquisition adjustment policies in other states?

5 (Pause)

6 A Well, that information was used in --

7 Q But from the Commission's perspective, this  
8 is basically all we have to show for it, isn't that  
9 correct?

10 A I guess Mr. Hoffman would know that better  
11 than I do, but --

12 COMMISSIONER EASLEY: He can't testify.

13 CHAIRMAN BEARD: I don't know, the attorneys  
14 have been testifying all day.

15 COMMISSIONER EASLEY: Well, you're right.

16 A But, I mean, it has been used in here and it  
17 is part of this section of the document. And I'm not  
18 sure if other documents were filed which used that  
19 information or not, or if this is the final document.

20 Q (By Mr. Feil) Well, doesn't the document  
21 stamp at the bottom indicate that it was filed in 1991?

22 A Yes.

23 Q All right. Mr. Ludsen, some questions for  
24 Mr. Sandbulte were referred to you regarding University  
25 Shores.

1 Do you know whether University Shores was  
2 earning within its authorized rate of return between  
3 1987 and 1991?

4 A I have been advised that it was not earning  
5 its authorized rate of return.

6 Q It was earning less?

7 A Yes.

8 Q Could you provide as a late-filed exhibit the  
9 rate of return University Shores was earning on a  
10 system basis for each year 1987 to 1991?

11 MR. FEIL: Mr. Chairman, may I have an  
12 exhibit number for that, please?

13 CHAIRMAN BEARD: 68.

14 MR. FEIL: Short title, "University Shores  
15 Rate of Return."

16 (Late-Filed Exhibit No. 68 identified.)

17 Q (By Mr. Feil) Mr. Ludsen, you address  
18 briefly in your rebuttal testimony a few things about  
19 rate structure. Could you explain to me briefly what  
20 the concept or principle of rate continuity is?

21 (Pause) Are you familiar with that concept?

22 A Are you referring to a portion of my  
23 testimony?

24 Q I'm not referring specifically to a portion  
25 of your testimony, no. I'm just asking whether or not

1 you're familiar with the concept of continuity.

2 A Specifically, I guess in what regard? I  
3 guess --

4 Q Specifically with regards to the rate design  
5 the Company has elected in this case. And let me give  
6 you an example.

7 Would you agree that rate continuity would  
8 dictate that if a company was asking for a rate  
9 increase, the base charge would increase and the  
10 gallonage charge would increase?

11 A Generally, that would be the case. But that  
12 isn't always the case. I think we had some situations  
13 in this filing where the base charge increased and the  
14 gallonage charge decreased. And that was due primarily  
15 to the fact that there, in many cases, was not a  
16 consistent methodology of establishing prior rates  
17 because a lot of these systems hadn't been in for rate  
18 cases for a number of years.

19 Q Isn't it more logical from a customer's  
20 perspective that both the base charge and the gallonage  
21 charge would increase if there were any rate increase?

22 A Well, I know there was comments at the  
23 hearings raised by the customers about the fact that  
24 the gallonage charge has been reduced and there was  
25 some concern about the conservation aspect of this.

1 Q So some customers were concerned with the  
2 conservation aspect of the decrease in the gallonage  
3 charge. Is that what you're saying?

4 A Yes. But I think, you know, it's also fair  
5 to say that because the base was not an established,  
6 consistent methodology, or that rates were not  
7 determined under a consistent methodology, that  
8 sometimes this can be deceiving also. In the filing  
9 that we had, we used a standard methodology for  
10 determining the base and the gallonage charge  
11 components.

12 Q And there you're referring to the allocation  
13 of fixed costs and variable costs?

14 A That's correct. And there is some concern  
15 about the conservation.

16 Q But don't you agree that there is also the  
17 important rate design concern of having continuity and  
18 promoting conservation?

19 A Well, I think, in this case, I think that an  
20 argument can be made that, because of the fact that  
21 many of these systems hadn't been in for filings in a  
22 number of years, that there was no consistency in the  
23 original rate design. That at some point you got to  
24 start off from square one, I think and maybe this is  
25 the time when we're doing it and then you can move

1 forward from here.

2 Q Wasn't part of the problem that Southern  
3 States acquired a lot of these systems and  
4 grandfathered in the design of the former owner?

5 A That's correct.

6 Q Isn't it correct that in this case the  
7 utility did not propose any sort of special  
8 conservation rate, such as a inclining block rate?

9 A That's correct, we did not.

10 Q And what's the reason for that?

11 A Well, I think, again, I think we've got -- it  
12 was a major filing. We were bringing together rates  
13 from 127 systems with all types of attributes. And I  
14 think, you know, it's -- basically, I think, at some  
15 point you have to start off slow and establish a base  
16 and then move on from there. And I think what we were  
17 trying to do is just establish a consistent base  
18 methodology for determining these rates.

19 Q Some of your water systems are in critical  
20 use areas, are they not?

21 A Yes, they are.

22 Q All right.

23 A I think they are in critical use areas. I'd  
24 like to add one thing, is that we do not -- we have not  
25 done any studies to determine the impact of



1 conservation rates. And I think that, you know, before  
2 we would implement or before we would propose  
3 conservation rates, we would want to conduct studies  
4 which would give us some indication of the price  
5 elasticity of the customer growth and what the effect  
6 on consumption would be.

7 Q And basically what you are saying is before  
8 we implemented a conservation rate, we would have to  
9 determine whether or not demand would go down; is that  
10 what you're saying?

11 A That's right. I mean, there's a lot of  
12 controversy over conservation, whether conservation  
13 rates really do work. I think to an extent, in this  
14 case, we know we've gone to more or less of a uniform  
15 simplified conservation rate by the virtue of the fact  
16 that we are proposing a base facility charge and a  
17 gallonage charge for all systems. And plus the impact  
18 or the effect of the rate increase to some extent would  
19 probably produce some conservation.

20 Q If the Commission designed conservation rates  
21 so as to artificially reduce the base charge and  
22 increase the gallonage charge, would part-time  
23 residents pay their pro rata fair share of the  
24 Utility's fixed costs?

25 A Well, what would happen is that part-time

1 residents would get a break, definitely, because they  
2 would not be at their residences for parts of the year  
3 and they wouldn't be paying the gallonage charge.

4 Q So the full-time residents would, in effect,  
5 pick up the revenue deficiency created by that, would  
6 they not?

7 A That's correct.

8 Q Would you believe that is an appropriate  
9 approach to take in rate design?

10 A No.

11 Q Some of the systems in the filing have water  
12 service gallonage charges which are less than \$1 per  
13 thousand gallons, would you agree with that, subject to  
14 check?

15 A Yes.

16 Q Do you believe that it's realistic to expect  
17 customers to conserve water with a gallonage charge  
18 which is less than \$1 per thousand gallons?

19 A I think it's -- I mean, again, we haven't  
20 done any studies to determine what that point is where  
21 people start conserving or don't conserve. But I think  
22 there's other ways to promote conservation, and I think  
23 a very important way is education, I think. We are  
24 required under the Management District to have a  
25 conservation plan and that's why we are out in our

1 service areas promoting conservation.

2 So I think that, you know, rate design is not  
3 the only means for establishing conservation, and it's  
4 not really a proven means. I think education is also  
5 very important.

6 Q Don't you suspect that hitting a customer in  
7 the wallet would be a little more persuasive than  
8 sending something to him in the mail?

9 A Well, again, I think it depends. Because I  
10 think you have some systems like Marco Island where if  
11 you increase rates that may not have an effect.

12 Q Could you speak up? I didn't hear the name  
13 of the system.

14 A I said, I think you could have some systems  
15 where people are affluent where it may not have an  
16 effect. So there's many factors that are going to  
17 determine whether it does have an effect. And, you  
18 know, obviously, word spread throughout the state. And  
19 we have not done any research to determine, you know,  
20 what the impact might be.

21 Q If the Commission were to increase those  
22 gallonage charges which are below \$1 per thousand, to a  
23 level either at or above \$1 per thousand gallons, the  
24 resulting revenue surplus could be used to mitigate the  
25 rate increase for other systems, could it not?

1           A     Well, if conservation is working properly,  
2 there probably won't be a surplus because the  
3 consumption is going to be reduced. So there won't be  
4 a surplus.

5           Q     Well, there will be a certain amount of what  
6 we refer to as suppression or decrease in usage, but it  
7 may not necessarily be so dramatic as to cause a  
8 revenue deficiency.

9           A     I mean, it's speculative, it -- that's the  
10 best I can say at this time, that it's speculative as  
11 to what would happen.

12          Q     Mr. Ludsen, the Company's position on Issue  
13 No. 92, it's on Page 60 of the prehearing order. This  
14 issue addresses uniform rates, it says, "Should SSU's  
15 final rates be uniform within counties, regions or  
16 statewide?" In the Company's position, it says, "rate  
17 bands where systems falling in certain bands based upon  
18 cost of service and other" --

19                   COMMISSIONER EASLEY: Slow down, Mr. Feil.

20          Q     (By Mr. Feil) -- I'm sorry. "based on cost  
21 of service and other pertinent factors would be  
22 considered together." Could you elaborate a little  
23 more on what's meant by that?

24          A     Well, what I visualize there is that you  
25 could determine certain levels of rates. I mean, if

1 you had 127 different rates stacked up against each  
2 other, you're going to have certain bands of rates  
3 which are probably going to fit together. And there  
4 would be a potential to establish different rate bands,  
5 like a \$15 level, a \$25 level or a \$35 level.

6 Q Specifically what I'm looking for, is there  
7 any criteria you would look at such as contribution  
8 level, treatment type, things of that nature, in order  
9 to determine what fits in in a certain rate band?

10 A Well, I think, from our analysis that we've  
11 done -- and we really haven't looked at it that hard  
12 yet, but, there doesn't seem to be anyone single factor  
13 that you can create a pattern from. I mean, CIAC is  
14 only one factor in whether a customer would have high  
15 or low rates and it doesn't seem to necessarily --  
16 there doesn't seem to be a pattern to it.

17 From our -- from what we've observed so far  
18 is that what we see is that it's the size of the system  
19 and the consumption levels that really are the  
20 determinants as to whether customers have high or low  
21 rates. And CIAC is just another factor that could  
22 influence those high rates, but the main driving force  
23 seems to be the consumption levels and the size or  
24 density of those systems.

25 Q So, are you saying or suggesting that were

1 you to band certain rates, it would perhaps -- one of  
2 the criteria you would look at is the size of the  
3 system?

4 A That would be one of the criteria. And I  
5 think, basically, like I said, we haven't done a lot of  
6 -- or really an analysis on this, but, I guess I would  
7 look basically at the absolute rate level that these  
8 customers have currently.

9 Q You're saying that that would be a fair  
10 indication of similarities in the systems in order to  
11 create a rate band?

12 A Right. I think you'd want to separate out --  
13 first of all, you'd want to separate out between a  
14 standard treatment and an advanced treatment, and then  
15 possibly within a standard treatment you could have two  
16 or three bands of rates which would be indicative of  
17 the rate levels that certain customers are at. Now,  
18 the rate levels could be made up of -- because by  
19 varying factors, it could be CIAC, it could be density,  
20 it could be numerous, it could be, in some cases,  
21 additions that have been put into a system because of  
22 regulatory requirements.

23 Q In order to make that determination on what  
24 would fit within a certain rate band because of the  
25 similar level of rates, the Commission would first have

1 to determine a system's revenue requirement in this  
2 rate case, and then calculate rates, and then see what  
3 would fit within the similar rate band, is that  
4 correct?

5 A You'd have to determine the revenue  
6 requirements, calculate what the rates would be under  
7 those revenue requirements and see how they fit against  
8 the rest of the systems. That way you'd have some --  
9 you'd have uniform rates, but you would have -- you'd  
10 acknowledge that there is a difference in cost between  
11 various systems.

12 Q Under the same issue the Company lists a  
13 third item there a possible change in rate structure,  
14 you say "the Company's preferred method, a statewide  
15 rate for standard and advanced treatment processes".

16 A Yes.

17 Q Basically, what you're saying there is you'd  
18 have -- if you had a statewide rate you would have one  
19 rate for systems with standard treatment and one rate  
20 for systems with advanced treatment, is that correct?

21 A That's correct.

22 Q How many systems in this filing are of the  
23 sort that you would refer to as advanced treatment?

24 A There are two systems, there is Burnt Store  
25 and there is Sugar Mill. And Sugar Mill, which is lime

1 softening, which I would categorize as advanced because  
2 the costs seem to be fairly close to RO treatment.

3 Q What about on the wastewater side?

4 A I would consider advanced treatment there as  
5 your Class 1 reliability, and that would be Deltona  
6 Lakes.

7 Q Those systems are selling or distributing  
8 spray effluent?

9 A Right. But then again, you know, it's  
10 something that has to be looked at, I mean, and we  
11 haven't done the analysis on that yet.

12 Q Well, if I could refer you to Issue 93, the  
13 Company's position, second sentence says "Under the  
14 Company's preferred statewide rate, additional costs of  
15 serving these systems i.e., the advanced treatment  
16 systems, should be reflected in the gallonage rate and  
17 base facility charge." How would you go about  
18 identifying what those additional costs were?

19 A I would group those together and determine  
20 what the average cost of those systems are.  
21 Personally, I would stay away from the surcharge, I  
22 guess, at least for billing purposes because, you know,  
23 whenever you have that type of adder on to the bill, it  
24 creates a lot of questions for customers and a lot of  
25 controversy. So I don't particularly favor the



1 surcharge approach, but I do favor keeping these  
2 advanced treatment systems out as a separate class,  
3 determining the costs of that group of customers and  
4 then determining the rate for that grouping.

5 Q Is it your testimony that you haven't  
6 performed any sort of analysis as to what the  
7 additional costs are or a dollar amount for the  
8 additional costs?

9 A We have not performed that analysis. I know  
10 that, based on other cases, that the average costs for  
11 RO treatment usually runs in the area of \$4.30 per  
12 thousand. And, of course, there's standard treatment  
13 that can run the whole spectrum, I guess, as far as  
14 cost. But, generally, RO treatment is going to run in  
15 the \$4 to \$5 area per thousand gallons.

16 Q What would that be compared to a standard  
17 treatment?

18 A Well, that's the situation. Your standard  
19 treatment can have a wide range of costs, depending on  
20 the size of the system. Again, when you get down to  
21 the small systems, your rates can be higher in RO  
22 treatment because of the density. In some systems you  
23 might have 30 customers and it's just not enough  
24 customer base to spread the cost over, so you end up  
25 with high rates.

1 Q Would you agree that relative to the total  
2 number of systems in this filing, the number of systems  
3 which have advanced treatment is relatively small?

4 A I would agree with that, yes.

5 Q If the determination were made that the so-  
6 called additional cost was relatively small, couldn't  
7 the Commission blend all of the costs into one uniform  
8 statewide rate? That is again, assuming that these  
9 additional costs were relatively small?

10 A Yes, I think the systems that we have in this  
11 filing are relatively small. We don't have Marco  
12 Island in this filing, that's -- you know, a very, very  
13 large system. So you probably wouldn't get much of a  
14 distortion.

15 Q Mr. Ludsen, could you tell me why the Utility  
16 didn't file a service availability case at the same  
17 time it filed this rate case?

18 A Well, the first thing was because of our  
19 financial situation, we put all the emphasis on filing  
20 -- just getting the filing done as soon as possible.  
21 We felt because we weren't filing any form of uniform  
22 rates, that it wasn't absolutely necessary that we file  
23 service availability charges. Also, because of the  
24 size of this filing and the extensive noticing  
25 requirements relating to service availability, we felt

1 that would be -- might be too much all at one time, at  
2 the time of the filing, to meet all the noticing  
3 requirements.

4           And, finally, I think, it's my feeling that  
5 there isn't an absolute urgency to filing service  
6 availability charges because I don't think that's the  
7 main driver in whether the rates are high or low, and  
8 it certainly isn't something that's going to change the  
9 level of CIAC in the immediate future. If we were to  
10 file CIAC today, maybe in some systems, depending on  
11 economic growth, it might be eight or ten years before  
12 it has a real impact on the levels of CIAC for a  
13 particular system.

14           Q     Do you intend to file for a change in service  
15 availability charges at the conclusion of this rate  
16 case?

17           A     We had discussed that, and I think we do have  
18 to file it. At some point we do have to file and  
19 establish the CIAC policy for the Company. When that  
20 filing should occur, I would say that probably within  
21 the next year or two years, I would think, would be a  
22 reasonable time.

23           Q     Is it your testimony, then, that the outcome  
24 of the rate case will affect SSU's decision to file for  
25 a change in service availability?

1           A     Well, as I -- when you say "outcome" are you  
2 referring to the type of rate design or --

3           Q     Yes.

4           A     Okay. Well, I think if you have uniform  
5 rates, there probably would be more reason to file  
6 service availability. You can't correct the past with  
7 CIAC, but at least you establish a policy for the  
8 future. But, again, I don't think there's a great  
9 urgency. I think if it's filed within a year or so, I  
10 think that's plenty of time.

11           MR. FEIL: Mr. Chairman, could I have a  
12 minute, please?

13           COMMISSIONER EASLEY: Sure. How long a  
14 minute do you need?

15           MR. FEIL: Two minutes. Five minutes. Also,  
16 I wanted to mention that I have maybe three questions  
17 before I get to another subject area and that's rate  
18 case expense.

19           I can handle that in a couple of ways. I can  
20 ask the questions that I have and then reserve the  
21 right to cross examine Mr. Ludsen further when OPC  
22 takes the opportunity to cross, or I can just reserve  
23 them until after OPC goes at a later time.

24           COMMISSIONER EASLEY: What are you talking  
25 about? OPC has already crossed.

1 MR. FEIL: Not concerning rate case expense,  
2 though.

3 MR. McLEAN: I didn't mean to waive my  
4 opportunity to cross on rate case expense. I don't  
5 have a tremendous line of questions, but our  
6 opportunity --

7 COMMISSIONER EASLEY: What are we missing  
8 here? Did we divide cross examination into sections?  
9 What are we doing?

10 MR. McLEAN: I'd like to get away with that.

11 MR. FEIL: What happened, Commissioner Easley  
12 -- (Laughter)

13 What happened was the Company recompiled its  
14 rate case expense exhibit, and Mr. McLean explained  
15 that he didn't have a chance to look at the recompiled  
16 version. He asked the Chairman to reserve the right to  
17 cross on that --

18 COMMISSIONER EASLEY: You're assuming he's  
19 going to ask to exercise that option.

20 MR. FEIL: Yes.

21 COMMISSIONER EASLEY: Forgive me for using  
22 that term --

23 CHAIRMAN BEARD: I thought the recompilation  
24 was simply putting some better structure to previously  
25 prepared and distributed data.

1 COMMISSIONER EASLEY: And that anything new and  
2 exiting, as I recall, was going to be the subject --

3 CHAIRMAN BEARD: It was heavy on the new and  
4 -- well, I think we said one out of two.

5 COMMISSIONER EASLEY: Yeah. One out of two  
6 would be all right. Did you find something new and  
7 exciting that we haven't heard about yet?

8 MR. McLEAN: I don't know. The problem is, I  
9 hate for it to be raised in this sort of context, but  
10 the problem is, you know, it's a \$400,000 item in each  
11 year -- it's a \$400,000 in test year, \$1.3 million item  
12 -- actually those numbers are rough. And we got our  
13 very first opportunity to do anything with it -- I  
14 think it arrived in my office Friday.

15 COMMISSIONER EASLEY: Well, my problem is  
16 I've got Mr. Feil saying he's got three more questions  
17 until he gets to rate case expense, but he wants to  
18 follow you. You don't know whether you have got any  
19 questions.

20 MR. McLEAN: Oh, I have questions. Yes,  
21 ma'am, I do.

22 COMMISSIONER EASLEY: You are going to ask to  
23 do recross on rate case expense.

24 MR. McLEAN: Yes, ma'am.

25 COMMISSIONER EASLEY: Oh. Well, now, see you

1 guys have been talking to each other, and we didn't  
2 know anything about it, I guess.

3 CHAIRMAN BEARD: When did you intend to do  
4 these questions?

5 MR. McLEAN: Whenever I could do it.

6 CHAIRMAN BEARD: I mean, you're prepared to do  
7 that.

8 MR. McLEAN: Yes, sir. I can do it now. I  
9 mean, I can do it any time, but I'm subject to the  
10 pleasure of the Commission. I didn't intend --

11 CHAIRMAN BEARD: I just wanted to make sure  
12 you didn't need additional preparation time. You're  
13 ready to go whenever that occurs.

14 MR. McLEAN: Yes, sir.

15 CHAIRMAN BEARD: Okay.

16 MR. FEIL: Well, I can deal with it now or  
17 after Mr. McLean does, whatever your pleasure is.

18 CHAIRMAN BEARD: Why don't you do your three  
19 more questions, and then we'll do rate case expense  
20 with Mr. McLean, and then we'll see what you have.

21 MR. FEIL: All right. I will need two more  
22 minutes before I get to my three questions, though, if  
23 that's all right. (Laughter)

24 COMMISSIONER EASLEY: Okay. That was what  
25 you needed the little break for were the next three

1 questions?

2 MR. FEIL: Yes, ma'am.

3 COMMISSIONER EASLEY: Ah-ha.

4 CHAIRMAN BEARD: About how long do you think  
5 you have on rate case expense?

6 MR. McLEAN: I'll forego anything over 15  
7 minutes, be happy to.

8 CHAIRMAN BEARD: Why don't you take your two  
9 minutes while he's doing his 15, and then you can come  
10 back and ask your three questions and your rate case  
11 expense.

12 Moving right along. I don't know which is  
13 approaching faster, old age or daylight.

14 COMMISSIONER EASLEY: Don't ask me.

15 CHAIRMAN BEARD: I feel a lot older than I  
16 did this morning.

17 FURTHER CROSS EXAMINATION

18 BY MR. McLEAN:

19 Q Mr. Ludsen, we'll both have to wing it a bit  
20 here, I suppose.

21 Would you look to -- let's look to the  
22 Summary Schedule first. I think I rashly gave some  
23 numbers. The estimated total of 1.3 million, correct?

24 A That's correct.

25 Q Okay. So that will be amortized over four



1 years, supposedly?

2 A That's correct.

3 Q Look at Item 8 Under Column B.

4 COMMISSIONER EASLEY: For clarification,  
5 you're in Exhibit 41?

6 MR. McLEAN: I'm sorry. I started too fast.  
7 The SSU rate case, Expense Summary and Contractual  
8 Services.

9 COMMISSIONER EASLEY: It's Exhibit 41.

10 CHAIRMAN BEARD: What page are you on?

11 MR. McLEAN: I was on Page 1 for a moment.

12 CHAIRMAN BEARD: Oh. Trick deal.

13 COMMISSIONER EASLEY: I just hope that's not  
14 an indication of things to come in this 530,000 page  
15 document. (Laughter)

16 CHAIRMAN BEARD: Is that date stamp 1 -- Bate  
17 stamp 1, excuse me.

18 MR. McLEAN: Bate stamp 1. Not a typographical  
19 error. Right.

20 Q (By Mr. McLean) Okay. Briefly, we're  
21 talking 1.3 million total.

22 A That's correct. Or \$10,360 per system.

23 Q All righty. Looking under B, "Miscellaneous  
24 Charges."

25 A Yes.

1 Q Aaron Perlowich.

2 A Yes.

3 Q What services did that person perform, sir?

4 A He is a former employee -- a retired employee  
5 of SSU and had been involved in the operations of the  
6 company for a number of years. We had him come in and  
7 assist with the verification of plant additions, which  
8 we used in the rate filing.

9 Q Is he a current retiree?

10 A Yes, he is.

11 Q Duane's Janitorial Service?

12 A We rented a facility next door to house the  
13 volumes of information necessary to assemble the filing.

14 CHAIRMAN BEARD: Wasn't any indication of the  
15 data and the paper it was contained upon, right?

16 WITNESS LUDSEN: And that service was to keep  
17 that facility clean for the three months that we rented  
18 it.

19 Q Entry No. 10, Price Waterhouse.

20 A That charge was for when the OPC and the  
21 Staff audited us, they requested that they look at the  
22 Price Waterhouse working papers and so those charges  
23 are associated with Price Waterhouse, the audit of the  
24 Price Waterhouse working papers at the Price Waterhouse  
25 facility.

1 Q The OPC auditors were there for two days,  
2 correct?

3 A I believe that's correct.

4 Q Would you look all the way in the back of  
5 your exhibit, Page 378.

6 COMMISSIONER CLARK: Before you leave that,  
7 Price Waterhouse is No. 11, right?

8 WITNESS LUDSEN: Price Waterhouse, No. 11, yes.

9 COMMISSIONER CLARK: And it was \$5,463?

10 WITNESS LUDSEN: Yes.

11 COMMISSIONER CLARK: And what was that for  
12 again?

13 WITNESS LUDSEN: That was for somebody at  
14 Price Waterhouse being -- conducting the audit or being  
15 at the audit by the FPSC auditors and the OPC auditors.

16 COMMISSIONER CLARK: So they had done an  
17 audit of you all.

18 WITNESS LUDSEN: That's correct.

19 COMMISSIONER CLARK: And our auditors wanted  
20 to see those audits.

21 WITNESS LUDSEN: Yes.

22 COMMISSIONER CLARK: How many days did that  
23 take total?

24 WITNESS LUDSEN: I think it was -- I'm not  
25 sure what total days --

1           COMMISSIONER EASLEY: That last Page 378 says  
2 from June 16 to July 31st. Is that accurate for all of  
3 the auditors? Ah-ha, I think I --

4           COMMISSIONER CLARK: What page?

5           COMMISSIONER EASLEY: 378.

6           WITNESS LUDSEN: I don't think they were  
7 there for those total number of days. I think they  
8 were there for two or three days a piece.

9           COMMISSIONER EASLEY: Okay.

10          Q     (By Mr. McLean) For clarification on that  
11 question, let's look at Page 380.

12          A     Okay.

13          Q     August 1. Okay. This would indicate a  
14 billing during the month of August. The first one we  
15 spoke with, June 16th through July 31, at least  
16 somewhere in that area.

17                 By the looks of these exhibits, Office of  
18 Public Counsel was there twice and, in fact, they were  
19 just there once, isn't that correct?

20          A     I don't know. I have to check. I think they  
21 initially intended for it twice. I'm not sure --

22          Q     Of course, the question is if an OPC visit is  
23 offered as justification for both of these numbers and  
24 Public Counsel was only there once, then we have a  
25 problem, correct?

1           A     Yes. That would be a problem. I agree. I  
2 think Ms. Kimball is involved in that audit. I hate to  
3 pass this on to her, but I think she was directly  
4 involved in it and could probably answer your questions  
5 better than I could.

6                   COMMISSIONER EASLEY: That's Leroy Kimball.  
7 (Pause)

8           Q     (By Mr. McLean) Mr. Ludsen, would you turn  
9 to Page 277?

10          A     Yes.

11          Q     There are several notations there.  
12 Mr. Hoffman's conferring with Scheff Wright. How is  
13 that the business of this rate case?

14          A     Well, at one point in the case we were  
15 thinking of retaining Mr. Wright because of his  
16 background in rates to assist with the technical side  
17 of rate design. At one point, we were thinking about  
18 proposing uniform rates, and then we dropped that idea  
19 and we didn't utilize Mr. Wright.

20                   COMMISSIONER EASLEY: You keep trailing off  
21 Mr. Ludsen. Keep speaking up.

22          Q     Mr. Ludsen, is that within the range of a  
23 reasonable expense to be incurred in the preparation of  
24 rate case, all your exploration of things that you  
25 might do?

1           A     Well, I think -- I think we could be  
2 criticized if we didn't explore all the alternatives  
3 and make sure that we have as complete a case as  
4 possible. And we tried to do that as much as possible,  
5 so we have a complete case.

6           Q     Would you turn to the page immediately before  
7 that one, please?

8           A     Yes.

9           Q     Strike that question, Mr. Ludsen, or strike  
10 that prepared question.

11           COMMISSIONER CLARK: I have a question. I  
12 noticed on this bill from Messer Vickers and on the  
13 other ones, how can we tell the date the service is  
14 rendered. It says 19/9.

15           WITNESS LUDSEN: There's a -- on the left  
16 side, on the left margin there's a date that runs along  
17 with each of these entries. It might be cut off on  
18 your books.

19           COMMISSIONER CLARK: Okay. I can see it now.

20           Q     (By Mr. McLean) Mr. Ludsen, would you turn  
21 to Page 311, please.

22           A     Yes.

23           Q     There was an entry there -- are you there?  
24 I'm sorry.

25                     There's a \$682 entry for copying at the PSC.

1 Do you happen to know what was copied?

2 A No, I don't.

3 MR. McLEAN: May we have a late-filed exhibit  
4 on that point?

5 WITNESS LUDSEN: Yes.

6 CHAIRMAN BEARD: Exhibit 69, short title,

7 MR. McLEAN: "Cost of copies Florida PSC," I  
8 can't quite tell the month.

9 CHAIRMAN BEARD: Which page was that on?

10 COMMISSIONER EASLEY: 311

11 MR. McLEAN: Page 311. 7-17-92.

12 (Late-Filed Exhibit No. 69 identified.)

13 Q (By Mr. McLean) Okay. Mr. Ludsen, to Page  
14 319, please, 319. Last entry 4.6 hours, halfway  
15 through the paragraph, "Review and draft revisions to  
16 Southern Bell's Petition for Reconsideration of Order  
17 Establishing Procedure."

18 A Yes.

19 Q Does that appear to be some sort of error?

20 A I think they might have been reviewing another  
21 case. I'm not sure. I'd have to check on that.

22 Q Would you include in your late-filed exhibit  
23 a reference to that entry?

24 A Okay.

25 COMMISSIONER EASLEY: Do you want to make

1 book on whether or not it's a typo?

2 MR. McLEAN: Yeah. That's essentially it.  
3 And it kind of looks like a wrong key stroke.

4 COMMISSIONER EASLEY: Right.

5 MR. McLEAN: Commissioner Beard, why don't we  
6 amend the copy of that late-filed exhibit just to say  
7 "Rate Case Expense Explanations," or something like  
8 that.

9 CHAIRMAN BEARD: Okay.

10 Q (By Mr. McLean) Mr. Ludsen, would you turn  
11 to Page 330 when you're ready?

12 A Yes.

13 Q The entry for .3 hours is probably the best  
14 way to describe it, fourth entry down.

15 A Yes.

16 Q There's a reference there to "frivolous  
17 pleadings" and research associated with that. Do you  
18 know what alleged "frivolous pleadings" the Messer law  
19 firm is referring to there?

20 A No, I don't.

21 Q All right, sir. Would you include that in  
22 the late-filed as well?

23 A Yes.

24 Q Would you turn to Page 346, please. About  
25 four sentences up from the bottom, "Monitor PSC Agenda



1 Conference discussion of Public Counsel's motions  
2 before Commission assignment in GTEFL rate case."

3 (Pause)

4 Southern States was not a party to that  
5 docket, were they?

6 A Not to my knowledge, no.

7 Q And there is no apportionment of the 7.8  
8 hours to any of those functions under that, is there?

9 (Pause)

10 Do you understand my question?

11 A No, I didn't.

12 Q Oh, I'm sorry. There are a number of  
13 functions, a number of activities described in that  
14 entry --

15 A Yes.

16 Q -- which begins with "Phone conference with  
17 Karla Teasley." And of the 7. hours represented to  
18 have been spent on that issue, on those activities,  
19 there is no apportionment of any of that time to any of  
20 those specific ones.

21 A No, there isn't.

22 Q Would you include in your late-filed exhibit  
23 an attempt to allocate that 7.8 hours --

24 A Yes.

25 Q -- in the appropriate way to that specific

1 task that had to do with the GTEFL rate case?

2 A Yes.

3 Q Page 351, please, sir. (Pause)

4 The second entry up from the bottom, about  
5 the third sentence into the entry, "OPC discovery  
6 request related to correspondence from Mr. Rose, review  
7 letter from Bob Rose."

8 Mr. Ludsen, isn't it true that that was an  
9 issue raised in the Lehigh case but not in the Southern  
10 States case? (Pause)

11 Isn't that the letter that had to do with the  
12 85 acres and the fair market value and so forth?

13 A Mr. Rose -- it could have been either that or  
14 the fire hydrant issue.

15 COMMISSIONER EASLEY: Or the what?

16 WITNESS LUDSEN: There was a fire hydrant  
17 issue in the Lehigh case.

18 COMMISSIONER EASLEY: Oh. In any event, in  
19 the Lehigh case?

20 Q (By Mr. McLean) Would you arrange in your  
21 late-filed exhibit to link the same question as before,  
22 the time with the particular activity? (Pause)

23 Mr. Hoffman, are you with me? Did I say "Mr.  
24 Hoffman"?

25 COMMISSIONER EASLEY: Yes.

1 MR. McLEAN: It's very late in the day.

2 You don't need to answer, Mr. Hoffman.

3 Q (By Mr. McLean) Mr. Ludsen, --

4 CHAIRMAN BEARD: But he wants to. (Laughter)

5 MR. McLEAN: I'm not sure I would like his.

6 Q (By Mr. McLean) Isn't it true that the

7 Company in this case initially filed MFRs which were

8 found by the Commission to be deficient and then they

9 filed the revised MFRs?

10 A Yes. There was a few deficiencies.

11 Q To short-circuit the process a little bit,

12 Mr. Ludsen, we would like you to file a late-filed

13 exhibit -- you can include it with the first one --

14 which shows us how much contractual legal services were

15 expended on the arguments concerning the deficient

16 filing. I need to ask for legal, accounting and

17 engineering. (Pause)

18 A Okay.

19 MR. McLEAN: Thanks again for your patience.

20 No further questions.

21 MR. FEIL: Thank you.

22 CONTINUED CROSS EXAMINATION

23 BY MR. FEIL:

24 Q Mr. Ludsen, I had a few questions to come

25 back to before I got to the issue of rate case expense.

1 Referring again to postretirement benefits:  
2 If the Utility begins accrual of those costs in 1993,  
3 will rate base be increased in that year and in each  
4 subsequent year postretirement benefits are  
5 capitalized?

6 A The rate case would be increased beginning in  
7 1993.

8 Q So if the Utility files a rate case after  
9 1993, the capitalized postretirement benefits would be  
10 considered in that later case, correct?

11 A Well, the expense -- I guess my feeling is  
12 that if the expense is included in this case, then the  
13 average or the capitalized should be included in this  
14 case also. I mean, it goes together. If you leave out  
15 one, it is half of the equation or it is only part of  
16 the equation.

17 Q Well, the expense is being requested in this  
18 case but it was not included in the test year, is that  
19 correct? It was not incurred during the test year?

20 A But it is being requested to be included in  
21 the rates.

22 Q Is prospective growth in rate base the normal  
23 manner by which capitalized payroll costs are  
24 recovered?

25 A Would you repeat that again?

1 Q Is prospective growth in rate base the normal  
2 manner by which the capitalized payroll costs are  
3 recovered?

4 A Payroll -- capitalized payroll is assessed on  
5 capital additions, yes.

6 Q On the question of the 5% salary increases,  
7 isn't it correct that the Utility's requested provision  
8 for payroll expense is 105% of actual payroll costs in  
9 1991?

10 A That's correct.

11 Q If actual 1991 payroll expense included  
12 bonuses, would the requested test year expense include  
13 actual 1991 bonuses increased by 5%? (Pause)

14 COMMISSIONER EASLEY: Would you say that  
15 again for me, please?

16 Q (By Mr. Feil) If actual 1991 payroll expense  
17 included bonuses, would the requested test year expense  
18 include actual 1991 bonuses increased by 5%? (Pause)

19 A I'd have to double-check to see how that  
20 percentage is derived to answer that question.

21 Q Could you refer to Page 5 of 30 of your  
22 Exhibit FLL-7, which I referred you to earlier?

23 MR. HOFFMAN: Counselor, for the record,  
24 you're referring to his originally filed FLL-7 as  
25 opposed to the revised?

1 MR. FEIL: Yes. This is not part of the  
2 revised. That's correct.

3 Q (By Mr. Feil) Does this schedule indicate  
4 that a .75% increase was projected for bonuses in 1992?

5 A That's correct.

6 Q Is the Utility suggesting that 1991 payroll  
7 costs, including bonuses, should be increased for  
8 projected bonuses in 1992?

9 A What we're saying is that the overall -- what  
10 we're asking for is an overall 5% increase over our  
11 1991 actual expenses, which would, the 1991 would  
12 include -- I believe 1991 would probably include the  
13 bonuses in them.

14 Q Would you agree that the projected 1992 pay  
15 increase would be about 4.59% excluding projected  
16 bonuses? (Pause)

17 COMMISSIONER EASLEY: What page are you on?

18 A I would like to double-check those  
19 percentages to see how they are computed for sure.

20 MR. FEIL: Madam Commissioner, I'm on Page 5  
21 of 30 of FLL-7 attached to the prefiled rebuttal.

22 COMMISSIONER EASLEY: The original one?

23 Q (By Mr. Feil) Mr. Ludsen, could you repeat  
24 your answer, please?

25 A I'd like to check to see exactly what the

1 basis of those percentages were in developing this  
2 number before I respond to that question, or else defer  
3 to another witness.

4 Q What other witness would you have it referred  
5 to?

6 A Mr. Vierima.

7 Q Could you refer to FLL-7, Page 3, I believe  
8 it was, of the revised? Excuse me, Page 1 of 3 on the  
9 revised FLL-7. (Pause) This has been identified, I  
10 believe, as Exhibit No. 40. (Pause)

11 Regarding Column No. 6, where it says,  
12 "Composite Adjustment Factor"?

13 A Yes.

14 Q I believe you explained that this was  
15 essentially an economies-of-scale adjustment?

16 A That's correct.

17 Q Why did you use a 50% factor rather than some  
18 other factor, such as 75%, 80%?

19 A It was based on discussions with Mr. Hartman,  
20 and he felt that was a reasonable factor at the time we  
21 were putting this exhibit together.

22 Q Would this same economies-of-scale principle  
23 hold true with regards to distribution and collection  
24 systems as it would to treatment facilities?

25 A We feel that there would be an

1 economies-of-scale adjustment associated with the  
2 transmission and distribution. But this schedule we do  
3 not, we have not done the calculation on, actual  
4 calculation on the transmission distribution.

5 Q Is it your intention to have the  
6 economies-of-scale adjustment factor applied only to  
7 treatment facilities, then?

8 A Well, it is my intention to have it apply to  
9 the overall properties, including treatment facilities  
10 and transmission distribution. We feel that there is  
11 -- that the .5 is a reasonable estimate of the  
12 economies of scale factor. This was calculated on that  
13 basis.

14 Q Moving on to the rate case expense exhibit,  
15 could you explain why Southern States changed outside  
16 legal counsel in between the last rate case and the  
17 current rate case?

18 A We felt the firm that is representing us  
19 currently, Messer, Vickers, fit our needs.

20 Q Fit your needs how?

21 A They had -- they were a large firm and we're  
22 a large utility. They had the resources to provide the  
23 services that we need.

24 Q Messer, Vickers has a higher hourly rate than  
25 your former law firm, Gatlin, Woods, does it not?



1           A     Yes.  Although, it's somewhat deceiving, I  
2 think, because I think the billing structure is a  
3 little bit different for the Messer, Vickers firm than  
4 it was for the Gatlin firm.

5                     If you look at the total rate case cost from  
6 our last rate case, the charges from the Gatlin firm  
7 were approximately a quarter of a million dollars.  And  
8 the charges from the Messer, Vickers firm are projected  
9 to be about the same.  In the last case, we had 34  
10 systems filed; in this case, we have 127 systems filed.  
11 So I attribute that similarity in costs, I guess,  
12 partly to the fact that we do have inside counsel, but  
13 I think that the costs for the Messer, Vickers firm are  
14 reasonable overall.

15           Q     Does the Messer, Vickers firm have more  
16 expertise in water and sewer regulatory matters than  
17 the Gatlin, Woods firm?

18           A     Well, I really hate to get into a situation  
19 where I'm comparing the expertise of law firms in  
20 Tallahassee.  It is our preference to use the Messer,  
21 Vickers firm.

22           Q     Could you turn to Page 1 of the rate case  
23 expense exhibit?

24           A     Yes.

25           Q     Starting with the line that says, "B,

1 Miscellaneous Charges," there's a line item there, No.  
2 7, for Ken Gatlin.

3 A Yes.

4 Q Could you explain why the \$2,675 listed there  
5 doesn't relate to the last rate case?

6 A It was some initial preliminary discussions  
7 relating to this rate case.

8 Q When?

9 A There's an invoice back here. (Pause)

10 Q Page 357?

11 A 350, yeah, 358.

12 Q Was this before or after the last rate case  
13 was dismissed?

14 A This was -- (Pause) I'm trying to remember  
15 specifically when the date was we got our order.

16 Q If you don't know, I can just move on to  
17 another question.

18 A Okay.

19 Q If you could refer to Page 44.

20 COMMISSIONER EASLEY: Page 44?

21 MR. FEIL: 44, yes.

22 Q (By Mr. Feil) In our review of this letter  
23 from Mr. Hoffman, it would appear as though the Messer,  
24 Vickers firm estimated what rate case expense would be  
25 for them based upon the use of two attorneys, is that

1 correct? (Pause)

2 A I think they're -- I don't see any reference  
3 to specific attorneys other than the reference to our  
4 internal attorney, Mr. Armstrong.

5 Q Doesn't it say at the bottom of the second  
6 paragraph there that "prosecute this rate case on  
7 Southern States behalf without devoting essentially two  
8 attorneys to the case on a full-time basis"?

9 Does this not lead you to believe that  
10 Messer, Vickers estimated the costs assuming that two  
11 attorneys would be needed? (Pause)

12 A I would say yes.

13 Q Wouldn't it stand to reason that the amount  
14 of rate case expense or the amount of the projection to  
15 complete, for that matter, would be half of what was  
16 originally estimated?

17 A I don't think that's true.

18 Q Pardon me?

19 A I don't agree with that logic, no.

20 Q Could you refer to the first page in the  
21 exhibit again?

22 A Okay.

23 Q Would you agree, subject to check, that the  
24 overall cost to complete the rate case, or the  
25 projected amount, the projected amount for cost for

1 completion is 20% of the overall cost of the rate case?

2 A Approximately.

3 Q Would you agree that with regards to legal  
4 expenses a projected cost to complete is 40% of the  
5 total?

6 A The total legal expenses?

7 Q Yes.

8 A No, I don't agree with that.

9 Q I was merely asking, subject to check, that  
10 the projected cost to complete is approximately 40% of  
11 the total cost for Contractual Services, Legal. And my  
12 next question was, if you could explain the difference  
13 between the 40% projected for legal expense versus the  
14 20% projected for the other items?

15 A I guess you're going to have to run through  
16 this -- give me the calculations so I can understand.

17 Q Excuse me. Could you repeat your answer?

18 A I would like you to run through the  
19 calculations so I can understand where you're getting  
20 your numbers from.

21 Q Well, if you just look at the item there, No.  
22 6, Contractual Services, Messer, Vickers.

23 A Yes.

24 Q Doesn't it appear that projected additional  
25 cost is about half of what's there for total, or 40%?

1 A Of the total 220,000?

2 Q Yes, of the 247.

3 A Yes.

4 Q Okay. Could you explain why 40% -- could you  
5 explain the 40%?

6 A I'm sure I can provide the information and I  
7 will explain it.

8 This is an estimate from Messer, Vickers as  
9 to what the remaining costs would be related to this  
10 rate case. And it would include the costs -- it would  
11 include the most intense times with respect to legal  
12 costs is at this stage of the rate case, which is when  
13 you get into the hearings and the briefs and so on.

14 Q Well, hasn't Mr. Hoffman indicated that there  
15 was a great deal of discovery activity going on in this  
16 case?

17 A Yes, there was. And a lot of that was done  
18 internally. I mean, I think, you know, I go to the  
19 bottom line. I look at the bottom line and I look at  
20 \$10,360 per system in this rate case. And I doubt if  
21 there's very many filings have been made in this state  
22 that are that reasonable in terms of cost per system.

23 Q Were wages paid to Mr. Armstrong included in  
24 salary expense?

25 A Yes.

1 Q Okay. What assurance does the Commission  
2 have that no duplication of effort was made between  
3 Mr. Armstrong and Mr. Hoffman?

4 A I'll assure you that there was no duplication  
5 of effort. There was not enough time and there was too  
6 much work to have a duplication of effort. We're  
7 talking, basically, one attorney in our company that  
8 was working on it and, basically, Mr. Hoffman, as our  
9 outside attorney. And there was many, many, many  
10 overtime hours that were put in by Mr. Armstrong, as  
11 well as many other people, throughout this last year in  
12 completing all the requirements necessary to file this  
13 case and to meet all the deadlines surrounding this  
14 case.

15 Q On Page 347 of the exhibit -- (Pause)  
16 There was work there listed for legal work related to a  
17 refund from the last rate case, is that correct?

18 A What line are you on?

19 Q The twelfth sentence from the top. It says,  
20 "Draft response to motion for refund checks."

21 A Yes.

22 Q Isn't it correct that that shouldn't be part  
23 of rate case expense?

24 A I would agree with that, yes.

25 Q Part of the problem we're having here, Mr.

1 Ludsen, is there's no schedule tying the invoices into  
2 a general ledger type of activity for rate case  
3 expense. So in looking at the invoices, there are  
4 obviously items there that shouldn't be in rate case  
5 expense, but we can't tell whether or not they're  
6 included in the total without any sort of schedule  
7 indicating whether or not they're in or out.

8 Do you think you could prepare such a  
9 schedule?

10 MR. HOFFMAN: Let me just state an objection  
11 for the record without disrupting things too much.

12 I think, based on the volume of the entries  
13 in here, I would strongly disagree with the  
14 characterization that there are a lot of errors in  
15 these billings. I would acknowledge that from time to  
16 time there may have been. The one that Mr. Feil is  
17 referring to here, I would acknowledge, would go back  
18 to Docket No. 900329. That's just an error on my part.

19 But I just want to, for the record, disagree  
20 with that characterization.

21 CHAIRMAN BEARD: Well, perhaps I  
22 misunderstood his characterizations, I didn't hear it  
23 that way.

24 COMMISSIONER EASLEY: I didn't either.

25 CHAIRMAN BEARD: My point would be this: You

1 have a lot of things listed; I don't know what relates  
2 to what; so I guess to the extent there's an error in  
3 there and I've got to take it out, how much do I take  
4 out?

5 The simple thing to do is take out 7.8 hours  
6 in this case because that way I know I got that part.  
7 But I don't have, based on this, I don't have a way of  
8 looking and tell, of that 7.8 hours, what portion is  
9 related to that.

10 I understand the volume. That's not a  
11 problem. The problem is what to do with the error  
12 that's there.

13 And the simple thing to do, given what we  
14 have here is say, "Hey, scratch 7.8 hours."

15 I think what he was asking is, can you  
16 provide some form of a schedule that shows that  
17 breakdown, you know.

18 MR. HOFFMAN: We don't have any problem at  
19 all doing that, and I think we should do it.

20 CHAIRMAN BEARD: Okay.

21 MR. FEIL: If we could have it identified as  
22 a late-filed exhibit?

23 CHAIRMAN BEARD: Late-Filed Exhibit No. 70.

24 MR. FEIL: Title could be "Tie of Invoices to  
25 General Ledger-Rate Case Expense."



1 CHAIRMAN BEARD: Okay.

2 (Late-Filed Exhibit No. 70 identified.)

3 Q (By Mr. Feil) Could you refer to Page 32 of  
4 the exhibit, Mr. Ludsen?

5 A What page?

6 Q 32. (Pause) If you could refer to there  
7 where it says, "22, Miscellaneous Expense."

8 Could you explain why the \$9,000 filing fee  
9 is listed there twice?

10 COMMISSIONER EASLEY: Who came up with "giga  
11 rate case"?

12 CHAIRMAN BEARD: Does that follow the "mega  
13 rate case," the last one?

14 COMMISSIONER EASLEY: I really thought that  
15 was a joke when I saw it in the handwritten ones, but I  
16 now see it in the MFRs, "giga rate case." Love it.

17 CHAIRMAN BEARD: What I'm stumped on is, what  
18 do you call the next one? "Giga 2"; "semi giga"?

19 (Laughter)

20 COMMISSIONER EASLEY: You call it "lots of  
21 luck."

22 CHAIRMAN BEARD: "Return of giga"?

23 COMMISSIONER EASLEY: "Son of giga."

24 CHAIRMAN BEARD: "Mega meets giga"?

25 (Laughter)

1 MR. HOFFMAN: Mr. Chairman, our president  
2 informs me that it would be "google."

3 CHAIRMAN BEARD: As opposed to "gaggle"?  
4 (Laughter)

5 COMMISSIONER CLARK: I have a question to  
6 ask.

7 What is the last -- the late-filed exhibit  
8 Mr. Feil asked for, what is that giving us again?

9 CHAIRMAN BEARD: It's going to, as I  
10 understand, it's going to give us on these errors that  
11 have been identified, that's the nonprejudicial error,  
12 it's going to give some form of a breakdown so that you  
13 know of that 7.8 hours what portion of that would be  
14 related to the work associated with something that's  
15 not rate-case related in this instance; is that  
16 correct?

17 MR. FEIL: That's correct, Mr. Chairman. But  
18 I'm looking for more than just that one line item.  
19 There are several others, such as legal work related to  
20 combined tariff docket. That's the other one that  
21 comes immediately to mind, but I believe there are two  
22 others in there.

23 COMMISSIONER EASLEY: I think probably the  
24 simplest thing to do, since the attorneys are going to  
25 have to prepare this, the Company doesn't have it

1 available to them, I assume; the attorneys know what  
2 we're looking for, and they're going to have to go  
3 through and give them the hourly breakdown. That's  
4 all.

5 COMMISSIONER CLARK: I have a question.  
6 I would also like to know how much it's going to cost  
7 and what's your intention on who pays for it?

8 COMMISSIONER EASLEY: How much what's going  
9 to cost?

10 COMMISSIONER CLARK: To prepare the exhibit.  
11 And will it be the Company's view that the cost to go  
12 through and determine the billings that are made in  
13 error should be recovered from the ratepayers as part  
14 of rate case expense?

15 WITNESS LUDSEN: No.

16 COMMISSIONER CLARK: Great. Because I don't  
17 think so either.

18 MR. HOFFMAN: Commissioner Clark, it would  
19 require me to make copies of my bills for the last 12  
20 months or so, whatever it's been, and go through there  
21 and identify which items were not, in fact, associated  
22 with this rate case. And we wouldn't intend to impose  
23 that on the ratepayers because it's sorting out  
24 mistakes.

25 COMMISSIONER CLARK: Thank you.

1 Q (By Mr. Feil) Mr. Ludsen, I think the pending  
2 question was why the \$9,000 filing fee appears twice.

3 A I will have to check on that item.

4 Q Would you agree, subject to check, that the  
5 filing fee was only \$9,000?

6 A Yes, it was 4500 per system.

7 MR. FEIL: All right. Thank you. (Pause)

8 Commissioners, if we could have a minute.

9 CHAIRMAN BEARD: While you've got your  
10 minute, let me ask a question, if I can find it.

11 If you can turn to Page 276. (Pause)  
12 There's a line item entitled "Meeting expense" for  
13 \$20.45, referenced as a lunch. Who do I ask the  
14 question of? Can you give me the details on that?

15 A I don't know what that's for.

16 MR. HOFFMAN: What page is it, Chairman?

17 CHAIRMAN BEARD: Page 276. (Pause) The  
18 problem is that's the witness, but he may not have the  
19 information I want.

20 MR. HOFFMAN: I have the information,  
21 Chairman?

22 CHAIRMAN BEARD: How do I handle that? I  
23 mean, it's there bill.

24 MR. PRUITT: He can advise his client.

25 MR. HOFFMAN: Chairman, if you want an

1 explanation, I'll give it to you right now.

2 CHAIRMAN BEARD: I want an explanation on  
3 that and I want an explanation on Page 282. I want to  
4 know how to get it and get it on the record and get it  
5 done properly; that's what I want done.

6 COMMISSIONER EASLEY: In order to get it on the  
7 record, why don't we take a break and let Mr. Hoffman give  
8 the information to the witness.

9 CHAIRMAN BEARD: Okay. We'll take ten  
10 minutes.

11 (Brief recess.)

12

- - - - -

13 CHAIRMAN BEARD: Okay. Back on the record.

14 I believe when we left off, I had a question  
15 on Page 276 and on Page -- I'm assuming there's two --  
16 I'm assuming that 278 is a repetition of 276, since  
17 they're identical and just somehow got double copied.  
18 But after that assumption, my question was in reference  
19 to Page 276, and in addition to that, then, to Page  
20 272.

21 WITNESS LUDSEN: I've been advised that those  
22 were -- those meetings never took place, that they're  
23 bookkeeping errors and that the Company has been  
24 credited for those amounts.

25 CHAIRMAN BEARD: So those amounts are to be

1 stricken?

2 WITNESS LUDSEN: Yes.

3 CHAIRMAN BEARD: And that did not occur?

4 WITNESS LUDSEN: Yes.

5 MR. FEIL: Commissioner, I just have two more  
6 questions.

7 Q (By Mr. Feil) Mr. Ludsen, if you could refer  
8 to Page 347 -- or excuse me, 274. The fatigue is  
9 making me somewhat dyslexic.

10 The first two lines at the top of the page,  
11 it says, "Research issue of treatment of organization  
12 costs." There are also several other references  
13 throughout the exhibit to researching organization  
14 costs?

15 A Yes.

16 Q Could you explain why that legal work is  
17 included in rate case expense, when organization costs  
18 were not requested in the rate case

19 A Well, organization costs were a controversial  
20 issue in the last rate case. We wanted to avoid as  
21 much controversy as possible in this case. We wanted  
22 to find out what the treatment of this Commission has  
23 been with respect to organization costs. And  
24 eventually we decided not to include any organization  
25 costs in this filing to avoid a controversial issue.

1 Q Why wouldn't that research have been done in  
2 the prior case or in processing and going through the  
3 prior case?

4 A The issue came up during the prior case as a  
5 controversial issue so that in preparation for this  
6 case and the planning of this case and trying to  
7 minimize issues in this case, we wanted to research and  
8 -- research the issue to determine what we were going  
9 to do in this filing. And ultimately we decided not to  
10 include any organization costs.

11 Q So you're saying it wasn't researched and  
12 briefed after the last case?

13 A Apparently it wasn't -- well, I think from  
14 the last case to this case we did retain a new  
15 attorney, and we wanted to just be clear on exactly  
16 what the Commission's past practice has been with  
17 respect to those costs. And as a result, we haven't  
18 assigned any of those costs to the ratepayers in this  
19 case.

20 MR. FEIL: Mr. Chairman, could I have another  
21 late-filed exhibit on -- I guess a short title would be  
22 "Projections for Completion." And in it I would like  
23 to have Mr. Ludsen break down for engineering,  
24 accounting and legal the name of the consultant, the  
25 task to be completed, the number of hours for each task

1 and the rate per hour for each of its consultants. And  
2 I guess the short title could just be "Projections for  
3 Completion."

4 CHAIRMAN BEARD: I'm assuming this is  
5 projections of rate case expense from this point  
6 forward?

7 MR. FEIL: Yes, sir, or from the last bill  
8 appearing in the rate case expense exhibit. There's  
9 not enough detail --

10 CHAIRMAN BEARD: I just want to make sure  
11 that it was rate case projection.

12 MR. FEIL: Yes.

13 CHAIRMAN BEARD: That would be Late-Filed  
14 Exhibit No. 71.

15 (Late-Filed Exhibit No. 71 identified.)

16 MR. FEIL: We have no further questions.

17 CHAIRMAN BEARD: Commissioners? Redirect?

18 MR. HOFFMAN: We have no questions.

19 CHAIRMAN BEARD: Witness may step down.

20 MR. HOFFMAN: May the witness be excused?

21 CHAIRMAN BEARD: Yes. Can I? (Laughter)  
22 Exhibits?

23 MR. HOFFMAN: Mr. Chairman, we would move  
24 Exhibits 39, 40 and 41.

25 CHAIRMAN BEARD: Without objection.



1 Does our intervenor want to move Exhibits 42,  
2 43, 44, 45?

3 Would that suit you? (Pause) I think you  
4 do.

5 COMMISSIONER EASLEY: The answer is "yes,"  
6 Mr. Jones.

7 CHAIRMAN BEARD: 42, 43, 44 and 45, by my  
8 records, were your exhibits. Without objection --

9 MR. HOFFMAN: Mr. Chairman, I don't know if  
10 he wanted to move them, but we do object.

11 CHAIRMAN BEARD: To what?

12 MR. HOFFMAN: These are documents which  
13 purport to be -- one is evidently some type -- some  
14 type of memorandum from Mr. Hanson, that's 42. There's  
15 some notes, notations and figures that he's attached.  
16 One, Exhibit 43, is a letter from Mr. Schultz. 44 is  
17 also a letter from Mr. Schultz. 45 --

18 COMMISSIONER EASLEY: I'm sorry. But to  
19 interrupt, Mr. Jones, I think what we were going to do  
20 was save those for Ms. Kimball, weren't we? You wanted to  
21 introduce them now, but we weren't going to move them  
22 until Ms. Kimball.

23 CHAIRMAN BEARD: You're right. My mistake.  
24 I was trying too hard. We almost got by him, though,  
25 didn't we? (Pause) My mistake.

1 Public Counsel?

2 MR. McLEAN: Move 46 through 65.

3 CHAIRMAN BEARD: With the exceptions of 47,  
4 49 and 63, by my records.

5 MR. McLEAN: Yes, sir.

6 MR. HOFFMAN: Mr. Chairman, we would object  
7 to the inclusion of Exhibit 60, which was that Mad  
8 Hatter transcript.

9 CHAIRMAN BEARD: Actually, I think I already  
10 ruled on that, didn't I?

11 MR. HOFFMAN: Just to make sure that the  
12 record is clear.

13 MR. FEIL: I believe you did, Mr. Chairman.

14 CHAIRMAN BEARD: I did and I left it  
15 identified, so 60 will not go into the record.

16 MR. HOFFMAN: Thank you.

17 MR. FEIL: Commissioners, Staff would move  
18 No. 66 and 67.

19 CHAIRMAN BEARD: Without objection. Okay.

20 MR. McLEAN: Commissioner, 69 is late-filed,  
21 I believe.

22 CHAIRMAN BEARD: I am that's correct.

23 MR. McLEAN: Thank you, sir.

24 CHAIRMAN BEARD: I show, just for the record,  
25 we have pending 42, 43, 44 and 45, based on a later

1 witness.

2 I show as late-filed exhibits, 47 and 49. 60  
3 was not entered into the record. 63 is a late-filed,  
4 68, 69, 70 and 71 are late-fileds. Everything else has  
5 been moved into the record, on this witness. Now,  
6 previously we've already done.

7 (Exhibit Nos. 39, 40, 41, 46, 48, 50 through  
8 59; 61, 62, 66, and 67 received into evidence.)

9 CHAIRMAN BEARD: Okay.

10 COMMISSIONER CLARK: Let me ask a question.

11 You asked for him to be excused. Is that for  
12 the rest of the proceeding?

13 MR. HOFFMAN: Yes.

14 COMMISSIONER CLARK: Just refresh my memory.  
15 There wasn't any issue or any evidence left pending for  
16 which he may need to come back to explain?

17 MR. HOFFMAN: Commissioner Clark, I'm not  
18 aware of anything that was brought up today for that  
19 purpose.

20 CHAIRMAN BEARD: Nor am I. The rate case was  
21 the question and we just took care of that.

22 COMMISSIONER EASLEY: And I think the other  
23 things -- you got the information at break that might  
24 have been --

25 COMMISSIONER CLARK: What about the

1 advertising expenses?

2 COMMISSIONER EASLEY: The advertising?

3 COMMISSIONER CLARK: Uh-huh.

4 COMMISSIONER EASLEY: Oh, the \$5,000? I

5 thought that --

6 MR. FEIL: Commissioner, I'm sorry, but I'm  
7 sure what you're -- and what the Company is concerned  
8 about here, and we all should be concerned about here,  
9 is the rate case expense and travel or hotel bills, et  
10 cetera, for Mr. Ludsen.

11 The thing that I'm concerned about is, if  
12 Ms. Kimball or Mr. Lewis or somebody else refer a  
13 question to Mr. Ludsen and he's not here, maybe it  
14 would be best if he made himself available for one day  
15 later in the week and then if it was necessary for us  
16 to reach him, we could do that. But I don't know  
17 whether or not that would duplicate an air travel,  
18 possibly.

19 CHAIRMAN BEARD: Where will Mr. Ludsen be?

20 COMMISSIONER CLARK: Apopka, right?

21 MR. HOFFMAN: Yes, he would be in Apopka.

22 CHAIRMAN BEARD: I really think we can excuse  
23 him for now, and tell him not to leave the state  
24 without my permission.

25 MR. HOFFMAN: Yes, sir.

1                   COMMISSIONER EASLEY: You want to post bail  
2 now?

3                   CHAIRMAN BEARD: No bails.

4                   COMMISSIONER CLARK: But I recall there was a  
5 question on advertising expenses and what was included  
6 that should not have been included. And, you know, I  
7 thought Public Counsel was concerned about getting a  
8 late-filed exhibit for which they had no opportunity to  
9 cross examine it on the validity of the inclusion or  
10 exclusion or the explanation. But if you're happy, I  
11 suppose that's all right.

12                   MR. McLEAN: I'm not sure I'm as happy as I  
13 was.

14                   COMMISSIONER EASLEY: No, no, now, wait. The  
15 thing was I mentioned doing late-filed, and you brought  
16 up the problem with the late-filed, and that's when we  
17 broke for lunch. And we came back after lunch, and we  
18 had all this discussion that wasn't testimony of  
19 information by Mr. Armstrong. And we kind of went back  
20 and forth a little bit. And I had the impression that  
21 there wasn't going to be a late-filed for the reasons  
22 you enunciated. And I kind of thought we had sort of  
23 left it there.

24                   Although, I was also under the impression  
25 that if anything further arose as a result of Ms.

1 Kimball being on the stand, that we might have to have  
2 Mr. Ludsen back. Am I recollecting incorrectly?

3 MR. MCLEAN: That's consistent with mine.

4 Don't we have a representation now that Mr.  
5 Ludsen could be made available if the eventuality comes  
6 up, but that he won't be automatically flown to  
7 Tallahassee unless somebody asks for him?

8 MR. HOFFMAN: If the Chairman says "Get Mr.  
9 Ludsen up here," he'll be here.

10 CHAIRMAN BEARD: Okay. I think he can be  
11 excused for now, and with the assumption that the other  
12 witnesses will answer the question, but with the  
13 understanding that if it rears its ugly head, we'll  
14 say, "Come on up."

15 It's almost exactly a four-hour drive if you  
16 hurry. If you're real concerned about rate case, I've  
17 make that run a couple times.

18 Okay. Witness is excused. Next witness.

19 (Witness Ludsen temporarily excused.)

20 - - - - -

21 MR. HOFFMAN: Company calls Mr. Vierima.

22 CHAIRMAN BEARD: And while he's being called,  
23 we're going to at least get a little bit out of the  
24 way, if we don't get anything else but testimony  
25 introduced, et cetera.

1           How much do you all have for this witness,  
2 ballpark figures?

3           MR. TWOMEY: None.

4           CHAIRMAN BEARD: I like your style.

5           MR. TWOMEY: That's this witness.

6           CHAIRMAN BEARD: I know, I know. I'll take  
7 it like I can get it. I take it like I can get it.

8           MR. TWOMEY: One thing at a time.

9           CHAIRMAN BEARD: Staff.

10          MS. BEDELL: We don't have very much.

11          COMMISSIONER EASLEY: What does that mean?

12          MS. BEDELL: Maybe, if he answers the  
13 questions, only about 10 or 15 minutes.

14          COMMISSIONER EASLEY: How much do you have,  
15 Mr. McLean?

16          MR. McLEAN: Look like I don't have any  
17 because I can't find my book.

18          CHAIRMAN BEARD: Let's hurry up. Let's hurry  
19 up.

20          COMMISSIONER EASLEY: Get him quick. Get him  
21 on the record in a hurry. (Laughter)

22                 All right, Twomey, you just blew all the  
23 credit you've picked up.

24          CHAIRMAN BEARD: The "attaboy" went with the  
25 "oh, my gods." Let's go ahead while he's looking.

1 We're get to there in a minute.

2

- - - - -

3

SCOTT W. VIERIMA

4

was called as a witness on behalf of Southern States

5

Utilities, Inc. and, having been duly sworn, testified

6

as follows:

7

DIRECT EXAMINATION

8

BY MR. HOFFMAN:

9

Q Mr. Vierima, have you been sworn?

10

A Yes, I have.

11

Q Would you please state your name and business

12

address?

13

A My name is Scott W. Vierima. My business

14

address is 1000 Color Place, Apopka, Florida.

15

Q Mr. Vierima, did you prepare and cause to be

16

filed prepared direct testimony and prepared revised

17

rebuttal testimony on behalf of Southern States

18

Utilities in this proceeding?

19

A Yes, I did.

20

Q Do you have any changes or revisions to that

21

testimony?

22

A Only to the extent in the direct testimony

23

that the returns quoted on Page 3, Line 8, will be

24

fallout numbers based on changes in updating to capital

25

costs from the hearings. No other changes.



1 Q With that revision, Mr. Vierima, if I asked  
2 you the same questions contained in your prefiled  
3 direct and prefiled revised rebuttal testimony, would  
4 your answers be the same?

5 A Yes, they would.

6 MR. HOFFMAN: Mr. Chairman, I would ask that  
7 Mr. Vierima's direct and revised rebuttal testimony be  
8 inserted in the record as though read.

9 CHAIRMAN BEARD: It will be so inserted.

10 Q (By Mr. Hoffman) Mr. Vierima, have you  
11 prepared any exhibits to your prefiled direct  
12 testimony?

13 A Yes, I have.

14 Q Could you identify it?

15 A There's one exhibit, Exhibit SWV-1, which is  
16 a sample of bank rejection letters and chronology of  
17 financial events.

18 Q All right, sir. Have you prepared or  
19 attached any exhibits to your revised rebuttal  
20 testimony?

21 A Yes. There's one labeled SWV-2, which is  
22 Interrogatory No. 176 regarding merger costs.

23 MR. HOFFMAN: Mr. Chairman, could we have  
24 Mr. Vierima's exhibits marked for identification?

25 CHAIRMAN BEARD: SWV-1 will be Exhibit No.

1 72, and SWV-2 will be Exhibit No. 73.

2 (Exhibit Nos. 72 and 73 marked for  
3 identification.)

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1 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND  
2 OCCUPATION.

3 A. My name is Scott W. Vierima. My business address  
4 is Southern States Utilities, Inc., 1000 Color  
5 Place, Apopka, Florida 32703. I serve as Vice  
6 President of Finance and Administration for  
7 Southern States Utilities, Inc. and Deltona  
8 Utilities, Inc. (hereafter referred to  
9 collectively as "Southern States").

10 Q. PLEASE PROVIDE YOUR EDUCATIONAL AND PROFESSIONAL  
11 BACKGROUND.

12 A. I received a Bachelors Degree in Electrical  
13 Engineering from Montana State University in  
14 1973, and a Masters Degree in Business  
15 Administration from the University of Iowa in  
16 1975. I also have completed various continuing  
17 education courses related to financial planning  
18 and administration. I have served in the utility  
19 industry for approximately fifteen years, all  
20 served with Minnesota Power or one of its  
21 affiliates, in the capacity of financial analyst,  
22 manager or director. Prior to taking my current  
23 position with Southern States on May 11, 1992, I  
24 served as Director of Finance and Administration  
25 for Topeka Group Incorporated ("Topeka"), a

1 wholly owned, diversified subsidiary of Minnesota  
2 Power & Light Company ("Minnesota Power"). In  
3 that capacity, my duties focused primarily on the  
4 provision of advisory services to Topeka  
5 subsidiaries in the areas of capital funding,  
6 administration of intercompany financial  
7 transactions, consolidated group forecasting, and  
8 new investment decisions.

9 **Q. TO WHAT TRADE AND/OR PROFESSIONAL ORGANIZATIONS**  
10 **DO YOU BELONG?**

11 **A.** I am a member of the American Water Works  
12 Association and the National Honor Society for  
13 Students of Business and Management.

14 **Q. WHAT ARE YOUR PRESENT DUTIES AS VICE PRESIDENT**  
15 **OF FINANCE AND ADMINISTRATION FOR SOUTHERN**  
16 **STATES?**

17 **A.** In my position as Vice President, I am  
18 responsible for financial planning, financial  
19 controls, funding of capital needs and the  
20 provision of selected administrative services.  
21 My duties include supervision of the Accounting,  
22 Treasury, Budgets, Purchasing, Payroll and  
23 Administrative Services departments.

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

25 **A.** The purpose of my testimony is to discuss

1 Southern States' current financial situation,  
2 including (1) our returns during the test year;  
3 (2) our test year cost of capital; (3) our  
4 difficulty in accessing credit(s) which might  
5 otherwise be readily available but for our  
6 strained financial situation; and (4) our urgent  
7 need to be allowed the opportunity to earn a  
8 11.57% rate of return and 12.83% return on equity  
9 for water and wastewater operations combined to  
10 avoid further deterioration of our financial  
11 position.

12 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA**  
13 **PUBLIC SERVICE COMMISSION ("COMMISSION")?**

14 **A. Yes. I testified before this Commission in**  
15 **Docket No. 900329-WS. My testimony addressed**  
16 **matters relating to the cost and structure of**  
17 **utility and parent company capital for Southern**  
18 **States Utilities, Inc., Deltona Utilities, Inc.,**  
19 **and United Florida Utilities Corporation.**

20 **Q. ARE YOU THE SPONSOR OF CERTAIN MINIMUM FILING**  
21 **REQUIREMENTS ("MFRs") CONTAINED IN EXHIBIT 39**  
22 **(FLL-1)?**

23 **A. Yes. I am sponsoring all of the D schedules**  
24 **contained in Volume II, Book 7 of 11 of Exhibit**  
25 **39 (FLL-1). These schedules were prepared while**

1 I was still serving as Director of Finance and  
2 Administration for Topeka. The Topeka Schedules,  
3 D-3, D-4, D-5 and D-6, and Minnesota Power  
4 Schedules, D-3, D-4, D-5, D-6 and D-7, were  
5 prepared by me or under my direction and  
6 supervision. The balance of the D Schedules were  
7 prepared by Southern States' former Vice  
8 President of Finance and Administration, Richard  
9 P. Ausman. I have reviewed and am familiar with  
10 all of these schedules and the underlying data  
11 supporting these schedules and now wish to  
12 sponsor them as evidence in this proceeding.

13 **Q. PLEASE DESCRIBE THE INFORMATION CONTAINED IN THE**  
14 **D SCHEDULES WHICH YOU ARE SPONSORING?**

15 **A.** The D Schedules contain the information required  
16 to compute Southern States' cost of capital. The  
17 cost of equity reflected in the D schedules was  
18 determined by using the Commission's leverage  
19 formula as it existed at the time we filed our  
20 application for a rate increase. As discussed by  
21 Mr. Joseph P. Cresse and Ms. Helena Loucks, we  
22 are requesting that the Commission focus on  
23 capital supporting the filed systems as a whole  
24 for ratemaking purposes. Providers of capital  
25 are now looking at the combined financial

1 performance and character of Southern States in  
2 making credit decisions. Therefore, the rate of  
3 return and return on equity for the 127 systems  
4 in the combined companies would be 11.57% and  
5 12.83%, respectively, under the rates we are  
6 proposing.

7 **Q. PLEASE DESCRIBE SOUTHERN STATES' CURRENT**  
8 **FINANCIAL SITUATION.**

9 A. As indicated in Volume I, Book 1 of 4, page 8 of  
10 the MFRs, for the year ended December 31, 1991,  
11 Southern States produced a rate of return of only  
12 3.07% and 1.74% for its water and wastewater  
13 operations, respectively. Thus, the rate of  
14 return from combined operations was only 2.54%.  
15 For the same period, the Company's average  
16 weighted cost of long-term debt was 5.80%.  
17 Therefore, Southern States was unable to cover  
18 its cost of long-term debt through operating  
19 revenues in 1991. Indeed, Southern States' poor  
20 returns translate into negative returns on equity  
21 of -7.07% and -10.18%, respectively, for water  
22 and wastewater continuing operations in 1991.

23 **Q. PLEASE DESCRIBE THE IMPACT OF THESE POOR**  
24 **FINANCIAL RESULTS ON THE COMPANY.**

25 A. Southern States' poor financial results have had

1 three immediate negative impacts on the Company:  
2 (1) difficulty in obtaining needed new financing  
3 and credit support; (2) more restrictive terms  
4 and conditions on renewals and refinancings of  
5 existing credits; and (3) the delay of the legal  
6 merger of Southern States Utilities, Inc. and  
7 Deltona Utilities, Inc.

8 Q. PLEASE BRIEFLY DISCUSS THE IMPACT OF THE POOR  
9 FINANCIAL RESULTS ON SOUTHERN STATES' ABILITY TO  
10 SECURE DEBT FINANCING.

11 A. As a result of poor 1991 and year-to-date 1992  
12 financial results, Southern States has been  
13 unable to obtain debt financing from commercial  
14 banks or other lending institutions on a stand  
15 alone basis. Lenders have also been encouraging  
16 increased levels of equity funding to offset  
17 their increasing risk.

18 Q. I SHOW YOU EXHIBIT 72 (SWV-1) UNDER COVER PAGE  
19 ENTITLED "SAMPLE OF 1991 BANK REJECTION LETTERS  
20 AND CHRONOLOGY OF FINANCING EVENTS." WAS THIS  
21 EXHIBIT PREPARED BY YOU OR UNDER YOUR DIRECTION  
22 AND SUPERVISION?

23 A. Yes, it was.

24 Q. COULD YOU BRIEFLY DESCRIBE THIS EXHIBIT?

25 A. This exhibit contains copies of letters received



1 by Southern States from financial institutions to  
2 which we had applied for credit, and an overview  
3 of other credit related events that were  
4 influenced by Southern States' weakening  
5 financial condition. As an example, the SunBank  
6 letter states as follows:

7 Because of the recent problems SSU has  
8 experienced in the rate filing process with  
9 the PSC, profit from utility operations has  
10 suffered to the point that SunBank no longer  
11 feels comfortable in responding positively  
12 to [SSU's] request on an unsecured basis .  
13 . . There may be some alternate collateral  
14 that could be established in negotiation  
15 with you or Topeka Group, and we would  
16 certainly be open to discussion . . . I know  
17 this puts some strain on your game plan, and  
18 we certainly would like to continue to  
19 expand our fine relationship with  
20 SSU/Deltona/ Topeka. Its just that with the  
21 denial of the filing, the operating profit  
22 level is inadequate for us to maintain our  
23 former high comfort level relative to  
24 unsecured exposure.

25 As demonstrated by the testimony of Mr. Bert T.

1 Phillips in this proceeding, the financing  
2 difficulties listed in this exhibit could not  
3 have arrived at a worse time. The Company's  
4 capital requirements are significant, principally  
5 as a result of new and revised laws and  
6 regulations. Without improved financial results,  
7 we fear that our only recourse to obtain the  
8 required capital may be to enter into obligations  
9 with exceedingly high associated costs or  
10 increasingly restrictive covenants. Of course,  
11 financing investments under such terms does not  
12 benefit our customers. It must also be  
13 recognized that if our financial situation  
14 continues to erode, we could reach a point where  
15 financing is unavailable at any cost. We believe  
16 that only by obtaining the requested rate relief  
17 can the Company avoid such a result.

18 **Q. IS THERE ANY EVIDENCE THAT THE FINANCIAL STRENGTH**  
19 **OF INVESTOR-OWNED WATER UTILITIES, IN GENERAL, IS**  
20 **WEAKENING?**

21 **A. Yes, As noted in Staff's June 18, 1992 memorandum**  
22 **to the Commission in Docket No. 920006-WS, Water**  
23 **and Wastewater Industry, Annual Reestablishment**  
24 **of Authorized Range of Returns on Common Equity**  
25 **of Water and Wastewater Utilities Pursuant to**

1           Section 367.081(4)(f), Florida Statutes, approved  
2           by the Commission on June 30, 1992, the average  
3           bond rating of water and wastewater utilities has  
4           decreased in the past year such that Staff  
5           recommended a 10 basis point increase in the bond  
6           yield differential used to calculate equity  
7           returns with the Commission's leverage formula.  
8           In its recommendation, Staff recognized that  
9           Moody's downgraded the index of bonds issued by  
10          water and wastewater utilities from a rating of  
11          A1 to A2. Staff also advocated an additional  
12          bond yield differential of 34 basis points for  
13          Florida water and wastewater utilities from the  
14          national index to reflect the increased risk  
15          faced by investors in, and creditors of,  
16          Florida's water and wastewater utilities. In  
17          addition, as mentioned by Bert T. Phillips, other  
18          rating agencies, such as Standard & Poors, are  
19          employing more stringent standards in  
20          establishing rating benchmarks. Southern States'  
21          inability to cover its cost of debt through  
22          operating revenues in 1991 -- in other words, an  
23          operating loss -- confirms that Southern States'  
24          ability to attract debt or equity capital is  
25          severely impaired.

- 1       **Q.    DID SOUTHERN STATES' POOR FINANCIAL RESULTS IN**  
2       **1991 HAVE ANY IMPACT ON THE COMPANY'S ATTEMPT TO**  
3       **LEGALLY MERGE SOUTHERN STATES UTILITIES, INC. AND**  
4       **DELTONA UTILITIES, INC.?**
- 5       **A.    Yes.  The poor 1991 financial results prevented**  
6       **the Company from completing the legal merger of**  
7       **Southern States Utilities, Inc. and Deltona**  
8       **Utilities, Inc. ("Deltona") in April of 1992**  
9       **because Southern States was not able to meet**  
10      **certain covenants regarding pro-forma financial**  
11      **performance which were contained in the bonds**  
12      **issued by Deltona in 1984.  Southern States could**  
13      **not convince the bondholders to waive the**  
14      **financial covenants without first obtaining**  
15      **additional commitments and security from Southern**  
16      **States' parent company.  Furthermore, a loan**  
17      **agreement with Barnett Bank requiring merger**  
18      **consent had to be refinanced with parent support**  
19      **in light of Barnett's credit related refusal to**  
20      **grant such consent.  Each time parent credit**  
21      **support is called upon, it reduces the**  
22      **availability of such support for funding of**  
23      **incremental needs.**
- 24      **Q.    PLEASE DESCRIBE THE EXISTING SOURCE(S) AND**  
25      **APPLIED USE(S) OF DEBT AT THE FIRST AND SECOND**

1           **TIER PARENT COMPANIES.**

2           A.   As explained by Mr. Phillips, Southern States is  
3           a wholly-owned subsidiary of Topeka (second tier  
4           parent) and Topeka is a wholly-owned subsidiary  
5           of Minnesota Power (first tier parent). Debt is  
6           incurred at each of three levels: (1) Southern  
7           States -- mortgage obligations and other long  
8           term debt used for the acquisition and  
9           construction of utility plant, as well as  
10          intermediate term lines of credit for operations  
11          support and interim construction financing (both  
12          of which frequently require credit support from  
13          Topeka). Southern States typically relies on  
14          Topeka, commercial banks and municipal industrial  
15          development bonds for funding; (2) Topeka --  
16          long-term private placement debt for acquisitions  
17          and affiliate loans and intermediate term credit  
18          lines for funding needs between long-term  
19          offerings. To date, Topeka has relied solely on  
20          commercial banks and insurance institutions as  
21          funding sources; and (3) Minnesota Power -- long-  
22          term mortgage debt, preferred stock series, and  
23          industrial development authority and pollution  
24          control revenue obligations issued to finance  
25          electric utility assets, with periodic issuances

1 of commercial paper for short-term corporate  
2 needs. No long-term debt has been issued to date  
3 by Minnesota Power for the expressed purpose of  
4 funding water and wastewater investments.  
5 Southern States' poor financial performance in  
6 1991 has severely limited Southern States'  
7 ability to obtain unsupported short or long term  
8 debt under acceptable terms. Stand alone debt  
9 which might be issued by Southern States at this  
10 time would clearly be considered non-investment  
11 grade. As evidenced by Deltona's 1984 debt  
12 financing, the cost of securing debt of such  
13 quality is high. Also, as I indicated  
14 previously, Topeka's sources of support for  
15 funding Southern States' required investments are  
16 becoming more limited as Topeka has increased its  
17 commitments to secure Southern States'  
18 obligations. In light of these facts and the  
19 significant levels of capital investments  
20 required of Southern States, without rate relief  
21 Southern States soon will have no alternative but  
22 to seek out capital under significantly less  
23 desirable terms, if such capital is available at  
24 all. Finally, we must note that the urgency of  
25 obtaining rate relief is ever more pressing as a

1 result of the First District Court of Appeals'  
2 recent dismissal of the company's appeal  
3 regarding Docket No. 900329-WS.

4 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

5 **A. Yes.**

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Scott W. Vierima and my business address  
3 is 1000 Color Place, Apopka, Florida 32703.

4 Q. WHAT IS YOUR POSITION WITH SOUTHERN STATES  
5 UTILITIES, INC. ("SOUTHERN STATES" OR THE  
6 "COMPANY")?

7 A. I am Vice-President of Finance and Administration  
8 for Southern States.

9 Q. ARE YOU THE SAME SCOTT W. VIERIMA WHO PREVIOUSLY  
10 SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING?

11 A. Yes, I am.

12 Q. COULD YOU BRIEFLY DESCRIBE THE PURPOSE OF YOUR  
13 REBUTTAL TESTIMONY?

14 A. I will address two adjustments to the Company's  
15 revenue requirements proposed by Public Counsel's  
16 witness Kimberly H. Dismukes. The first adjustment  
17 relates to the Company's test year merger costs.  
18 The second adjustment relates to allegedly non-  
19 recurring Price Waterhouse audit fees. Both  
20 adjustments lack merit and should be rejected by the  
21 Commission.

22 Q. PLEASE ADDRESS MS. DISMUKES' PROPOSAL TO REMOVE FROM  
23 THE COMPANY'S REVENUE REQUIREMENTS THE COSTS  
24 INCURRED BY SOUTHERN STATES TO MERGE THE FLORIDA  
25 WATER AND WASTEWATER UTILITY AFFILIATES.



1       A.    Ms. Dismukes requests that the Commission deny  
2            Southern States recovery of these costs primarily  
3            because it is impossible to quantify cost savings  
4            which may result from the merger.  The suggestion  
5            that a utility should be denied the recovery of  
6            expenses because cost savings which may or may not  
7            result are not known and quantifiable is unique.  
8            The Company's petition in Docket No. 910662-WS,  
9            wherein the Company requested Commission approval  
10           of the merger, does not support Ms. Dismukes'  
11           suggestion for the simple reason that anticipated  
12           "efficiencies" do not necessarily equate to future  
13           cost savings.  Ms. Dismukes refers to the Company's  
14           response to one of Public Counsel's interrogatories  
15           (No. 177) but ignores the Company's response to  
16           Public Counsel interrogatory no. 176.

17       Q.    I SHOW YOU EXHIBIT 73 (SWV-2) UNDER COVER PAGE  
18            ENTITLED "PUBLIC COUNSEL INTERROGATORY NO. 176 TO  
19            SOUTHERN STATES UTILITIES, INC. CONCERNING MERGER  
20            EFFICIENCIES AND THE COMPANY'S RESPONSE THERETO."  
21            ARE YOU FAMILIAR WITH THIS EXHIBIT?

22       A.    Yes, I am.

23       Q.    COULD YOU DESCRIBE THIS EXHIBIT?

24       A.    The exhibit contains a copy of Public Counsel's  
25            interrogatory no. 176 to the Company requesting that

1 the Company speculate as to the level of cost  
2 savings, if any, which would be achieved by the  
3 Company in the future as a result of the merger.

4 The Company's response indicates as follows:

5 The Company anticipates savings in the future  
6 from the consolidation in terms of reduced  
7 accounting fees, reduced costs of reporting,  
8 etc. However, estimates of such savings are  
9 merely speculative. The savings may be  
10 absorbed in the future by further cost  
11 increases associated with accounting fees,  
12 reporting fees, additional reports which may  
13 be required in the future, etc. Since the  
14 consolidation was not completed until July 15,  
15 1992, the Company has not yet been able to  
16 measure actual savings. Qualitative benefits  
17 also should arise in terms of less customer  
18 confusion as to the identity of their service  
19 provider, increased employee esprit d' corps,  
20 etc. Since any estimate of cost savings is  
21 based on mere speculation at this time, such  
22 speculative savings have not been considered  
23 in this filing since only known and  
24 quantifiable items should be considered.

25 Ms. Dismukes' testimony does not in any way refute

1 the facts contained in the Company's response.

2 Q. DO YOU HAVE ANY OTHER COMMENTS CONCERNING MS.  
3 DISMUKES' PROPOSED ADJUSTMENT?

4 A. Yes. Ms. Dismukes alleges that "the Topeka Group  
5 or [Minnesota Power] would not have considered the  
6 merger if no cost savings were anticipated." To  
7 date, Ms. Dismukes has offered no substantiation  
8 for this allegation although the Company has  
9 requested that such substantiation be provided. As  
10 indicated in Southern States' petition requesting  
11 authority to consolidate and our response to Public  
12 Counsel's interrogatories, the merger was driven by  
13 potential efficiencies, the need to alleviate  
14 customer confusion as to the identity of their  
15 service provider (which confusion was demonstrated  
16 repeatedly during the customer service hearings) and  
17 the potential benefits from the perspective of  
18 future financing capabilities of presenting lenders  
19 with a considerable pool of assets which could be  
20 used as security for funds loaned to Southern  
21 States. As I indicated in my direct testimony in  
22 this proceeding, the Company currently is unable to  
23 secure financing under reasonable terms on a stand  
24 alone basis (that is, without the credit support of  
25 our parent, Topeka).

1 Q. DO YOU HAVE ANY COMMENTS CONCERNING THE OTHER TWO  
2 REASONS IDENTIFIED BY MS. DISMUKES TO SUPPORT THIS  
3 ADJUSTMENT?

4 A. Yes. Ms. Dismukes suggests that the adjustment is  
5 justified because the expenses were incurred in the  
6 test year but the benefits from the merger I  
7 described above were not enjoyed by our customers  
8 until after the test year. Although Ms. Dismukes  
9 has not yet responded to Southern States' request  
10 for her to identify similar situations where this  
11 circumstance arises, it is beyond dispute that the  
12 Commission permits utilities to recover expenses  
13 incurred during a historic test year despite the  
14 fact that the results to be achieved from the  
15 associated expenditure of funds may not yet have  
16 been realized. For instance, legal expenses,  
17 expenses associated with professional studies and  
18 other expenses for projects may not necessarily be  
19 completed during the test year but these expenses  
20 represent a prudently incurred cost of continually  
21 seeking ways to maintain or enhance operating  
22 efficiency. Moreover, Ms. Dismukes' proposed  
23 adjustment is a clear example of a double standard.  
24 By this I mean that Ms. Dismukes is quick to propose  
25 out of period reductions to Southern States' revenue

1 requirements, her observations ignore situations  
2 where cost increases outside the test year may be  
3 indicated.

4 Ms. Dismukes also suggests that the merger costs  
5 are non-recurring which, she alleges, justifies the  
6 removal of the costs entirely from the Company's  
7 revenue requirements. Ms. Dismukes presents no  
8 facts which suggest that the merger was not prudent  
9 or that the costs incurred to effectuate the merger  
10 were not reasonable. She makes no attempt to show  
11 that the merger constituted an extraordinary event  
12 outside of the ordinary course of operating a  
13 utility business in the best interests of customers  
14 and shareholders alike. She also makes no  
15 suggestion that customers were harmed by the merger  
16 and she failed to refute in any way the facts  
17 presented to Public Counsel by the Company which  
18 identified the various benefits bestowed on  
19 customers as a result of the merger. Yet, Ms.  
20 Dismukes suggests that it would be proper for the  
21 Commission to deny the Company the opportunity to  
22 recover from our customers any of the expenses  
23 associated with achieving these benefits, thereby  
24 creating an environment in which the Company is  
25 discouraged from seeking new ways to improve service

1 and control expenditures. We believe that absent  
2 a showing either that the decision to merge the  
3 numerous Florida utilities into Southern States was  
4 an imprudent business decision when made or that the  
5 merger costs were unreasonable, the Company is  
6 entitled to recover such costs, particularly in  
7 light of the undisputed benefits bestowed on our  
8 customers as a result of the merger.

9 **Q. DO YOU HAVE ANY FURTHER COMMENTS CONCERNING MS.**  
10 **DISMUKES' ALLEGATION THAT THE MERGER COSTS ARE NON-**  
11 **RECURRING?**

12 **A.** The fact that costs may not recur on an annual basis  
13 does not justify a complete denial of a utility's  
14 recovery of the costs. Under Ms. Dismukes' apparent  
15 theory of recoverability, Southern States could  
16 never recover legal costs, costs associated with  
17 professional studies or the like since these costs  
18 invariably are incurred on a project by project  
19 basis. Since all projects have a beginning and an  
20 end, all such projects and their related costs  
21 theoretically are "non-recurring". However, this  
22 fact does not render the costs non-recoverable.  
23 Rather, the Commission must recognize that the  
24 Company will incur legal expenses and expenses  
25 associated with professional studies each year and

1 these expenses are an ordinary cost of doing  
2 business. No adjustments are justified to these  
3 expenses, in total, unless a party demonstrates on  
4 the record either that individual items comprising  
5 these expenses were imprudently incurred or that the  
6 level of such expenses was unreasonably high. No  
7 party has made such a showing in this proceeding.  
8 The Commission should reject Ms. Dismukes' proposed  
9 adjustment. In addition, Southern States does not  
10 agree that merger costs are non-recurring. The  
11 Company intends to merge Lehigh Utilities, Inc. into  
12 Southern States prior to the end of 1992, if  
13 possible and expects the incurrence of similar costs  
14 on a continuing basis as long as SSU remains active  
15 in acquiring new systems. It is highly unlikely  
16 that the costs associated with such mergers  
17 (including legal costs) would be less than \$11,000  
18 in any given year.

19 **Q. DO YOU AGREE WITH MS. DISMUKES' PROPOSED ADJUSTMENT**  
20 **RELATING TO ALLEGEDLY NON-RECURRING AUDIT FEES?**

21 **A.** No. Neither Southern States nor Ms. Dismukes can  
22 bind Price Waterhouse to a statement that its annual  
23 audit fees "should be substantially less" in 1992  
24 than they were 1991. Price Waterhouse may not be  
25 able to assign the same individuals who performed

1 the audit in 1991 to the 1992 audit. It is also  
2 possible that the audit in 1992 could be expanded  
3 in scope for one reason or another. Ms. Dismukes'  
4 proposed adjustment is not "known and measurable",  
5 the test she herself sets forth for out of period  
6 adjustments at page 3, lines 6 and 7, of her  
7 testimony. Ms. Dismukes acknowledges that these  
8 audit fees are not known and quantifiable since she  
9 proposes an arbitrary as opposed to an amount known  
10 and quantifiable reduction of approximately 25% of  
11 the 1991 audit fees. Finally, the fees assessed by  
12 Price Waterhouse for reviews of employee pension and  
13 savings plans represent only a small portion of that  
14 firm's total audit responsibilities. Circumstances  
15 such as normal employee turnover or reassignment at  
16 Southern States can create differing demands on  
17 Price Waterhouse personnel in any given year across  
18 the entire scope of their activities. The proposed  
19 adjustment is clearly based on unsubstantiated  
20 speculation, rather than known and measurable facts,  
21 and should therefore be rejected by the Commission.

22 Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

23 A. Yes, it does.



1 MR. HOFFMAN: He's available for cross.

2 CHAIRMAN BEARD: Questions?

3 MR. TWOMEY: I have no questions.

4 CHAIRMAN BEARD: Mr. Twomey, you said you had  
5 none.

6 How much do you have?

7 MR. MCLEAN: I have quite a few, but, before  
8 we get cranked, me and Mr. Ludsen went at it all day  
9 and I real haven't had a chance to review these; if I  
10 had the night to review them, I could ask better  
11 questions, which means shorter ones.

12 CHAIRMAN BEARD: You're so persuasive. Okay.  
13 I think it's a good time to knock off anyway, we've put  
14 in a pretty full day. And we will be back tomorrow  
15 morning at 9:00. And bring your jammies.

16 (Thereupon, the hearing adjourned at 8:45 p.m.,  
17 to reconvene at 9:00 a.m., Wednesday, November 11, 1992,  
18 at the same address.)

19 (Transcript follows in sequence in Volume  
20 VII.)

21

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22

23

24

25

MESSER, VICKERS, CAPARELLO, MADSEN, LEWIS & METZ  
A PROFESSIONAL ASSOCIATION  
SUITE 701, FIRST FLORIDA BANK BUILDING  
POST OFFICE BOX 1876  
TALLAHASSEE, FLORIDA 32302-1876  
TELEPHONE (904) 222-0720

SEPTEMBER 16, 1991

SOUTHERN STATES UTILITIES SERVICES  
000 COLOR PLACE  
POPKA, FLORIDA 32703

OUR FILE #: S213-4434  
INVOICE NO: 211194

TOTAL AMOUNT DUE: \$ 8,709.07  
THROUGH 08/31/91 -----

*- 657*  
*-----*  
*\$ 3,052.07*

MISCELLANEOUS REGULATORY MATTERS

*WATER & SEWER RULES*

OUR FEDERAL ID #: 59-2921100

AM /GEM

\*\*\*\*\*  
COST ADVANCED

8/27/91	LOCAL TRAVEL EXPENSE	\$	5.00
	KENNETH A. HOFFMAN - PARKING AT PSC ON 8/26/91		
	LONG DISTANCE TELEPHONE CALLS	\$	31.78
	COPYING EXPENSE	\$	322.25
	WESTLAW COMPUTER RESEARCH	\$	302.89

TOTAL COST ADVANCED \$ 661.92  
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FLORIDA PUBLIC SERVICE COMMISSION

DOCKET  
NO. 920199-WS EXHIBIT NO. 58  
COMPANY/ SSU / Madsen  
WITNESS: SSU / Madsen  
DATE: 11/9/92

Appendix DR 64

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1  
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AND SEWER RULES.

08/14/91	JPC	2.20	-REVIEW OF PSC CURRENT AND PROPOSED RULES.
08/15/91	KAH	3.30	-REVIEW AND ANALYSIS OF PSC'S PROPOSED AND EXISTING WATER AND SEWER RULES; WORK SESSION WITH JOE CRESSE TO REVIEW AND EXCHANGE COMMENTS AND SUGGESTIONS PERTAINING TO PROPOSED RULES; TELEPHONE CONFERENCE WITH BRIAN ARMSTRONG AND CHUCK LEWIS RE: PROPOSED RULES.
08/16/91	KAH	0.20	-PHONE CONFERENCE WITH BRIAN ARMSTRONG RE: PSC'S PROPOSED WATER AND SEWER RULES.
08/21/91	KAH	4.60	-PHONE CONFERENCE WITH BRIAN ARMSTRONG RE: VARIOUS TASKS TO BE PERFORMED ON DIFFERENT CASES; LEGAL RESEARCH RE: WHETHER, AND UNDER WHAT CIRCUMSTANCES, PSC MAY REFER CASES, INCLUDING WATER AND SEWER RATE CASES, TO THE DIVISION OF ADMINISTRATIVE HEARINGS; PHONE CONFERENCE WITH BRIAN ARMSTRONG RE: RESULTS OF RESEARCH; PHONE CONFERENCES WITH BRIAN ARMSTRONG (2) RE: VARIOUS ISSUES PERTAINING TO SSU'S COMMENTS ON PROPOSED WATER AND SEWER RULES; REVIEW FAXES SENT BY BRIAN ARMSTRONG RE: USED AND USEFUL CALCULATIONS AND ISSUES, AND COMMENTS ON OTHER PROPOSED REVISIONS TO WATER AND SEWER RULES; REVIEW CASES FROM ARKANSAS AND NEW HAMPSHIRE RE: FORMULA APPROACH TO CALCULATION OF WORKING CAPITAL; DICTATE PORTION OF FIRST DRAFT OF SSU'S COMMENTS RE: PROPOSED REVISIONS TO PSC'S WATER AND SEWER RULES.
08/21/91	LG	0.30	-LEGAL RESEARCH RE: OKLAHOMA GAS, 26 PUR 4TH 129 (ARK. 1978) AND HUDSON WATER CO., 28 PUR 4TH (N.H. 1979) CASES FOR SSU COMMENTS ON PROPOSED WATER AND SEWER RULES.
08/22/91	KAH	4.70	-PHONE CONFERENCES WITH BRIAN ARMSTRONG (3) RE: VARIOUS MATTERS PERTAINING TO DRAFTING OF COMMENTS ON PROPOSED WATER AND SEWER RULES; REVIEW FAX FROM BRIAN ARMSTRONG RE: REVISED USED AND USEFUL ANALYSIS; DICTATE, REVIEW AND COMPLETE FIRST DRAFT OF COMMENTS RE: PROPOSED WATER AND SEWER RULES.

EXHIBITS - VOLUME V

	<u>Number:</u>	<u>Identified</u>	<u>Admitted</u>
1			
2			
3	52 (Ludsen) OPC 113-R	684	
4	53 (Ludsen) OPC 272	686	
5	54 (Ludsen) 9-17-92 Excerpt of Witness Ludsen's Deposition	688	
6			
7	55 (Ludsen) Late-Filed Exhibit furnished by Witness Ludsen referencing Developer Agreements	688	
8			
9	56 (Ludsen) Check for transportation	705	
10	57 (Ludsen) Minutes of Internal Affairs' December 2, 1991 meeting	705	
11			
12	58 (Ludsen) Invoice from firm of Messer, Vickers, et al	739	
13	59 (Ludsen) Response to Interrogatory No. 307, OPC	746	
14			
15	60 (Ludsen) Excerpt of Hearing Transcript	748	
16	61 (Ludsen) FPSC Staff Interrogatory No. 36	758	
17			
18	62 (Ludsen) OPC Document Request No. 18 and Response	767	
19	63 (Late-Filed) (Ludsen) 1992 Relocation	776	
20			
21	64 (Ludsen) SSU Services A Handbook, An Opening Word	777	
22	65 (Ludsen) Response to Interrogatory 304, OPC	778	
23			
24			
25			

EXHIBITS - VOLUME VI

2	<u>Number:</u>	<u>Identified</u>	<u>Admitted</u>
3	66 (Ludsen) Response to Staff Interrogator No. 7	835	896
4	67 (Ludsen) Southern States Acquisition Investment Brief	840	896
6	68 (Late-Filed) (Ludsen) University Shores Rate of Return	842	
7	69 (Late-Filed) (Ludsen) Rate Case Expense Explanations	868	
9	70 (Late-Filed) (Ludsen) Tie of Invoices to General Ledger-Rate Case Expense	886	
10			
11	71 (Late-Filed) (Ludsen) Projection for Completion	893	
12			
13	39, 40, 41, 46, 48, 50 through 59, 61 and 62		896
14	72 (Vierima) SWV-1	903	
15	73 (Vierima) SWV-2	903	
16			
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