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c/o The Florida Legislature  
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904-488-9330

February 12, 1996

Ms. Blanca Bayo  
Clerk, Florida Public Service Commission  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399

Re: Docket 950495-WS

Dear Ms. Bayo:

Today we are prefiling testimony in docket 950495-WS. Some of this testimony should be treated as confidential until Southern States Utilities, Inc., has had a chance to review the testimony and decide which portions of the testimony, if any, they will claim to be confidential.

The testimony which is not presently confidential is the testimony of James A. Rothschild and Ted L. Biddy. We have enclosed the original and fifteen copies of their prefiled testimony and have sent copies of this testimony to all parties of record.

The other testimony -- that of Hugh Larkin, Jr., and Donna DeRonne, David E. Dismukes, Kim Dismukes, and Paul Katz -- should be treated as confidential until Southern States Utilities, Inc., has had an opportunity to review the testimony and possibly make a claim that portions of the testimony are confidential. We are using this procedure because this testimony may contain information which was claimed as confidential by Southern States Utilities, Inc., and is subject to temporary protective orders. We are providing you only one copy of this testimony.

Southern States Utilities has agreed to promptly review the testimony and provide a written statement to us identifying the sections of the testimony, if any, that they will claim to be confidential. We do not think any of the testimony should be confidential and plan to oppose any such request they may make for confidential treatment.

This testimony is being held in the confidential files pending review and response by SSU.

*K. Dismukes* DOCUMENT NUMBER-DATE  
*D. Dismukes* DOCUMENT NUMBER-DATE  
*Larkin/Nelson* DOCUMENT NUMBER-DATE  
*Elks* DOCUMENT NUMBER-DATE  
01632 FEB 12 01631 FEB 12 01630 FEB 12

*Law* DOCUMENT NUMBER-DATE  
*Testimony* DOCUMENT NUMBER-DATE  
01629 FEB 12

FPSC-RECORDS/REPORTING

FPSC-RECORDS/REPORTING

FPSC-RECORDS/REPORTING

DOCUMENT NUMBER-DATE  
01633 FEB 12

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We will promptly redact the remaining testimony as soon as Southern States notifies us about any claims of confidentiality they will make. At that time we will file the original and fifteen copies of the redacted testimony and will provide copies to the parties of record.

Thank you. Please let me know if you have any questions.

Sincerely,

  
Charles J. Beck  
Deputy Public Counsel

CJB:bsr

cc: all parties of record



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February 12, 1996

Ken Hoffman, Esquire  
Rutledge, Ecenia, Underwood,  
Purnell & Hoffman, P.A.  
P.O. Box 551  
Tallahassee, FL 32302-0551

Re: Docket 950495-WS

Dear Ken:

Enclosed are copies of our prefiled testimony. We are providing you one copy of the testimony of James A. Rothschild and Ted L. Biddy; neither witness discusses information you have claimed to be confidential. With respect to our other witnesses -- Hugh Larkin, Jr., and Donna DeRonne, David E. Dismukes, Kim Dismukes, and Paul Katz -- we are providing you two copies of testimony. Please ask the company to promptly review this testimony and redact any portions Southern States claims to be confidential. We will copy, file, and serve this testimony once we have received it back from you. I discussed this procedure previously with Brian Armstrong, and he agreed with it.

If the company will not be claiming confidentiality for any of this testimony, please let me know as soon as the company makes this determination.

In addition to the testimony, we are voluntarily providing you four disks containing workpapers underlying the schedules attached to the testimony of Hugh Larkin, Jr., and Donna DeRonne.

Please let me know if you have any questions.

Sincerely,

Charles J. Beck  
Deputy Public Counsel

cc: all parties of record

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a rate increase for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties by Southern States Utilities, Inc.

Docket No. 950495-WS  
Filed: February 12, 1996

ORIGINAL  
FILE COPY

DIRECT TESTIMONY

OF

HUGH LARKIN, JR. AND

DONNA DERONNE

On Behalf of the Citizens of The State of Florida

- ACK 1
- AFA 3
- APP \_\_\_\_\_
- CAF \_\_\_\_\_
- CMU \_\_\_\_\_
- CTR \_\_\_\_\_
- EAG \_\_\_\_\_
- LEG 1
- LIN m385
- OPC \_\_\_\_\_
- RCH \_\_\_\_\_
- SEC 1
- ~~WAS~~ \_\_\_\_\_
- OTH \_\_\_\_\_

Jack Shreve  
Public Counsel

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c/o The Florida Legislature  
111 West Madison Street  
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(904) 488-9330

Attorney for the Citizens  
of the State of Florida

DOCUMENT NO.  
01629-96  
2-12-96

1 DIRECT TESTIMONY OF HUGH LARKIN, JR.  
2 AND DONNA DERONNE  
3 ON BEHALF OF THE CITIZENS OF FLORIDA  
4 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
5 SOUTHERN STATES UTILITIES  
6 DOCKET NO. 950495-WS  
7

8 I. INTRODUCTION

9 Q. WHAT ARE YOUR NAMES, OCCUPATIONS AND BUSINESS ADDRESS?

10 A. My name is Hugh Larkin, Jr. I am a Certified Public Accountant licensed in the  
11 States of Michigan and Florida and the senior partner in the firm of Larkin &  
12 Associates, Certified Public Accountants, with offices at 15728 Farmington Road,  
13 Livonia, Michigan 48154.

14  
15 I am Donna DeRonne, a Certified Public Accountant, licensed in the State of Michigan.  
16 I am a regulatory consultant in the firm of Larkin & Associates, Certified Public  
17 Accountants, registered in Michigan, with offices at 15728 Farmington Road, Livonia,  
18 Michigan 48154.

19  
20 Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES.

21 A. Larkin & Associates is a Certified Public Accounting and Regulatory Consulting Firm.  
22 The firm performs independent regulatory consulting primarily for public  
23 service/utility commission staffs and consumer interest groups (public counsels, public  
24 advocates, consumer counsels, attorneys general, etc.). Larkin & Associates has  
25 extensive experience in the utility regulatory field as expert witnesses in over 300

1 regulatory proceedings including numerous water and sewer, gas, electric, and  
2 telephone utilities.

3

4 Q. HAVE YOU PREPARED AN APPENDIX WHICH DESCRIBES YOUR  
5 QUALIFICATIONS AND EXPERIENCE?

6 A. Yes. We have attached Appendix I, which is a summary of our experience and  
7 qualifications.

8

9 Q. BY WHOM WERE YOU RETAINED, AND WHAT IS THE PURPOSE OF YOUR  
10 TESTIMONY?

11 A. Larkin & Associates was retained by the Florida Office of Public Counsel to review the  
12 rate increase request by Southern States Utilities ("SSU" or "Company"). Accordingly,  
13 we are appearing on behalf of the Citizens of Florida ("Citizens").

14

15 Organization

16 Q. HOW WILL YOUR TESTIMONY BE ORGANIZED?

17 A. We will address, in order, the following:

18 II. Overall Financial Summary

19 III. Minnesota Power & Light's Investment in SSU

20 IV. Rate Base

21 V. Adjustments to Operating Income

22

1           II.       OVERALL FINANCIAL SUMMARY

2   Q.       HAVE YOU PREPARED AN EXHIBIT TO PRESENT IN SUPPORT OF YOUR  
3           TESTIMONY?

4   A.       Yes, we have prepared Exhibit\_\_ (HL-1).

5  
6   Q.       WAS EXHIBIT\_\_ (HL-1) PREPARED BY YOU?

7   A.       Yes. This exhibit was prepared by us or under our direct supervision and is correct to  
8           the best of our knowledge and belief.

9  
10   Q.       PLEASE DISCUSS SCHEDULE 1, WHICH IS ENTITLED "SUMMARY OF  
11           ADJUSTMENTS".

12   A.       Schedule 1 consists of a summary of each of our proposed adjustments to rate base,  
13           operating income and income taxes. The schedule lists each adjustment as well as the  
14           impact of each adjustment on the revenue requirement. The impact on the revenue  
15           requirement resulting from each recommended adjustment to rate base includes the  
16           impact of the overall rate of return recommended by Citizens Witness Rothschild and  
17           the capital structure recommended by Citizens Witness Dismukes. The overall rate of  
18           return of 9.43% is presented on page 2 of Schedule 1. The overall rate of return is  
19           based on Ms. Dismukes adjusted capital structure and SSU's proposed cost rates, with  
20           the exception of Mr. Rothschild's recommended return on equity of 10.10%. Also  
21           shown on page 1 of the schedule is the impact on revenue requirement resulting from  
22           Citizens' recommended overall rate of return.

23  
24           As shown on line 33, the cumulation of Citizens' recommended adjustments results in  
25           a \$27,296,563 reduction in SSU's proposed revenue increase of \$18,137,502. In other

1 words, Citizens' recommendations result in a revenue sufficiency for SSU of  
2 \$9,159,061.

3  
4 Q. WHAT IS THE PURPOSE OF SCHEDULES 1-A AND 1-B?

5 A. We understand that the Citizens will pursue two separate 100 basis point return on  
6 equity penalties against Southern States Utilities for substandard quality of service and  
7 mismanagement for a combined penalty of 200 basis points. Schedule 1-A reflects the  
8 impact of a 100 basis point reduction in return on equity, while Schedule 1-B reflects  
9 the impact of a 200 basis point reduction.

10  
11 The effect of a 100 basis point reduction in return on equity is an increase in the  
12 recommended rate reduction of \$593,111 per year, while a 200 basis point reduction  
13 results in a \$1,201,830 increase in the recommended rate reduction. As shown on  
14 Schedule 1-B, the combination of the two 100 basis point penalties would reduce the  
15 return on equity of 10.1% recommended by Witness Rothschild to 8.1% and would  
16 change the required reduction in rates from \$9,159,061 to \$10,360,891.

17  
18 Q. SHOULD THE REVENUE SUFFICIENCIES PRESENTED ON SCHEDULE 1, 1-A  
19 and 1-B, LINE 34, BE CONSIDERED THE CITIZENS' FINAL POSITION?

20 A. No, it should not. The revenue requirement reduction prior to penalties shown on  
21 Schedule 1, line 33, totaling \$27,296,563, along with the calculated revenue sufficiency  
22 of \$9,159,061, reflects the impact of the following items: (1) our proposed adjustments;  
23 (2) Citizens Witness Dismukes' recommended adjustments; (3) Citizens Witness  
24 Bidy's recommended used and useful percentages; (4) Citizens Witness Katz's  
25 recommended payroll adjustments; and (5) Citizens Witness Rothschild's



1 recommended return on equity. As of the date this testimony was completed,  
2 February 9, 1996, there were several Late Filed Exhibits outstanding. Some of the  
3 Late Filed Exhibits outstanding were requested as far back as the depositions  
4 occurring the week of November 6, 1995, over two and a half months ago.  
5 Consequently, each of the above listed witnesses reserve the right to update their  
6 testimony and exhibits.

7  
8 III. MINNESOTA POWER & LIGHT'S INVESTMENT IN SSU

9 Q. IN MR. SANDBULTE'S TESTIMONY, HE IMPLIES THAT MINNESOTA POWER &  
10 LIGHT COMPANY HAS INVESTED APPROXIMATELY \$78 MILLION IN FUNDS  
11 FROM EQUITY STOCKHOLDER INVESTMENTS IN SOUTHERN STATES  
12 UTILITIES. IN YOUR OPINION, IS THAT CORRECT?

13 A. No, it is not. Minnesota Power & Light's actual equity investment -- that is, funds  
14 that have been raised by the issuance of capital stock by Minnesota Power & Light  
15 ("MP&L") -- is in all probability much lower than the \$78 million as Mr. Sandbulte  
16 claims. SSU's response to Citizens Interrogatory 5 provided the amount of equity  
17 investment that Mr. Sandbulte claims to have been made by Minnesota Power & Light  
18 in Southern States Utilities. This amount is approximately \$78,000,000. Mr.  
19 Sandbulte's claim is that the entire \$78 million was provided by equity shareholders.  
20 Minnesota Power & Light, like all utilities, raises funds both through equity and debt  
21 issuances. In addition, they have sources of funds through deferred taxes. The equity  
22 percentage of MP&L's capital structure, as shown in the Minimum Filing  
23 Requirements on Schedule C-8, page 1 of 2, is 45.25%. Correctly, the amount of equity  
24 investment in any investment that MP&L might make is 45.25% of the total dollar  
25 investment. This is true because funds cannot be traced and they are fungible. As

1 such, the source of investment in Southern States Utilities would be from all sources  
2 available to MP&L. The actual equity component of the capital structure, 45.25%,  
3 times the Southern States Utilities investment of \$78,000,000 would show that the  
4 actual equity investment of the parent company is, in reality, approximately  
5 \$35,295,000, resulting in the actual investment being only approximately \$35.3 million.  
6 The remainder of the investment would have been provided by the ratepayers in the  
7 State of Florida.

8  
9 As shown on Schedule 27, MP&L has sold components of the utility system in Florida  
10 at substantial gains. The telephone segment of SSU and the Universal Investment was  
11 sold at a gain net of tax of approximately \$32 million. The net of tax gain on the sale  
12 of St. Augustine was \$4.2 million. The net of tax gain on the sale of Deltona Lakes  
13 was \$600,000. The gain on the sale of Seminole Utilities was \$1.6 million net of tax.  
14 And finally, the gain on the sale of Venice Gardens Utilities ("VGU"), less dividends  
15 paid to MP&L, was approximately \$7 million. So, total gains from the sale of  
16 segments of Florida Utilities has provided net gains of approximately \$45.95 million to  
17 MP&L. In other words, net funds were provided by the sale of utility properties  
18 supported by ratepayers of approximately \$38.75 million. Thus, the gain on sales of  
19 utility properties have actually exceeded MP&L's "equity" investment actually provided  
20 by stockholders of MP&L. In fact, as shown on Schedule 27, the net gain on sales has  
21 exceeded the "equity" investment provided by MP&L stockholders by approximately  
22 \$3.46 million.

23  
24 Q. WHAT SIGNIFICANCE DOES THIS HAVE IN THIS FILING?

25 A. The Commission must be cognizant of the fact that when it determines the rate base

1 and provides the rate of return on the capital structure which is significantly higher in  
2 equity than MP&L's actual equity investment, it is, in fact, allowing the leveraging of a  
3 very small equity advance by MP&L to be magnified by gains of utility property and  
4 the fact that part of the equity investment has been financed by debt. Thus, Mr.  
5 Sandbulte's and the Company's claim that it is not receiving a fair return on its equity  
6 investment must be viewed in light of the fact that ratepayers have provided most of  
7 the equity in the form of gains realized by MP&L on the sale of utility property  
8 supported by ratepayers, and that approximately 55% of the "equity" investment in  
9 SSU is supported by debt and other sources of capital.

10  
11 IV. RATE BASE

12 Q. HAVE YOU PREPARED A SCHEDULE SUMMARIZING THE CITIZENS'  
13 PROPOSED ADJUSTMENTS TO RATE BASE?

14 A. Each of our recommended adjustments to rate base are summarized in Column (1) of  
15 Schedule 1. We will discuss each of the respective adjustments below.

16  
17 Additionally, if the Commission does not accept for ratemaking purposes the  
18 recommendation of Citizens Witness Kim Dismukes that the gains on the sales of  
19 utility properties be passed on to ratepayers, then an adjustment similar to that  
20 presented on Schedule 27 should be adopted.

21  
22 Non-Used and Useful Facilities

23 Q. HAVE YOU ADJUSTED FOR NON-USED AND USEFUL FACILITIES?

24 A. Yes. Citizens Witness Ted Bidy has recommended the appropriate used and useful  
25 ("U&U") percentages applicable to each of SSU's service areas included in the rate case.

1 We applied Mr. Biddy's recommended percentages to the appropriate plant in service,  
2 accumulated depreciation and depreciation expense sub-accounts.

3  
4 Q. HAVE YOU PREPARED A SCHEDULE SHOWING THESE CALCULATIONS?

5 A. Yes. These calculations are shown on Schedules 2 through 4. Schedules 2, 3 and 4  
6 show the application of Mr. Biddy's recommended U&U percentages to SSU's  
7 requested plant in service, accumulated depreciation and depreciation expense,  
8 respectively, for each service area. Pages 1 through 5 of each of the schedules provides  
9 a summarization of the overall impact of the application of Mr. Biddy's recommended  
10 non-used and useful percentages. As shown on page 5 of Schedule 2, the non-used and  
11 useful offset to plant in service should be increased by \$51,552,603. The amount of  
12 non-used and useful accumulated depreciation should increase by \$13,184,287, as  
13 shown on page 5 of Schedule 3. Additionally, SSU's proposed depreciation expense  
14 should be reduced by \$1,939,328 to account for the Citizens recommended non-used  
15 and useful rates, as demonstrated on page 5 of Schedule 4. The remaining pages of  
16 Schedules 2, 3 and 4, pages 6 through 146, have been provided to SSU on diskette.  
17 The remaining pages provide the detailed calculations behind the adjustments on a  
18 service area by service area basis, presenting first the water areas, then the sewer  
19 areas.

20  
21 Additionally, Citizens Witness Biddy has recommended that a portion of SSU's  
22 hydropneumatic tanks be considered non-used and useful, while SSU has reflected the  
23 tanks as being 100% used and useful. The hydropneumatic tanks are not recorded in  
24 their own separate plant sub-account. In the same respect, Witness Biddy has  
25 recommended that a portion of auxiliary power be considered non-used and useful,

1 while SSU apparently has considered the auxiliary power to be 100% used and useful  
2 in its calculations. For sewer plant, the auxiliary power is not recorded in its own  
3 separate plant sub-account. Consequently, we have not applied Witness Bidly's  
4 recommended non-used and useful percentages, as shown on Exhibit TLB-2, to the  
5 hydropneumatic tanks for water facilities at this time.

6  
7 There are Late Filed Exhibits outstanding for which the responses may impact  
8 Witness Bidly's recommended non-used and useful percentages. Consequently, we  
9 wish to reserve the right to update the non-used and useful offsets upon receipt of the  
10 necessary information from SSU.

11

12 Q. YOU STATED THAT YOU HAVE APPLIED CITIZENS WITNESS BIDDY'S  
13 RECOMMENDED NON-USED AND USEFUL PERCENTAGES TO SSU'S  
14 PROPOSED PLANT IN SERVICE, ACCUMULATED DEPRECIATION AND  
15 DEPRECIATION EXPENSE. ARE YOU RECOMMENDING ANY ADJUSTMENTS  
16 TO ANY OF THESE CATEGORIES?

17 A. Yes. We recommend several adjustments to plant in service, accumulated depreciation  
18 and depreciation expense later in this testimony. However, due to the volume of  
19 service areas and calculations included in the used and useful adjustment, we have  
20 reflected the impacts of the Citizens' recommended non-used and useful percentages in  
21 each of the respective schedules associated with our recommended adjustments as  
22 opposed to including the adjustments in the non-used and useful calculations  
23 presented in Schedules 2 through 4.

24

25 Q. DO THE CITIZENS' USED-AND-USEFUL RECOMMENDATIONS INCLUDE AN

1 ALLOWANCE FOR MARGIN RESERVE?

2 A. No, the impacts of SSU's proposed margin reserve have been excluded from the  
3 calculation of the Citizens' recommended used-and-useful percentages.

4

5 Margin Reserve

6 Q. WHY HAVE THE IMPACTS OF MARGIN RESERVE BEEN EXCLUDED FROM  
7 THE USED AND USEFUL CALCULATIONS?

8 A. It is inappropriate for margin reserve to be included in the used and useful  
9 calculations. By its very nature, margin reserve represents assets associated with  
10 future customers who have not yet come on line. The filing is already based upon a  
11 future test year, utilizing projected revenues based on the level of customers and the  
12 associated usage anticipated to exist during the future period. The used and useful  
13 calculations recommended by the Citizens considers the level of customers and usage  
14 that will be in existence during that future test year. The inclusion of a margin  
15 reserve to account for future customers above and beyond the future test year level  
16 represents investment that will not be used and useful in serving the current  
17 customers.

18

19 Clearly, the result of including the impacts of margin reserve is that current ratepayers  
20 will pay, via rates, for plant that will be used to serve future customers. This clearly  
21 causes an intergenerational inequity between ratepayers.

22

23 Q. IF A MARGIN OF RESERVE IS DISALLOWED IN THE USED AND USEFUL  
24 CALCULATIONS, WILL SSU BE HARMED?

25 A. No, SSU will not be harmed. SSU is currently permitted to recover amounts from

1 new customers via the Allowance for Funds Prudently Invested ("AFPI") charges.  
2 Consequently, if the margin of reserve is disallowed in the used and useful calculation,  
3 SSU will still recover the carrying costs associated with the assets that are currently  
4 considered non-used and useful through the AFPI charges at some point in the future.  
5 Additionally, the amounts would be collected from the customers who actually benefit  
6 from the capacity. However, if the margin of reserve is allowed, it will be the current  
7 customers who are harmed via their support of assets that will be utilized to serve  
8 future customers.

9  
10 Q. IF A MARGIN OF RESERVE IS INAPPROPRIATELY REFLECTED IN THE USED-  
11 AND-USEFUL DETERMINATION, WOULD A CORRESPONDING ADJUSTMENT  
12 TO CIAC BE REQUIRED?

13 A. Yes. If a margin of reserve is included in the used-and-useful calculations, then, at the  
14 very least, to achieve proper matching, an amount of CIAC equivalent to the number  
15 of equivalent residential connections ("ERCs") represented by the margin of reserve  
16 would have to be reflected as a rate base offset. The application of the CIAC that will  
17 be collected from these future customers would at least serve to partially offset, or  
18 mitigate, the impact on the existing customers resulting from their inappropriately  
19 allocated responsibility to pay for plant that will be utilized to serve future customers.

20  
21 Q. SSU HAS TAKEN THE POSITION IN THIS CASE THAT MARGIN RESERVE  
22 SHOULD NOT CONTINUE TO BE OFFSET BY CIAC. PLEASE COMMENT ON  
23 SSU'S ARGUMENTS.

24 A. SSU has provided numerous witness who address the issue of imputing CIAC against  
25 the margin reserve and why the practice should be discontinued. SSU Witness Ludsen

1 appears to be the primary witness on the issue. Mr. Ludsen indicated that there were  
2 two primary reasons for not imputing CIAC on margin reserve. In his reasoning, he  
3 stated that "by imputing CIAC against the margin reserve, the Commission places the  
4 risk that connections will not occur on Southern States and our shareholders." (Direct  
5 Testimony of Forrest Ludsen, page 30) Apparently, SSU would like to receive a full  
6 benefit, without risk, by including a margin reserve in its used and useful calculations  
7 representing the estimated number of new ERCs it projects that it will connect to its  
8 system in the future. However, SSU does not want to accept the risk that its  
9 estimated future ERCs are overestimated. Clearly, SSU's argument is inequitable to  
10 ratepayers. Should the Commission authorize the inclusion of margin reserve in used  
11 and useful calculations, it is imperative that the related CIAC be imputed.

12

13 Plant Held for Future Use

14 Q. HAS SSU INCLUDED ANY PLANT HELD FOR FUTURE USE IN THE FUTURE  
15 TEST YEAR?

16 A. Yes. SSU's proposed plant in service amounts on an Florida Public Service  
17 Commission ("FPSC") regulated basis, prior to the non-used and useful offsets, includes  
18 \$33,082,895 which the Company has recorded in Account 1030 - Property Held for  
19 Future Use. During the deposition of SSU Witness Judy Kimball, Ms. Kimball  
20 indicated that the majority of the \$33 million related to lines at the systems that were  
21 purchased from Punta Gorda and the Deltona/United systems.

22

23 Q. WHAT TYPE OF ASSETS ARE RECORDED IN ACCOUNT 1030 - PROPERTY  
24 HELD FOR FUTURE USE?

25 A. The NARUC Uniform System of Accounts for Class A Water Utilities describes items



1 to be recorded in Account 1030 as follows:

2 This account shall include the original cost of property owned and held for  
3 future use in utility service under a definite plan for such use. There shall be  
4 included herein property acquired but never used by the utility in utility  
5 service, but held for such service in the future under a definite plan, and the  
6 property previously used by the utility in utility service, but retired from such  
7 service and held pending its reuse in the future, under a definite plan, in  
8 utility service. (Emphasis added)

9 Consequently, assuming that SSU is properly applying the Uniform System of  
10 Accounts for recording assets, the amounts included by SSU in Account 1030 are not  
11 used for the provision of utility service. In other words, such assets are, by definition,  
12 100% non-used and useful.

13  
14 Q. DOES SSU'S NON-USED AND USEFUL ADJUSTMENT REMOVE THE ENTIRE  
15 BALANCE OF PLANT HELD FOR FUTURE USE?

16 A. No, it does not. As previously mentioned, Ms. Kimball indicated that the \$33 million  
17 relates predominately to lines in the systems that were previously owned by Punta  
18 Gorda and the Deltona / United systems. Schedule 5 presents the amounts removed  
19 by SSU in its non-used and useful plant in service adjustments for Accounts 360.2 and  
20 361.2 - Collection Sewers - both Force and Gravity and Account 331.4 - Transmission  
21 and Distribution for each of these service areas. As demonstrated in this schedule, SSU  
22 has removed approximately \$28 million in lines for these systems via its non-used and  
23 useful adjustment. This amount definitely falls short of the \$33 million of plant held  
24 for future use. Based on SSU's figures, a portion of the plant held for future use  
25 would still be included in plant in service, and 100% of the remaining lines that are  
26 included in Account 1010 - Plant in Service would have to be considered as used and  
27 useful. This clearly is not appropriate.

28

1 Q. OF THE ELEVEN SERVICE TERRITORIES LISTED ON SCHEDULE 5, DO ALL  
2 OF THE TERRITORIES INCLUDE A PORTION OF PLANT HELD FOR FUTURE  
3 USE IN USED AND USEFUL PLANT IN SERVICE IN THE MFRS, OR ONLY  
4 SELECT TERRITORIES?

5 A. We do not know, at this time. As of January 26, 1996 we are still awaiting a response  
6 to Late Filed 1 from the Deposition of Judith Kimball, occurring during the week of  
7 November 6, 1995, which should provide a breakdown of the \$33 million of plant held  
8 for future use recorded on SSU's books on a system by system basis. The information  
9 to be provided should be compared, at a minimum, to the amounts SSU is removing  
10 via its non-used and useful adjustments, as presented on Schedule 5.

11

12 Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO REMOVE THE AMOUNT OF  
13 PLANT HELD FOR FUTURE USE THAT IS STILL INCLUDED IN PLANT IN  
14 SERVICE AFTER SSU'S NON-USED AND USEFUL ADJUSTMENTS?

15 A. Not at this time. Since the Citizens' recommended non-used and useful percentages  
16 are larger than the percentages recommended by SSU for each of the eleven systems,  
17 it appears, at this point, that the Citizens recommended non-used and useful  
18 adjustment removes the plant held for future use that SSU included in plant-in-  
19 service. However, upon receipt of Ms. Kimball's Late Filed 1, we intend to compare  
20 the amounts removed by the Citizens for non-used and useful lines in each of the  
21 eleven service territories to the amount recorded on SSU's books as plant held for  
22 future use. Consequently, we reserve the right to update our recommendation  
23 regarding the level of plant in service to include in rate base for the eleven systems  
24 identified on Schedule 5 upon receipt of Late Filed 1 in order to ensure that, at a  
25 minimum, the lines that SSU considers plant held for future use (i.e., 100% non-used

1 and useful) are excluded.

2

3 Plant-In-Service Additions - Project Slippage

4 Q. WHAT IS THE BASIS OF SSU'S REQUESTED PLANT-IN-SERVICE?

5 A. SSU's starting point is its 1994 historic test year plant-in-service. SSU then adds its  
6 projected 1995 and 1996 additions, subtracts its projected retirements, and makes a  
7 few specific adjustments to plant-in-service to determine the future test year plant in  
8 service based on the projected thirteen-month average balances. SSU's plant additions  
9 were budgeted on a project by project and service area by service area basis.

10

11 Q. WHAT LEVEL OF ADDITIONS HAS SSU PROJECTED FOR PLANT IN SERVICE?

12 A. According to Exhibit \_\_ (JDW-1), attached to the Direct Testimony of SSU Witness J.  
13 Dennis Westrick, the Company has projected additions of \$27,015,825 to FPSC  
14 regulated plant in service in 1995 and \$16,710,620 in 1996 for water, sewer and  
15 general plant, combined.

16

17 Q. SHOULD SSU BE ALLOWED TO INCLUDE ITS ENTIRE BUDGETED ADDITIONS  
18 IN DETERMINING THE FUTURE TEST YEAR THIRTEEN MONTH AVERAGE  
19 PLANT IN SERVICE BALANCE?

20 A. No, not without adjustment. As of August 31, 1995, SSU had experienced significant  
21 slippage in its project schedule. As a result, it does not seem likely, at this point, that  
22 SSU will complete all of the projects it has projected to complete by the end of the  
23 future test year. Additionally, it appears highly unlikely that SSU will be able to place  
24 into service all of the projects that it projected to have in service by December 31, 1995  
25 on time. Consequently, the starting point, and each subsequent month, of plant-in-

1 service utilized to calculate the thirteen month average test year level is overstated.

2

3 Q. PLEASE EXPLAIN.

4 A. SSU provided a plant in service additions status report as Appendix 165-A, attached to  
5 Citizens Interrogatory No. 165, which provided a 1995 budget to actual comparison as  
6 of August 31, 1995. The status report provided, on a project by project and system by  
7 system basis: the scheduled and actual project completion date; the scheduled and  
8 actual in-service date; the budgeted cost; and the actual cost. Based on the information  
9 provided, we determined that SSU had projected that a total of 260 projects would be  
10 in service by December 31, 1995, with 176 of those projects to be in service by August  
11 31, 1995. As of August 31, 1995, only 107 of the budgeted 176 projects to be in service  
12 by that date were actually in service. Consequently, SSU was 69 projects behind  
13 schedule as of August 31. In order to complete the number of projects projected to be  
14 in service by December 31, 1995, SSU would have to place into service 153 projects  
15 during the final four months of 1995. This amount represents 143% of the projects  
16 placed into service during the first eight months of 1995.

17

18 Q. APPROXIMATELY HOW FAR BEHIND SCHEDULE IS SSU?

19 A. Based on an analysis of Appendix 165-A, as of August 31, 1995, SSU was an average of  
20 2.025 months behind schedule on its projects. The average number of months behind  
21 schedule was determined by taking the difference between the budgeted in-service date  
22 and the actual in-service date (rounded to the nearest half month) for all 176 projects  
23 projected to be in-service by August 31 and determining the average number of  
24 months off schedule. We should note that for the 69 projects that were projected to be  
25 in-service by August 31 that were not yet in service, the calculation included only the

1 amount of months behind schedule as of August 31. Consequently, the actual average  
2 behind schedule factor could be significantly higher for 1995 than the 2.025 months,  
3 depending upon when the 69 overdue projects are actually completed. The 69 overdue  
4 projects, when weighed separately, were already, on average, 4.4 months behind  
5 schedule.

6  
7 Q. SHOULD SSU'S PROJECTED FUTURE TEST YEAR PLANT IN SERVICE BE  
8 ADJUSTED TO TAKE INTO ACCOUNT THE LEVEL OF PROJECT SLIPPAGE?

9 A. Yes. At this point, it appears highly unlikely that SSU will complete by December 31,  
10 1995 all of the additional 153 projects that were budgeted to be in-service by December  
11 31, 1995. Since SSU's projected test year plant in service is based on a thirteen month  
12 average balance beginning with December 31, 1995, SSU's projected plant in service is  
13 overstated.

14  
15 Q. WHAT ADJUSTMENT DO YOU RECOMMEND?

16 A. As demonstrated on Schedules 6 and 7, we recommend that future test year plant in  
17 service be recalculated to reflect the thirteen month average of SSU's projected plant in  
18 service for the period October 31, 1995 through October 31, 1996. By placing the  
19 thirteen month average calculation back by two months, the adjustment would reflect  
20 the fact that, on average, SSU's projects are, at a minimum, two months behind  
21 schedule. As shown on Schedules 6 and 7, plant in service should be reduced by  
22 \$1,973,372 and \$372,937 for FPSC regulated water and sewer, respectively, in order to  
23 account for project slippage.

24  
25 Q. WHAT IS THE PURPOSE OF YOUR ADJUSTMENTS TO THE OCTOBER AND

1 NOVEMBER 1995 PLANT IN SERVICE BALANCES ON SCHEDULES 6 AND 7?

2 A. SSU booked several of its adjustments to plant in service in the future test year MFRs  
3 but not in the interim year MFRs. These adjustments include the Buenaventura  
4 assets and the re-allocation of general plant. Additionally, SSU added the 1995 Lehigh  
5 line additions as an adjustment to its average interim year plant in service.  
6 Consequently, each of these adjustments would not have been included in SSU's  
7 projected monthly balances for October and November 1995 in the interim MFRs. We  
8 added the adjustments to the October and November 1995 balances on our schedules.

9  
10 Q. PLEASE DISCUSS THE NON-USED AND USEFUL OFFSET APPEARING ON THE  
11 SCHEDULES.

12 A. In calculating the Citizens recommended non-used and useful plant in service on  
13 Schedule 2, we utilized the Citizens recommended non-used and useful percentages  
14 applied to SSU's projected average plant in service balances. Consequently, our  
15 recommended adjustment to plant in service for project slippage should be offset to  
16 account for the fact that part of the adjustment would be removed in the non-used and  
17 useful calculations. As demonstrated on page 2 of Schedules 6 and 7, we allocated our  
18 recommended slippage adjustments to each of SSU's plants utilizing SSU's projected  
19 additions to those plants for the period November 1995 through October 1996. We  
20 then applied the Citizens recommended average non-used and useful percentages from  
21 Schedule 2 for each plant to the allocated adjustment for that plant to determine the  
22 non-used and useful offset to our project slippage adjustment.

23  
24 Q. DOES YOUR RECOMMENDED PROJECT SLIPPAGE ADJUSTMENT IMPACT  
25 DEPRECIATION?

1 A. Yes. As shown on Schedules 8 and 9, SSU's proposed future test year accumulated  
2 depreciation should be decreased by \$73,212 for FPSC regulated water and \$14,955 for  
3 FPSC regulated sewer. Test year depreciation expense should be reduced by the same  
4 amounts. The amounts were determined by applying the future test year average  
5 water and sewer depreciation rates to our recommended adjustment to water and  
6 sewer plant in service, respectively.

7  
8 Non-Used and Useful Offsets to CIAC

9 Q. PLEASE DISCUSS SSU'S ADJUSTMENTS TO OFFSET CONTRIBUTIONS IN AID  
10 OF CONSTRUCTION ("CIAC") WITH NON-USED AND USEFUL FACTORS.

11 A. SSU has applied average non-used and useful percentages on a service area by service  
12 area basis to certain of its CIAC classifications, thereby reducing the CIAC offset to  
13 rate base, in order to account for the fact that a portion of the assets being supported  
14 by the CIAC have been removed from rate base via the non-used and useful  
15 calculations. The CIAC classifications to which SSU applied the non-used and useful  
16 adjustment include: plant capacity fees, line/main extensions, contributed lines, and  
17 contributed property other than lines.

18  
19 Q. IS SSU'S ADJUSTMENT TO REDUCE ITS CIAC OFFSET TO RATE BASE BY THE  
20 AVERAGE NON-USED AND USEFUL PERCENTAGES APPROPRIATE?

21 A. Not entirely. We agree that the CIAC associated with contributed lines and  
22 contributed property other than lines should be offset by a non-used and useful factor,  
23 as a portion of the contributed property is not included in rate base for which SSU  
24 would earn a return due to the non-used and useful offsets to plant in service.  
25 However, it is not appropriate for SSU to offset plant capacity fees and line/main

1 extension fees by a non-used and useful factor.

2

3 Q. WHY NOT?

4 A. Plant capacity fees typically consist of cash provided by a utility's customers.  
5 Additionally, as the Company has included a separate category for line/main  
6 extensions which is separate from contributed lines and contributed property other  
7 than lines, we are also assuming that the line/main extensions represent cash  
8 contributions received by SSU as opposed to property contributions. Therefore, these  
9 two categories, plant capacity fees and line/main extensions, apparently represent cash  
10 contributed by SSU's customers. It is not appropriate to offset such cash contributions  
11 by a non-used and useful factor. SSU has collected the same amount of cash from  
12 these customers despite the fact that a portion of the plant that may have been  
13 purchased or built by SSU from the funds represents non-used and useful investment.  
14 The entire amount of the cash received is still cost free capital to SSU. SSU has not,  
15 to our knowledge, returned a portion of each customer's cash contributions to the  
16 respective customer for CIAC which may pertain to non-used and useful assets.  
17 Therefore, SSU's customers should receive a benefit for their cash contributions via a  
18 full offset to rate base for the amount contributed.

19

20 Q. WHAT ADJUSTMENT IS NECESSARY TO REMOVE SSU'S PROPOSED NON-  
21 USED AND USEFUL OFFSET TO CIAC RELATED PLANT CAPACITY FEES AND  
22 LINE/MAIN EXTENSIONS?

23 A. As shown on Schedule 10, future test year rate base should be decreased by \$2,315,994  
24 to remove SSU's non-used and useful offset to these two categories of CIAC.

25



1           Marco Island - Collier Purchase Adjustment

2    Q.    SSU PURCHASED THE COLLIER PITS AS A WATER SUPPLY SOURCE FOR  
3           MARCO ISLAND DURING THE INTERIM YEAR. WHAT AMOUNTS DID SSU  
4           INCLUDE IN ITS FILING FOR THE COLLIER LAND PURCHASE?

5    A.    SSU included \$9,199,918 in projected additions to plant in service - land in its filing for  
6           the purchase of the Collier land. This consisted of \$4,400,000 added to land in its 1994  
7           historic test year MFRs and an additional \$4,799,918 added to the MFRs in the 1995  
8           interim test year.

9

10   Q.    HAS THE LAND ACTUALLY BEEN PURCHASED?

11   A.    Yes. In early 1994, SSU entered into condemnation proceedings with the Barron  
12           Collier Family for the rights to the land. During April 1995, a settlement was entered  
13           into for the purchase of the land.

14

15   Q.    HOW DID THE ULTIMATE COST PAID BY SSU COMPARE TO THE ESTIMATED  
16           AMOUNTS INCLUDED IN THE FILING?

17   A.    The settled upon purchase price for the Collier land was \$8.0 million. Additionally,  
18           SSU incurred \$436,845 in professional service fees, including legal and engineering  
19           costs, associated with the purchase. This resulted in a total actual cost for the Collier  
20           land of \$8,436,845, which is \$763,073 less than the amount included in the MFRs for  
21           the estimated purchase costs.

22

23   Q.    HAS SSU REFLECTED THE \$8,436,845 AS THE ACTUAL PURCHASE COST FOR  
24           BOOK PURPOSES?

25   A.    No, it has not. In SSU's project summary for the Collier property acquisition, SSU has

1 reflected a total cost of \$10,120,256. This amount includes the Citizens calculated cost  
2 of \$8,436,845, plus an additional \$1,683,411 of allocated overheads, including  
3 \$1,646,930 of allocated administrative and general overhead costs.  
4

5 Q. SHOULD THE AMOUNT OF OVERHEAD ALLOCATED TO THE PURCHASE BY  
6 SSU BE INCLUDED IN THE COLLIER LAND ADDITION?

7 A. No, it should not. The Collier purchase consisted of a purchase of land, not the  
8 construction of assets. As a result, it is not appropriate for SSU to allocate the  
9 \$1,683,411 of overhead to the purchase of land. Consequently, for determining the  
10 actual purchase cost for purposes of calculating the amount of additions to utility land,  
11 SSU's proposed allocation of overhead should be disallowed. We should note that this  
12 appears to be consistent with SSU's own capitalization policies. In response to Citizens  
13 Interrogatory No. 145, Appendix 145-A, SSU provided the changes to its capitalization  
14 policy it implemented in July 1993. The Company policy for purchased assets states as  
15 follows: "For capitalized assets other than construction, the original cost includes  
16 freight, sales tax, and installation costs." The Company policy for constructed assets is  
17 as follows: "The cost of construction to be included in the plant accounts consists of  
18 direct costs (which are necessary and clearly related to the construction of a  
19 depreciable asset) such as material and labor; overheads such as engineering,  
20 supervision, general and administrative expense and insurance; and an allowance for  
21 funds used during construction (AFUDC)." Clearly, the purchase of land should fall  
22 into the purchased asset category, not the constructed asset category.  
23

24 Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO SSU'S FILING RELATED  
25 TO THE COLLIER LAND PURCHASE?

1 A. Yes, we are. First, the \$9,199,918 estimated amount included in the filing for the  
2 Collier Land purchase should be reduced to \$8,436,845 to reflect the actual purchase  
3 cost of the land. The Citizens recommended actual cost specifically excludes the  
4 allocation of overheads to the purchase, as such allocations are not appropriate.  
5 Additionally, Commission Staff, in its Audit Report - Project Test Year End December  
6 31, 1996 ("Audit Report"), submitted to SSU on November 1, 1995, recommended that  
7 a portion of the cost of the Collier Property be allocated to Account 121 - Nonutility  
8 Property for the value of the real estate acquired. Staff recommended that the amount  
9 be allocated based on either the direct acreage method or the lump sum purchase  
10 method. We concur with Staff's recommendation.

11  
12 Q. PLEASE DISCUSS STAFF'S RECOMMENDATION IN MORE DETAIL.

13 A. The Collier land purchased by SSU consisted of 56.29 acres of lakes, 71.28 acres of  
14 wetlands and 84.93 acres of uplands, consisting of an overall purchase of 212.5 acres.  
15 Clearly, the 84.93 upland acres will not be fully utilized in the provision of water  
16 service to SSU's customers. It is Staff's, along with the Citizens' position, that the  
17 land that is not, and most likely will not be, used and useful in the provision of water  
18 service should be excluded from rate base. In its audit report, Staff correctly pointed  
19 out that the NARUC Uniform System of Accounts for Class A Water Utilities, under  
20 the section entitled Utility Plant - Land and Land Rights, states as follows:

21 When the purchase of land for utility operations requires the purchase of more  
22 land than needed for such purposes, the charge to the specific land account  
23 shall be based upon the cost of the land purchased, less the fair market value  
24 of that portion of the land which is not to be used in utility operations. The  
25 portion of the cost measured by the fair market value of the land not to be  
26 used shall be included in account 103 - Property Held for Future Use, or  
27 account 121 - Non-utility Property, as appropriate.

28

1 In its report, Staff recommended that the cost of the land purchased be allocated  
2 between uplands and lakes based upon either the direct acreage method or the lump  
3 sum purchase method. The direct method recommended by Staff allocated the cost  
4 between land and upland, excluding the wetlands in the calculations. This resulted in  
5 a more conservative approach, as the inclusion of wetlands would have decreased the  
6 portion allocated to lakes.

7  
8 Q. WHAT IS YOUR RECOMMENDATION?

9 A. We agree with Staff's recommendation that the purchase be allocated between Water  
10 Source Land - Account 303 and Account 121 - Nonutility Property, based on the direct  
11 acreage method, excluding the wetlands in the calculation. This resulted in 60.1% of  
12 the total cost being allocated to Account 121 - Non-Utility Property. As shown on  
13 Schedule 11, Utility Land should be reduced by \$5,833,617 in order to reflect the  
14 actual Collier land costs and the allocation of a portion of the cost to Account 121 -  
15 Non-Utility Property.

16  
17 Marco Island Water Source of Supply Costs

18 Q. PLEASE DISCUSS SSU'S REQUEST RELATED TO THE RECOVERY OF THE  
19 DEFERRED MARCO ISLAND WATER SOURCE OF SUPPLY COSTS.

20 A. Prior to SSU's ultimate purchase of the Collier property, SSU had undergone  
21 significant efforts to obtain a raw water supply source for its Marco Island service area.  
22 These efforts included: (1) attempt to renegotiate the Collier water lease; (2)  
23 attempted purchase of Dude pit property; (3) attempt to interconnect with the City of  
24 Naples' water supply source; and (4) obtaining additional water supplies from an  
25 already existing SSU land parcel. The first three of the efforts mentioned above failed.

1 SSU has transferred the costs associated with its four separate efforts into a deferred  
2 debit account and is now requesting recovery of the deferral over a five year  
3 amortization period, with the unamortized balance being included as an increase to  
4 rate base.

5

6 Q. WHAT IMPACT DOES SSU'S REQUEST HAVE ON THE RATE FILING?

7 A. SSU has deferred a total of \$1,465,808 associated with the four separate attempted  
8 water supply efforts. SSU has included \$1,319,227 in rate base related to the efforts,  
9 representing the average test year balance of its proposed deferred debit balance. SSU  
10 has also included \$293,162 in pro forma amortization expense associated with a five  
11 year amortization of the deferral.

12

13 Q. SHOULD SSU BE PERMITTED ITS PROPOSED DEFERRED DEBIT  
14 TREATMENT?

15 A. No, it should not. To the best of our knowledge, SSU has not specifically sought or  
16 obtained permission from the Florida Public Service Commission to defer the costs.  
17 SSU should not be permitted to arbitrarily defer costs for future recovery via rates.  
18 Some of the charges that SSU has included in its proposed deferral date back as far as  
19 June 1990. In response to Citizens Interrogatory No. 151, SSU provided the project  
20 summaries for each of the four efforts. The summary contained a listing of each of the  
21 items charged to each of the four separate efforts. The entire deferral of \$1,465,808  
22 relates to charges that were invoiced to SSU over the period June 1990 through  
23 November 1994. There are additional reasons that the deferrals associated with each  
24 of the four separate efforts should be disallowed.

25

1 Q. PLEASE DISCUSS THE ATTEMPTED RENEGOTIATION OF THE COLLIER  
2 WATER LEASE.

3 A. Prior to SSU's acquiring the Collier property, SSU obtained water from the lakes on  
4 the property via a lease, which was set to expire on December 31, 1994. SSU  
5 attempted to renegotiate the lease prior to its expiration. It was after SSU determined  
6 that the Collier family would not renegotiate the lease that SSU proceeded to attempt  
7 to purchase the Collier property. SSU has included all costs associated with its  
8 attempt to renegotiate the lease, totaling \$59,639, in its proposed deferred debit.  
9 According to information provided by SSU in the response to Citizens Interrogatory  
10 No. 151, the costs were charged to SSU during the period February 1992 through  
11 August 1993. Also included in SSU's proposed total cost is \$816 of overhead charges.

12  
13 Q. WHY ARE YOU RECOMMENDING THAT SSU'S PROPOSED DEFERRAL  
14 ASSOCIATED WITH THE ATTEMPTED LEASE RENEGOTIATIONS BE  
15 DISALLOWED?

16 A. The Company's attempted renegotiations failed. Such failed renegotiation costs should  
17 have been treated by SSU as a expense during the period that such costs were  
18 incurred. SSU has no basis for treating the lease renegotiation costs differently than it  
19 would treat any other costs incurred for legal matters, i.e., expensing them in the  
20 period in which they were incurred. Additionally, SSU did not obtain specific  
21 Commission permission to defer these costs, which were incurred during 1992 and  
22 1993. SSU should not be permitted to now come in and request that these historic  
23 costs be included in rates. Additionally, it is inappropriate for SSU to begin to  
24 amortize these period costs in 1996, over three years subsequent to when the actual  
25 costs were incurred.

1 SSU's request to include overhead charges in the deferral is also completely  
2 inappropriate. SSU did not construct any facilities in its attempt to renegotiate the  
3 lease. Consequently, overhead charges should not be applied to the renegotiation costs.  
4 We also question why some of the specific charges incurred by SSU were categorized  
5 by SSU as being directly associated with the water lease renegotiation costs. Such  
6 charges include \$13,051 for an inspection of the property and \$851 for a title search  
7 and title copies.

8

9 Q. PLEASE DISCUSS SSU'S EFFORTS TO INTERCONNECT WITH THE CITY OF  
10 NAPLES' RAW WATER SUPPLY.

11 A. SSU incurred total legal and consulting costs of \$483,362 associated with its attempted  
12 interconnection with the City of Naples' raw water supply source. These costs were  
13 incurred by SSU over the period October 1992 through December 1994. SSU has also  
14 proposed to include an additional \$6,120 in the attempted interconnection costs for  
15 overhead charges that SSU allocated to its efforts. This brings SSU overall proposed  
16 cost to \$489,482.

17

18 Q. SHOULD SSU BE PERMITTED TO INCLUDE ITS PROPOSED DEFERRAL IN  
19 RATES?

20 A. No, it should not. First, SSU did not obtain specific Commission permission to defer  
21 these costs. Additionally, SSU has presented no evidence to compel the parties that  
22 these costs should be treated as anything other than normal period expenses. SSU  
23 should have charged these costs to expense during the 1992 through 1994 period in  
24 which the costs were incurred. SSU should not be permitted to now recover these  
25 costs which SSU arbitrarily deferred via rates, beginning in 1996. Additionally, SSU

1 should not have allocated overhead costs to its attempted interconnection efforts.

2

3 Q. WHAT LEVEL OF COSTS HAS SSU DEFERRED ASSOCIATED WITH THE  
4 ATTEMPTED DUDE PIT PROPERTY PURCHASE?

5 A. SSU is requesting to recover \$886,409 associated with its attempted purchase of the  
6 Dude property. Included in the amount are costs associated with engineering services,  
7 appraisal and survey services, legal services, permitting appeals, marketing, travel and  
8 \$11,082 of overhead allocations. These charges were invoiced to SSU over the four  
9 year period, June 1990 through May 1994.

10

11 Q. SHOULD SSU BE PERMITTED TO RECOVER THESE COSTS IN CURRENT  
12 RATES?

13 A. No, it should not. Consistent with our position on SSU's other Marco Island deferred  
14 raw water source of supply charges, these costs should have been charged to expense  
15 over the period in which they were incurred. At the very least, they should have been  
16 charged to expense in the period in which SSU determined that the purchase would  
17 not go through. Some of these charges were incurred by SSU over five years prior to  
18 the beginning of the future test year. Yet, SSU is proposing to accumulate all of the  
19 charges and begin to defer such costs beginning in 1996, apparently to ensure that all  
20 of the related costs are included in rates charged to current ratepayers. SSU accepted  
21 the risk that the purchase may not go through prior to its incurring significant  
22 engineering and legal costs associated with the property. SSU now apparently wishes  
23 to be held completely harmless from its past decisions by recovering the costs from  
24 ratepayers, regardless of the ultimate outcome of its actions.

25



1 Q. ARE THERE ANY SPECIFIC COSTS CHARGED TO THE DUDE PROPERTY  
2 DEFERRAL WHICH YOU QUESTION?

3 A. Yes. For example, SSU has included costs associated with charges from Image  
4 Marketing Associates. It is our understanding that Image Marketing Associates does a  
5 great deal of SSU's advertising, including image building advertising. We question  
6 why any marketing charges were allocated to the attempted property purchase. SSU's  
7 allocation of overhead charges to the attempted purchase is also clearly inappropriate.

8  
9 At the time the negotiations were in progress for SSU's attempted purchase of the  
10 property, the property was in foreclosure. Through the negotiations SSU was required  
11 to pay half of a \$180,000 charge to defer the foreclosure action. The charge was non-  
12 refundable unless the property was actually acquired by SSU. SSU ended up paying  
13 the full amount contingent on future reimbursement from another party for the other  
14 \$90,000. SSU has included the total \$180,000 in its proposed deferral. This is clearly  
15 inappropriate.

16  
17 Q. PLEASE DISCUSS SSU'S DEFERRAL OF COSTS ASSOCIATED WITH  
18 ATTEMPTING TO OBTAIN ADDITIONAL WATER SUPPLIES FROM PROPERTY  
19 ALREADY OWNED BY SSU.

20 A. SSU included \$30,279 (including \$379 of allocated overhead) in costs associated with  
21 its design and permitting of a new wellfield on its 160 acre land parcel. The costs,  
22 consisting primarily of charges for a Raw Water Source Alternative Analysis conducted  
23 by Hartman & Associates, were invoiced to SSU during the period September 1992  
24 through April 1993. Such deferred costs should not be included in rate base via SSU's  
25 proposed deferred debit.

1 Q. HOW SHOULD SUCH COSTS HAVE BEEN TREATED BY SSU?

2 A. The costs should have either been expensed during the period incurred or should  
3 continue to be deferred and ultimately charged to the new wellfield that will be built,  
4 with subsequent depreciation over the life of the wells. Which of these treatments  
5 would be appropriate is dependant upon what services were provided to SSU in the  
6 Raw Water Source Alternative Analysis. However, such costs clearly should not have  
7 been deferred for recovery in the current rate case via SSU's proposed deferred debit.

8  
9 Q. ARE THERE ANY ADDITIONAL REASONS WHY THESE COSTS SHOULD BE  
10 DISALLOWED?

11 A. Yes. Even if it was appropriate for SSU to defer such costs to be capitalized as part of  
12 the wellfield project, the costs should not be included in the current case. The 160  
13 acres upon which SSU proposes to build the new wellfield is discussed in a subsequent  
14 section of this testimony. The land is the same land that SSU has attempted in this  
15 case to transfer from plant held for future use to land in service. The Company does  
16 not know, at this point, whether the land, and related wellfield, will be used and useful  
17 in the provision of service to customers before the end of the future test year.  
18 Consequently, the land and the related engineering and permitting costs should be  
19 excluded from rate base at this time.

20  
21 Q. WHAT ADJUSTMENT IS NECESSARY TO EXCLUDE THE IMPACTS OF SSU'S  
22 PROPOSED DEFERRED MARCO ISLAND WATER SOURCE OF SUPPLY COSTS  
23 FROM THE FUTURE TEST YEAR?

24 A. As shown on Schedule 12, rate base should be reduced by \$1,319,227 to remove SSU's  
25 proposed test year average deferred debit balance. Additionally, test year expenses

1 should be reduced by \$293,162 to remove SSU's proposed amortization of the deferral.

2

3 Transfer Land Back to Property Held For Future Use

4 Q. PLEASE DISCUSS SSU'S PROPOSED ADJUSTMENT TO TRANSFER LAND  
5 FROM PROPERTY HELD FOR FUTURE USE TO PLANT IN SERVICE.

6 A. SSU has proposed an adjustment to transfer four parcels of land from plant held for  
7 future use to plant in service. The adjustment increases SSU's proposed utility land  
8 by \$267,155. According to the Direct Testimony of SSU Witness Judith Kimball, the  
9 land was removed from rate base as non-used and useful in SSU's last rate case. The  
10 Company proposes to transfer the parcels to used and useful land in the current case.

11

12 Q. DO YOU AGREE WITH SSU'S PROPOSED ADJUSTMENT?

13 A. No, not in its entirety. According to SSU's response to Citizens Interrogatory No. 167,  
14 the Company intends to utilize two of the four sites, the Citrus Springs site and the  
15 Marion Oaks site, for the provision of utility service to customers by the end of the  
16 future test year. Consequently, we are not taking issue with SSU's transfer of these  
17 two sites, totaling \$13,300, to utility land. However, we do take issue with SSU's  
18 transfer of the Deltona site (\$33,000) and the Marco Island site (\$220,855). It is our  
19 position that these two site should remain in property held for future use at this time.

20

21 Q. WHY SHOULD THE TWO SITES REMAIN IN PROPERTY HELD FOR FUTURE  
22 USE?

23 A. Based on the information provided by SSU, it does not appear as though these sites  
24 will be used and useful prior to the end of the future test year. Citizens Interrogatory  
25 No. 167 asked SSU when it anticipates that the Deltona Lakes site will be used in the

1 provision of water to customers. SSU responded that "It is not known at this time  
2 when service will be required from this site." Additionally, Citizens Interrogatory No.  
3 151 asked SSU when it anticipated that the wells that SSU intends to build on the  
4 Marco Island site will be used in the provision of services. SSU responded as follows:  
5 "It is estimated (anticipated) that the wells will be used in the provision of service in  
6 the next five years." Additionally, SSU Witness Westrick was asked during deposition  
7 if he knew when in the next five years the wells will be utilized for the provision of  
8 service. Mr. Westrick responded that he did not know.

9  
10 Q. WHAT IS YOUR RECOMMENDATION IN REGARD TO THE TWO SITES?

11 A. Obviously, based on SSU's various responses, it is not known, at this point in time,  
12 whether or not the Deltona and Marco Island sites will be used for the provision of  
13 services to customers prior to the end of the future test year. Consequently, we  
14 recommend that SSU's proposed adjustment to transfer these sites into rate base,  
15 totaling \$253,885, be disallowed. Our recommended adjustment is presented on  
16 Schedule 13.

17  
18 Accumulated Depreciation - Non-Used and Useful Mains

19 Q. WHAT IS THE PURPOSE OF THE ADJUSTMENT PRESENTED ON SCHEDULE  
20 14?

21 A. The purpose of this adjustment is to remove SSU's proposed adjustment to  
22 accumulated depreciation for non-used and useful mains, which is retroactive and  
23 inappropriate for determining going-level rate base. The adjustment increases SSU's  
24 proposed accumulated depreciation by \$592,634 in order to remove the impacts of  
25 SSU's proposed adjustment.

1 Q. PLEASE DESCRIBE SSU'S ADJUSTMENT, WHICH YOU ARE REMOVING.

2 A. SSU made an adjustment to the beginning balance of accumulated depreciation in its  
3 MFRs for the future test year. SSU Witness Judith Kimball describes the purpose of  
4 the adjustment in her Direct Testimony as follows:

5 It represents the cumulative effect of depreciation taken on non-useful assets  
6 through 1991 and 1992-1994 depreciation expense on non-useful water and  
7 wastewater mains at Deltona Lakes and Marco Island. The Company has not  
8 had the opportunity to recover the carrying costs of these assets as these plants  
9 do not have AFPI tariffs for mains. The Company was not recovering this  
10 expense in its AFPI factor through 1991, thus it was improper to recognize the  
11 expense in the rate case. When rates were established, any depreciation  
12 expense related to these non-useful assets was removed from expense in the  
13 revenue requirement calculation. As a result, it is also being removed from  
14 accumulated depreciation in the current docket. (Page 15, lines 4 - 14)

15

16 Q. IS SSU'S PROPOSED ADJUSTMENT APPROPRIATE?

17 A. No, it is not appropriate. Apparently, SSU has gone back in this case and re-evaluated  
18 its position taken in past cases. In instances in which SSU currently feels that it  
19 should have taken a different position in previous cases, SSU is now seeking to  
20 retroactively reflect the impact of positions it feels it should have taken. There is  
21 absolutely no reason that SSU could not have requested Commission permission to  
22 offset accumulated depreciation in prior rate cases for the portion associated with non-  
23 useful assets. Clearly, as indicated in Ms. Kimball's direct testimony, SSU did offset  
24 depreciation expense in those cases to recognize that a portion of the assets were non-  
25 used and useful. There was no apparent reason that SSU could not have requested  
26 similar treatment in those cases for accumulated depreciation. There is no reason to  
27 allow SSU to now come in and request retroactive treatment for facts it overlooked in  
28 the past, in some cases going as far back as pre-1991, over four years ago.

29

1 Q. WHY DIDN'T SSU REQUEST THAT THE ACCUMULATED DEPRECIATION BE  
2 OFFSET FOR THE NON-USED AND USEFUL PORTION IN THE PRIOR RATE  
3 CASES INSTEAD OF WAITING UNTIL THIS CASE AND REQUESTING THE  
4 CUMULATIVE IMPACT?

5 A. Citizens Interrogatory No. 152 asked SSU why it did not seek such treatment in its  
6 previous rate case proceedings. SSU responded as follows:

7 The Company did not request the adjustment to accumulated depreciation in  
8 prior proceedings for non-used and useful distribution and collection assets at  
9 plants without offsetting AFPI recovery. Prior to this application, records of  
10 sufficient detail allowed for an accurate adjustment were not available. As a  
11 result, the Company suffered from a lower revenue requirement than should  
12 have been the case in the prior rate proceedings and throughout the period  
13 when we were developing the necessary information.

14

15 Q. DOES THE COMPANY'S RESPONSE PRESENT A VALID REASON FOR  
16 ALLOWING SSU TO NOW RETROACTIVELY ADJUST ACCUMULATED  
17 DEPRECIATION?

18 A. No, it does not. As indicated in the Direct Testimony of Judith Kimball, as previously  
19 quoted, the Company was able to offset depreciation expense in the past cases for non-  
20 useful assets. At the time of the previous cases, SSU had to have known which  
21 systems it was and was not collecting AFPI tariffs in. As accumulated depreciation  
22 balances is a derivative of the depreciation expense calculations, it seems logical that  
23 the amount of offset to accumulated depreciation should have also been readily  
24 available to SSU. The Company's response to Citizens Interrogatory No. 152 stated  
25 that the Company feels that it "suffered from a lower revenue requirement than should  
26 have been the case in the prior rate proceedings". Apparently, SSU would now like to  
27 come in and make up for the "lower revenue requirement" it feels it received in the  
28 prior proceedings in the current case. In the prior cases, the Commission set what it

1 felt was just and reasonable rates for SSU based on the factual evidence presented to  
2 it.

3

4 Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING?

5 A. We are recommending that SSU's proposed adjustment be disallowed in its entirety, as  
6 presented in Schedule 14. As shown on the schedule, our recommended adjustment  
7 takes into account the amount of SSU's proposed accumulated depreciation adjustment  
8 that we would have already removed in our non-used and useful accumulated  
9 depreciation adjustment presented in Schedule 3.

10

11 Accumulated Depreciation - Change in Depreciation Rates

12 Q. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT TO ACCUMULATED  
13 DEPRECIATION RELATED TO A CHANGE IN DEPRECIATION RATES.

14 A. In a prior rate case utilizing a 1991 test year, the Company's proposed depreciation  
15 expense was based on the average life rates resulting from Rule 25-30.140. The new  
16 utility rates resulting from the respective case, Docket No. 920199-WS, did not go into  
17 effect until September 1993. The Company is taking the position that it was not  
18 proper to reflect the new depreciation lives on its books "until such time as the revenue  
19 to recover the expense associated with those rates is generated." (Direct Testimony of  
20 Judith Kimball, page 24) Consequently, SSU is proposing, in the current case, to  
21 restate accumulated depreciation for the period 1991 through August 1993 to reflect  
22 the prior depreciation rates utilized by SSU.

23

24 Additionally, SSU adjusted its depreciation rates to reflect the Rule 25-30.140 rates in  
25 1989 for several of the Deltona plants for Docket No. 900329-WS, which was

1 subsequently dismissed. The new rates were carried forward to Docket No. 920199-  
2 WS. SSU stated that the accumulated depreciation "should have been changed to  
3 build-up for the following rate cases, but it never was." Apparently, SSU feels that it  
4 should not have been required to reflect the new depreciation rates for ratemaking  
5 purposes until such time that the new depreciation rates were recovered in customer  
6 charges.

7  
8 Q. SHOULD SSU'S PROPOSED ADJUSTMENT TO ACCUMULATED DEPRECIATION  
9 BE PERMITTED?

10 A. No, it should not. SSU's preposition that it should not be required to reflect higher  
11 expenses on its books "until such time as the revenue to recover the expense associated  
12 with those rates is generated" is inappropriate. SSU should not be permitted to  
13 retroactively adjust its books for items that it feels it has not fully recovered in rates in  
14 the past. Consequently, we recommend that SSU's proposed adjustment to its MFRs  
15 be disallowed. As shown on Schedule 15, rate base should be decreased by \$527,690 in  
16 order to remove SSU's proposed decrease in accumulated depreciation, in its entirety.  
17 The adjustment takes into account the amount that would have already been removed  
18 in Schedule 3 - Non-Used and Useful Accumulated Depreciation.

19  
20  
21 CIAC Amortization - Overstatement

22 Q. WHAT IS THE PURPOSE OF YOUR ADJUSTMENT PRESENTED ON LINE 18 OF  
23 SCHEDULE 1, ENTITLED "CIAC AMORTIZATION - OVERSTATEMENT"?

24 A. According to Staff's audit report, SSU agreed that there was an error in the MFRs in  
25 regards to accumulated amortization of CIAC. The error resulted from the sale of



1 Deltona Lakes to Volusia County. The Company retired \$10,451 of CIAC - water, but  
2 failed to retire the associated accumulated amortization of the CIAC. In response to  
3 FPSC Document Request No. 22, SSU indicated as follows:

4 It appears that the MFRs did not pick up this retirement of amortization  
5 which accounts for \$10,451 of the total difference. In other words, water  
6 accumulated amortization on the MFRs is overstated by \$10,451.  
7

8 Consequently, we have reflected this correction on Schedule 1 at line 18.  
9

10 Acquisition Adjustment

11 Q. WHAT IS AN ACQUISITION ADJUSTMENT?

12 A. An acquisition adjustment is essentially the difference in the purchase price paid to  
13 acquire a utility asset or group of such assets and the depreciated original cost of those  
14 assets at the date of acquisition. In simple terms, an acquisition adjustment represents  
15 the difference between the purchase price paid, including acquisition related costs, and  
16 the rate base determined as of the date of the transfer.  
17

18 The NARUC Uniform System of Accounts ("USOA") for water utilities contains the  
19 following specifications for acquisition adjustments:

20 114. Utility Plant Acquisition Adjustments

21  
22 A. This account shall include the difference between (a) the cost to the  
23 accounting utility of utility plant acquired as an operating unit or system by  
24 purchase, merger, consolidation, liquidation, or otherwise, and (b) the original  
25 cost, estimated, if not known, of such property, less the amount or amounts  
26 credited by the accounting utility at the time of acquisition to accumulated  
27 depreciation, accumulated amortization and contributions in aid of construction  
28 with respect to such property.  
29

30 B. This account shall be subdivided so as to show the amounts included  
31 herein for each property acquisition and the amounts applicable to each utility  
32 department and to utility plant in service and utility plant leased to others. ...  
33

1 C. The amounts recorded in this account with respect to each property  
2 acquisition shall be amortized, or otherwise disposed of, as the Commission  
3 may approve or direct.

4 The USOA for sewer utilities contains similar specifications.

5

6 Q. PLEASE STATE YOUR UNDERSTANDING OF THE COMMISSION'S POLICY  
7 CONCERNING ACQUISITION ADJUSTMENTS.

8 A. The Commission's policy concerning acquisition adjustments, as stated in Order 23024,  
9 has been that, in the absence of extraordinary circumstances, a subsequent purchase of  
10 a utility system at a premium or discount does not affect the rate base calculation:

11 An acquisition adjustment results when the purchase price differs from the  
12 rate base calculation. It is Commission policy that in the absence of  
13 extraordinary circumstances a subsequent purchase of a utility system at a  
14 premium or discount shall not affect the rate base calculation.  
15 (90 FPSC 6:22)

16

17 Additionally, it appears that in instances where an acquisition adjustment exists, the  
18 Commission also gives consideration to whether the utility has requested rate base  
19 inclusion of the acquisition adjustment. For example, in Order No. 23024, Docket No.  
20 891321-WU, involving the transfer of assets from Gospel Island Estates to SSU, Inc.,  
21 the Commission stated:

22 The circumstances in this exchange do not appear to be extraordinary, nor has  
23 Southern States requested an acquisition adjustment. Therefore, an  
24 acquisition adjustment is not included in the calculation of rate base.  
25 (90 FPSC 6:22)

26

27 Q. HAS THE COMPANY RECORDED ACQUISITION ADJUSTMENTS FOR ANY OF  
28 THE WATER AND SEWER SYSTEMS INCLUDED IN THIS FILING?

29 A. Yes. In response to Citizens Interrogatory No. 16, the Company provided the

1 acquisition adjustments recorded on its books on a system by system basis.  
2 Additionally, the Commission has approved of the inclusion of acquisition adjustments  
3 in the past for twelve of SSU's water systems and six of SSU's sewer systems,  
4 resulting in net negative acquisition adjustments of (\$64,578) for FPSC regulated  
5 water systems and (\$519,787) for FPSC regulated sewer systems.

6

7 Q. SHOULD THE NEGATIVE ACQUISITION ADJUSTMENTS RECORDED ON THE  
8 BOOKS OF SSU FOR THE UTILITY SYSTEMS IN THIS CASE BE REFLECTED IN  
9 THE DETERMINATION OF RATE BASE?

10 A. Yes. The negative acquisition adjustments resulting from SSU/Topeka Group's  
11 purchase of utility systems should be reflected in the determination of rate base in this  
12 proceeding.

13

14 Q. HAVE YOU PREPARED A SCHEDULE LISTING THE NEGATIVE ACQUISITION  
15 ADJUSTMENTS PROPOSED FOR REFLECTION IN RATE BASE?

16 A. Yes, the acquisition adjustments recorded on SSU's books as of December 31, 1994 are  
17 listed on Schedule 17, page 1, on a system by system basis for those systems in which  
18 SSU has realized a negative acquisition adjustment. We should note that the negative  
19 acquisition adjustments presented on the schedule for the Lehigh acquisition and the  
20 Deltona/United systems differ from the amount of acquisition adjustment purported by  
21 SSU. The Citizens disagrees with SSU's calculation of the acquisition adjustment on  
22 these purchases. We discuss these two acquisition adjustments in a subsequent  
23 section of this testimony.

24

25 Additionally, for the systems in which the Commission has specifically allowed for an

1 acquisition adjustment in previous rate cases, the amount approved by the  
2 Commission, on both a positive and negative basis, is included in the schedule.

3  
4 As shown on the schedule, the overall negative acquisition adjustments, along with the  
5 acquisition adjustments previously approved by the Commission, totaled \$13,644,489 as  
6 of the end of the historic test year. It is this amount that should be offset against rate  
7 base.

8  
9 Q. FOR WHAT REASONS SHOULD THESE NEGATIVE ACQUISITION  
10 ADJUSTMENTS BE RECOGNIZED IN THE DETERMINATION OF RATE BASE?

11 A. These negative acquisition adjustments should be recognized for several reasons.

12  
13 First, in most instances, it was Southern States Utilities/Topeka Group's choice to  
14 invest in the acquired systems. SSU/Topeka Group was not forced to invest in these  
15 utilities; they did so voluntarily. According to evidence presented in response to  
16 Citizens request for Production of Document No. 38, out of the 141 FPSC regulated  
17 systems owned by the SSU/Topeka Group, SSU identified that the FPSC or a  
18 representative thereof specifically encouraged only four of the system purchases.

19  
20 Second, the fact that the acquisition price for these systems was below the depreciated  
21 original cost may indicate that the depreciated original cost overstated the value of the  
22 acquired assets in terms of providing utility service to customers. It appears that these  
23 systems were acquired by SSU/Topeka group in arms' length transactions. There is  
24 no presumption of collusion involved here. Nor does it appear these were abusive  
25 transfers having the primary purpose of inflating the rate base, as occurred during the

1 1930s and 1940s during the heyday of the great utility holding company systems. The  
2 fact that SSU/Topeka Group was able to acquire these systems in an arm's length  
3 transaction at a price below depreciated original book cost suggests that the true value  
4 of the assets acquired is less than net book value. This should be recognized in the  
5 determination of rate base by incorporating the negative acquisition adjustment.  
6

7 Third, and most important, unless the negative acquisition adjustments are reflected in  
8 the rate base determination, SSU/Topeka Group's investors will earn an overall rate of  
9 return on assets which are not supported by their investment. These investors have  
10 not funded the full amount of the depreciated original cost rate base. Their  
11 investment is somewhat less. The difference, of course, is represented by the negative  
12 acquisition adjustment. Reflecting the negative acquisition adjustment is necessary to  
13 bring the rate base into line with SSU/Topeka Group's actual investment in the utility  
14 assets. If this is not done, SSU/Topeka Group will continue to receive a windfall. It  
15 will continue to earn on assets in which it has no investment. It will inappropriately  
16 receive an "unearned" return. In other words, ratepayers will be required to pay both  
17 a return and depreciation expense on investment which was not actually made, which  
18 is clearly a violation of well-established regulatory principles.  
19

20 Fourth, the negative acquisition adjustment issue should be viewed in the context of  
21 this rate case, considering the large level of increases being requested by SSU in this  
22 case. Additionally, all of SSU's FPSC regulated systems are included in this filing,  
23 making now the perfect opportunity for the Commission to address this issue on a  
24 total SSU basis, rather than piecemeal in future SSU rate cases that may include only  
25 selected systems.

1 Q. ARE THERE ANY ADDITIONAL REASONS THAT NEGATIVE ACQUISITION  
2 ADJUSTMENTS OUGHT TO BE REFLECTED IN THE RATE BASE?

3 A. An asset generally sells for less than its depreciated value for one of two reasons.

4

5 First, the asset has generally deteriorated at a rate greater than the depreciation rate  
6 used has reflected. Therefore, the asset, in reality, through normal wear and tear has  
7 deteriorated in value far greater than the books have indicated.

8

9 Second, the asset has not been properly maintained because the motivation of the  
10 owner was not originally to enter into the utility business. These temporary utility  
11 owners were motivated generally by the desire to market real estate and did not  
12 maintain facilities in order to provide reasonable and adequate service. These utilities'  
13 facilities, therefore, have deteriorated because of a lack of maintenance or a lack of  
14 proper installation in the initial phase. The original owner, in a desire to keep utility  
15 rates down, did not maintain the utility property because higher rates may have  
16 discouraged sales of real estate lots that he was constructing to residents. These  
17 artificially low utility rates allowed the developer to sell his property by maintaining  
18 lower than normal utility rates. The property, therefore, deteriorated and, when it was  
19 sold, it was sold at a real market value absent normal maintenance. Ratepayers  
20 should receive the effect of this negative acquisition adjustment in their rates, since the  
21 underlying reason for the lower than book value sale of the assets was a lack of  
22 reasonable maintenance. If the Commission were not to reflect these negative  
23 acquisition adjustments, these ratepayers who have been subsidizing the developer by  
24 paying rates which should have reflected normal maintenance, now find themselves in  
25 a position where they have to make up the level of maintenance that was neglected by

1 paying a rate of return and depreciation on deteriorated assets.

2

3 Q. WOULDNT REFLECTING THE NEGATIVE ACQUISITION ADJUSTMENTS IN  
4 RATE BASE DISCOURAGE NECESSARY IMPROVEMENTS AND REPAIRS?

5 A. We do not believe that recognizing the negative acquisition adjustments in rate base  
6 would discourage necessary system improvements and repairs. Utility regulation  
7 provides a cost-plus environment for utilities whereby necessary capital improvements  
8 and normal, recurring expenses, if prudently incurred, are recoverable, along with the  
9 opportunity to earn a reasonable return on the investment made.

10

11 Q. ARE YOU RECOMMENDING THAT THE COMMISSION ABANDON ITS POLICY  
12 WITH RESPECT TO POSITIVE ACQUISITION ADJUSTMENTS?

13 A. No, we are not. Because of the widespread abuses concerning transferred utility asset  
14 write-ups which occurred in the past and the potential for future abuse, there is a need  
15 to view positive acquisition adjustments with a much higher degree of regulatory  
16 skepticism and scrutiny. Reflecting a negative acquisition adjustment in the  
17 determination of rate base harms neither the utility's investors (since they have no  
18 investment) nor the ratepayers. On the other hand, given the potential for abuse and  
19 for harm to ratepayers, there should continue to be a heavy burden of proof upon the  
20 utility to justify why a positive acquisition adjustment is deserving of rate base  
21 treatment. Correspondingly, the Commission should continue its presumption against  
22 such treatment unless the utility can show that extraordinary circumstances exist.

23

24 Q. HAVE YOU ALSO REFLECTED THE AMORTIZATION OF THE NEGATIVE  
25 ACQUISITION ADJUSTMENTS IN THE DETERMINATION OF NET OPERATING

1 INCOME FOR THE AFFECTED UTILITY SYSTEMS?

2 A. Yes. This is necessary to protect ratepayers from paying for the return of an  
3 investment the utility has not made and to prevent shareholders from over-recovering  
4 their actual investment. The amortization amounts are summarized on Schedule 18  
5 and result in a \$327,051 reduction in future test year amortization expense.  
6 Additionally, Schedule 18 reflects, as an offset to our recommended negative  
7 acquisition adjustment, the 1996 average accumulated amortization of each of the  
8 negative acquisition adjustments, totaling \$2,240,626.

9  
10 Q. HOW DID YOU DETERMINE THE AMOUNT OF ACCUMULATED  
11 AMORTIZATION AND ANNUAL OFFSET TO AMORTIZATION EXPENSE?

12 A. In response to Citizens Interrogatory No. 16, SSU provided the amount of accumulated  
13 amortization as of December 31, 1994 and the annual amortization expense for the  
14 FPSC approved acquisition adjustments. For the FPSC approved amounts, we carried  
15 the amortization forward to the future test year and reflected the test year average  
16 accumulated amortization amount.

17  
18 Unfortunately, SSU's response to Citizens Interrogatory No. 16 failed to provide the  
19 amount of accumulated amortization recorded on SSU's books, or the annual  
20 amortization expense for each of the non-FPSC approved acquisition adjustments.  
21 However, via a letter to the Office of Public Counsel from SSU's General Counsel,  
22 Brian Armstrong, dated November 7, 1995, SSU indicated the following:

23 Interrogatory No. 16: SSU provided Public Counsel with information  
24 concerning acquisitions and acquisition adjustments in Appendix DR38-A and  
25 DR16-A. SSU provided Public Counsel with the amortizations for PSC  
26 approved acquisition adjustments because these are the only adjustments  
27 which are included in the rate base calculations in the MFRs in this case.



1 Appendix 38-A and 16-A provide each plant's acquisition adjustment at  
2 12/31/94 as well as the date of acquisition. With the information now in  
3 Public Counsel's possession, the amortization balances for acquisition  
4 adjustments not approved by the Commission can be derived by applying a 40  
5 year amortization.

6  
7 As a result of SSU's instructions provided in the letter, we have calculated an  
8 estimated accumulated amortization and annual amortization expense for the non-  
9 FPSC approved acquisition adjustments based on a 40 year amortization period, taking  
10 into account the purchase date for each respective system. The results are presented  
11 on Schedule 18.

12  
13 Acquisition Adjustment - Lehigh

14 Q. YOU PREVIOUSLY STATED THAT THE CITIZENS DOES NOT AGREE WITH  
15 SSU'S CALCULATION OF THE ACQUISITION ADJUSTMENT RELATED TO THE  
16 LEHIGH PURCHASE. PLEASE EXPLAIN.

17 A. At the time that SSU acquired the Lehigh Corporation, SSU/Topeka Group acquired  
18 more than just a utility. SSU also required a large amount of real estate, including  
19 golf courses and hotels. The overall purchase price for the Lehigh Corporation was  
20 \$40 million. At the time of purchase, the assets of the Lehigh Corporation totaled  
21 approximately \$99 million. Consequently, when the purchase is looked at as a whole,  
22 SSU/Topeka Group received assets of \$59 million above the purchase price paid.  
23 Consequently, a negative acquisition adjustment of approximately \$59 million existed  
24 in the overall Lehigh Corporation purchase.

25  
26 However, at the time of the purchase, SSU/Topeka Group apparently took the position  
27 that they paid at least 100% of the asset value for the utility assets, with all of the

1 discount on assets being applicable to the non-utility assets. This is apparent by the  
2 fact that SSU has actually recorded a positive acquisition adjustment on its books for  
3 the utility portion of the purchase.

4  
5 Q. DO YOU AGREE WITH SSU'S POSITION?

6 A. No. The purchase price paid for Lehigh Corporation should be allocated between  
7 utility and non-utility businesses based upon the proportion of assets for the utility and  
8 non-utility operations. As shown on page 2 of Schedule 17, at the time of the purchase  
9 of Lehigh Corporation, approximately 6.567% of the total assets purchased were utility  
10 assets. Consequently, the same percentage, 6.567%, of the overall negative acquisition  
11 adjustment of \$59 million should be allocated to the utility portion of the purchase. As  
12 shown on the schedule, this allocation results in a negative acquisition adjustment for  
13 the utility operations of \$3,873,763. It is the (\$3,873,763) that we have reflected on  
14 page 1 of Schedule 17 as the acquisition adjustment for Lehigh.

15

16 Acquisition Adjustment - Deltona/United Systems

17 Q. PLEASE DISCUSS THE ACQUISITION ADJUSTMENT ASSOCIATED WITH THE  
18 PURCHASE OF THE DELTONA/UNITED SYSTEMS.

19 A. According to SSU's response to Citizens POD-38, SSU has not recorded an acquisition  
20 adjustment, either positive or negative, for each of the systems acquired in the  
21 purchase. However, there was a significant negative acquisition adjustment inherent  
22 in the purchase. Our recommended negative acquisition adjustment, totaling  
23 approximately \$7.57 million, is presented on page 3 of Schedule 17.

24

25 Q. PLEASE EXPLAIN THE CALCULATION PRESENTED IN THE SCHEDULE.

1 A. The Citizens have analyzed information on the acquisition that was produced by  
2 Southern States in Docket Nos. 920199 and 920655. SSU has alleged that it paid  
3 \$40,305,000 for the purchase of the Deltona / United systems. However, based on the  
4 Citizens' analysis, it was determined that the purchase price purported by SSU  
5 included \$11.3 million of non-cash outlays and organization costs and \$7 million  
6 associated with a settlement of a lawsuit related to the acquisition. The non-cash  
7 outlays and the settlement amounts should be excluded from the purchase price paid  
8 for purposes of calculating the acquisition adjustment. Excluding these costs results in  
9 an adjusted purchase price of \$22 million. Additionally, as the acquisition consisted of  
10 a stock purchase, the amount of debt assumed by SSU should be considered in the  
11 analysis. SSU assumed \$30 million of debt as part of the acquisition. Inclusion of the  
12 debt assumed results in an overall cost to SSU/Topeka Group of \$52 million.

13  
14 At the time of the purchase, the assets acquired by SSU totaled \$59,571,712. The  
15 subtraction of the total assets at the time of the purchase from the Citizens adjusted  
16 cost results in a negative acquisition adjustment for the systems acquired of  
17 \$7,571,712. It is this amount that we have reflected on page 1 of Schedule 17 as the  
18 overall negative acquisition adjustment associated with the Deltona / United  
19 acquisition.

20  
21 V. ADJUSTMENTS TO OPERATING INCOME

22 Salary & Wage Expense

23 Q. WHAT IS THE PURPOSE OF YOUR ADJUSTMENTS TO SALARY AND WAGE  
24 EXPENSE APPEARING ON SCHEDULES 19 AND 20?

25 A. The purpose of the adjustments presented on Schedules 19 and 20 is to present the

1 impact on SSU's proposed future test year salary and wage expense resulting from  
2 Citizens Witness Paul Katz's recommendations.

3

4 Q. PLEASE EXPLAIN.

5 A. Citizens Witness Paul Katz has recommended that SSU's projected wage increases for  
6 the future test year be disallowed in their entirety. Consequently, Mr. Katz is  
7 sponsoring the theory behind the disallowance, while we are sponsoring the  
8 calculations necessary to reflect the impact of his recommendations on SSU's proposed  
9 future test year expenses.

10

11 Q. WHAT LEVEL OF SALARY AND WAGE INCREASES HAS SSU INCLUDED IN  
12 PROJECTED TEST YEAR EXPENSES?

13 A. Essentially, SSU's adjustment is twofold. SSU began its future test year salary and  
14 wage expense calculations with its projected 1995 salary and wage expense, which  
15 included the impacts of a projected 1995 salary and wage increase of 5.81%. SSU then  
16 applied a projected 5.87% salary and wage increase to the 1995 salary and wage  
17 expense. To the resulting amount, SSU added additional salary and wage expense  
18 associated with its reallocation of common costs, which resulted in a higher level of  
19 common costs being charged to FPSC regulated systems due to the addition of new  
20 regulated systems, such as the projected Buenaventura purchase. SSU then applied its  
21 proposed "market adjustment" (otherwise known as the Hewitt Study adjustment) of  
22 4.765% to the total. The combination of these two separate projected 1996 wage  
23 increases resulted in an overall projected salary and wage increase during 1996 of  
24 10.91%. This is in addition to the 5.81% average increase projected to be granted to  
25 employees in 1995.

1 Q. WHAT ADJUSTMENT IS NECESSARY TO REMOVE THE IMPACTS OF BOTH OF  
2 SSU'S PROJECTED 1996 WAGE INCREASES FROM FUTURE TEST YEAR  
3 SALARY AND WAGE EXPENSE?

4 A. As shown on Schedules 19 and 20, future test year expenses should be reduced by  
5 \$593,755 and \$433,297 for FPSC regulated water and sewer systems, respectively, for a  
6 cumulative reduction to test year expenses of \$1,027,052.

7  
8 Q. WHAT IMPACT DOES THE RECOMMENDED ADJUSTMENTS TO SALARY AND  
9 WAGE EXPENSE HAVE ON TEST YEAR PAYROLL TAX EXPENSE?

10 A. As shown on Schedule 21, test year payroll tax expense needs to be reduced by \$82,164  
11 to reflect the impact of the recommended salary and wage expense adjustments.

12  
13 Corporate Insurance

14 Q. SHOULD SSU'S PROPOSED FUTURE TEST YEAR CORPORATE INSURANCE  
15 EXPENSE BE ADOPTED WITHOUT REVISION?

16 A. No, it should not. SSU's future test year corporate insurance expense was based on its  
17 budgeted test year expense, grossed up by its proposed 1.95% attrition factor. The  
18 corporate insurance budget includes the following types of insurance: workers'  
19 compensation, general liability, property damage, high risk property damage, flood,  
20 auto liability, inland marine, excess liability, directors and officers liability and excess  
21 auto. In response to Citizens Interrogatory No. 252, Appendix 252-A, SSU provided  
22 the actual premiums for each of its insurance types for 1992 through 1995 and the  
23 budgeted 1995 amounts by type. Based on SSU's response, on a total SSU basis, the  
24 actual 1995 premiums for insurance are \$140,846 less than the \$757,940 budgeted  
25 amount. As a result, we recommend that SSU's projected property insurance be

1 revised based upon the actual insurance premiums paid in 1995.

2

3 Q. ARE THERE ANY PARTICULAR TYPES OF INSURANCE IN WHICH SSU'S 1995  
4 BUDGET APPEARS TO BE SIGNIFICANTLY LARGER THAN THE ACTUAL  
5 PREMIUMS?

6 A. Yes. In particular, SSU's budgeted workers' compensation cost is significantly higher  
7 than both the 1994 and 1995 actual premiums. In fact, based on a review of the  
8 response to Citizens Interrogatory No. 252, it appears as though the workers'  
9 compensation insurance cost to SSU has been consistently declining since at least 1992.  
10 The 1992 cost was \$388,599 while the actual 1994 cost was \$186,063. The actual  
11 premium paid in 1995 was \$136,023. This is significantly less than the \$250,000  
12 projected by SSU for budgeting purposes.

13

14 Q. ARE THE PREMIUMS PROVIDED IN RESPONSE TO CITIZENS  
15 INTERROGATORY NO. 252 SUBJECT TO ANY TRUE-UPS?

16 A. SSU indicated in its response to the interrogatory that "The premiums for Workers'  
17 Compensation, General Liability and Auto Liability are subject to year-end audits  
18 which could result in additional premiums being charged or credits being issued." SSU  
19 also indicated that the true-ups will not be known until January, 1996. However, as  
20 SSU has presented no evidence in this case which indicates that it will be charged  
21 additional premiums or credits, we recommend that the actual 1995 premiums, prior  
22 to true-up, be utilized in estimating future test year corporate insurance expense. It is  
23 likely that SSU's insurers attempted to estimate what the actual cost will be in  
24 determining the premium that needs to be collected, in order to avoid significant true-  
25 ups. Consequently, based on the lack of evidence presented to the contrary, we

1 continue to recommend that future test year corporate insurance costs be estimated  
2 based on the actual 1995 premiums to SSU to date, i.e., prior to any positive or  
3 negative true-ups.

4  
5 Q. WHAT ADJUSTMENT TO SSU'S PROPOSED FUTURE TEST YEAR CORPORATE  
6 INSURANCE EXPENSE DO YOU RECOMMEND?

7 A. Our recommended adjustment to corporate insurance expense, which reduces SSU's  
8 proposed expense by \$96,458, is presented on Schedule 22. As indicated on the  
9 schedule, our adjusted corporate insurance expense allows for the actual 1995  
10 insurance premiums grossed-up by 1.95% to account for attrition, based on SSU's  
11 proposed attrition factor. The resulting estimated 1996 insurance premiums, totaling  
12 \$629,127, are then allocated to FPSC regulated insurance expense based on the  
13 percentage derived from SSU's recommended amounts. The allocation would account  
14 for both the removal of the non-FPSC regulated amounts and the allocation of a  
15 portion of the costs to overhead as opposed to expense.

16  
17 Non-Used and Useful Property Tax Expense

18 Q. DID SSU ADJUST ITS TEST YEAR PROPERTY TAX EXPENSE TO REFLECT THE  
19 FACT THAT A PORTION OF SUCH EXPENSE PERTAINS TO COMPANY ASSETS  
20 THAT ARE NOT USED AND USEFUL IN THE PROVISION OF UTILITY  
21 SERVICE?

22 A. Yes. On a service area by service area basis, SSU applied the average non-used and  
23 useful percentage for each respective service area to its adjusted projected 1996  
24 property tax expense for the service area.

25

1 Q. YOU STATED THAT SSU APPLIED THE PERCENTAGES TO ITS ADJUSTED  
2 PROJECTED 1996 PROPERTY TAX EXPENSE. WHAT ADJUSTMENTS DID SSU  
3 MAKE TO ITS PROJECTED 1996 PROPERTY TAX EXPENSE?

4 A. The Company has asserted that several of the counties in which it operates takes into  
5 consideration the fact that a portion of the utilities assets are not used and useful via  
6 the application of a percentage reduction to certain plant accounts in determining the  
7 tax basis to which the respective tax rate is applied. Consequently, SSU asserts that,  
8 for the affected service area, the respective property tax expense does not include a  
9 charge on the plant that would be considered non-used and useful. In calculating its  
10 adjustment, SSU applied the respective county mill rates to the amount of plant that  
11 would have been removed by the county in determining the property tax expense.  
12 SSU then adjusted its projected test year property tax expense for each of these service  
13 areas to reflect the property tax expense that would be charged if the county  
14 considered the assets 100% used and useful. The Company then applies its average  
15 non-used and useful percentage for the service area to the adjusted property tax  
16 expense to determine the amount of non-used and useful offset.

17  
18 Q. ARE YOU PROPOSING ANY ADJUSTMENTS TO SSU'S PROPOSED TEST YEAR  
19 PROPERTY TAX EXPENSE?

20 A. Yes, we are proposing an adjustment to property tax expense. Our adjustment, which  
21 is presented on Schedule 23, recalculates the appropriate non-used and useful offset to  
22 property tax expense based on the non-used and useful rates recommended by Citizens  
23 Witness Bidy. Similar to SSU's calculations, we have applied the average non-used  
24 and useful rates, by service area, to the respective service area's projected property tax  
25 expense. As shown on page 5 of the schedule, the revised calculations result in an



1 additional \$731,678 offset to property tax expense.

2

3 Q. ARE THERE ANY ADDITIONAL REASONS THAT SSU'S PROPOSED PROPERTY  
4 TAX EXPENSE SHOULD BE ADJUSTED?

5 A. Yes. For seven of SSU's service areas, SSU's proposed used and useful property tax  
6 expense is higher than the level of property taxes that SSU actually projects that it will  
7 have to pay. As previously discussed, SSU adjusted the property tax expense for the  
8 service areas in which the respective county offsets a portion of assets by a non-used  
9 and useful percentage. In theory, SSU's adjustment is appropriate. If the respective  
10 township currently does not charge property tax expense on assets the township  
11 considers non-used and useful, it would not be appropriate to simply apply the average  
12 non-used and useful percentage to the township adjusted property tax expense.  
13 However, the Company should not be permitted to collect via rates a level of property  
14 tax expense that is larger than the amount that SSU will actually have to pay to the  
15 county.

16

17 Q. PLEASE EXPLAIN.

18 A. In seven of the systems in which SSU "added back" the assets excluded by the  
19 respective county in determining the test year property tax expense, the Company's  
20 calculations result in its calculated used and useful property tax expense actually  
21 exceeding the amount of property tax expense that SSU has projected that it will  
22 actually have to pay the respective county. These seven systems include: Deltona  
23 Lakes - Water, Marco Shores - Water, Marion Oaks - Water, Pine Ridge - Water,  
24 Sunny Hills - Water, Deltona Lake - Sewer and Marion Oaks - Sewer. Schedule 24  
25 presents, for each of these systems, the amount of property tax that SSU is projecting

1 it will actually have to pay, SSU's property tax add-back adjustment and the total used  
2 and useful property tax expense being proposed by SSU. For these systems, SSU  
3 should not be permitted to collect from ratepayers an amount for property taxes which  
4 exceed the amounts that SSU projects that they will actually have to pay. As shown  
5 on Schedule 24, SSU's proposed property tax expense for the seven systems exceed the  
6 amount that it projects it will actually have to pay by \$54,894.

7  
8 Q. HAVE YOU FURTHER ADJUSTED THE PROPERTY TAX EXPENSE FOR THESE  
9 SEVEN SYSTEMS?

10 A. No, we have not. For each of the seven systems, the average non-used and useful  
11 percentages recommended by Citizens Witness Bidy exceeds the percentage requested  
12 by the Company. Consequently, the application of our recommended average non-used  
13 and useful percentages to SSU's projected property tax expense, as shown on Schedule  
14 23, resulted in our recommended future test year property tax expense being less than  
15 the amount that SSU projects it will have to actually pay. Consequently, if our non-  
16 used and useful adjustment is adopted by the Commission, then the concern is  
17 alleviated.

18  
19 Property Tax Discounts

20 Q. DOES SSU RECEIVE DISCOUNTS ON PROPERTY TAXES PAID TO THE  
21 COUNTIES?

22 A. Yes. During the historic test year, SSU received \$134,768 in discounts on invoiced  
23 property taxes from the counties. SSU Witness Morris Bencini indicated during  
24 depositions that the discounts are the result of paying property taxes by certain dates.

25

1 Q. IN RECORDING PROPERTY TAX EXPENSE, DOES THE COMPANY BOOK THE  
2 INVOICED PROPERTY TAXES OR THE AMOUNT OF PROPERTY TAXES  
3 ACTUALLY PAID?

4 A. The Company books the total invoiced property tax amount to property tax expense in  
5 account 4081.1000. The discount is credited to Account 6758.0000.256 - Miscellaneous  
6 Expense - Discounts.

7

8 Q. DID SSU INCLUDE THE DISCOUNTS RECEIVED ON PROPERTY TAXES IN THE  
9 FUTURE TEST YEAR?

10 A. During depositions, SSU Witness Morris Bencini was asked if discounts on property  
11 tax expense were included in the future test year. Mr. Bencini indicated that  
12 discounts on property taxes would be included in the operating budget, which is the  
13 basis of the interim test year, under miscellaneous expense, Cost Element Code 256 -  
14 Discounts. However, upon review of the 1995 operating budget, we determined that  
15 there were no budgeted charges (neither credits nor debits) to cost element code 256 -  
16 Discounts. Consequently, the discounts that SSU receives for property taxes would not  
17 be reflected in the future test year.

18

19 Q. WHAT IS YOUR RECOMMENDATION?

20 A. The Company's proposed future test year property tax expense, which is based on the  
21 full projected invoiced property taxes, should be reduced to reflect the fact that SSU  
22 receives discounts on the invoiced amounts. As shown on Schedule 25, future test  
23 year property tax expense should be reduced by \$108,331. The amount was derived  
24 based on the application of the average discount received on property taxes during  
25 1994 to the adjusted future test year property tax expense for the FPSC regulated

1 counties.

2

3 Income Tax Expense - Parent Debt Adjustment

4 Q. HAVE YOU REVIEWED THE CALCULATION OF SSU'S PARENT DEBT  
5 ADJUSTMENT?

6 A. Yes. SSU Schedule C-8, page 1 of 2, presented the capital structure that SSU used in  
7 deriving its proposed parent debt adjustment, which reduces income tax expense. SSU  
8 witness Bruce Gangnon was questioned regarding some of the details of this, as well as  
9 other income tax issues, during his deposition on November 6, 1995.

10

11 Q. WHAT REASON DID MR. GANGNON PROVIDE FOR INCLUDING  
12 ACCUMULATED INVESTMENT TAX CREDITS IN THE CAPITAL STRUCTURE  
13 OF MINNESOTA POWER & LIGHT ON COMPANY SCHEDULE C-8, PAGE 1 OF 2,  
14 FOR PURPOSES OF COMPUTING THE PARENT DEBT ADJUSTMENT?

15 A. Mr. Gangnon indicated that such Accumulated ITC was included in error, and that it  
16 should be removed.

17

18 Q. DO YOU AGREE THAT IT SHOULD BE REMOVED?

19 A. Yes. Since the deferred ITC has a cost rate for regulatory purposes of the overall cost  
20 of capital, SSU's calculation, which had included it in the capital structure at zero cost,  
21 served to understate the proportion of long-term debt in the capital structure and the  
22 weighted cost of long-term debt. Moreover, any deferred ITC at the parent company  
23 (MP&L) level, would not relate to assets at Southern States Utilities. Rather, the  
24 deferred ITC at the MP&L parent company level on MP&L's books would relate to ITC  
25 generated on MP&L's assets, not on SSU's assets. Since the deferred ITC at the

1 MP&L level has nothing to do with the SSU assets, it should not be included in the  
2 MP&L capital structure for purposes of computing the parent debt adjustment.

3

4 Q. HAVE YOU PREPARED A CALCULATION OF THE NECESSARY ADJUSTMENT?

5 A. Yes. This is shown in Exhibit \_\_ (HL-1), Schedule 26. For ease of reference, these  
6 schedules are formatted similar to the schedules presented in SSU's rate filing,  
7 specifically, the C Schedules presented in MFR Volume IV. Schedule 26, page 1,  
8 shows the \$18,027 decrease to the amount of income tax expense that was reflected in  
9 SSU's rate filing that is necessary to reflect the revisions. (See Column E, line 16.)  
10 Income tax expense for SSU's water and wastewater utilities decreases by \$9,765 and  
11 \$8,262, respectively. (See Columns F and G, line 16, respectively.)

12

13 Page 2 of Schedule 26 shows the calculation of the parent debt adjustment. Pages 3  
14 and 4 shows the MP&L and Topeka Group capital structures that were used in the  
15 calculation.

16

17 Q. DOES THIS COMPLETE YOUR TESTIMONY?

18 A. Yes, at this time. However, as of the date this testimony was completed, the Citizens  
19 were still awaiting several late filed exhibits that may impact this testimony and other  
20 Citizens' Witnesses testimonies. The review of the remaining outstanding Late Filed  
21 Exhibits may result in additional recommendations and modifications of our existing  
22 recommendations. As such, we reserve the right to update this testimony at a future  
23 time.

APPENDIX I

QUALIFICATIONS OF HUGH LARKIN, JR.

Q. WHAT IS YOUR OCCUPATION?

A. I am a certified public accountant and a partner in the firm of Larkin & Associates, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I graduated from Michigan State University in 1960. During 1961 and 1962, I fulfilled my military obligations as an officer in the United States Army.

In 1963 I was employed by the certified public accounting firm of Peat, Marwick, Mitchell & Co., as a junior accountant. I became a certified public accountant in 1966.

In 1968 I was promoted to the supervisory level at Peat, Marwick, Mitchell & Co. As such, my duties included the direction and review of audits of various types of business organizations, including manufacturing, service, sales and regulated companies.

Through my education and auditing experience of manufacturing operations, I obtained an extensive background of theoretical and practical cost accounting.

I have audited companies having job cost systems and those having process cost systems, utilizing both historical and standard costs.

I have a working knowledge of cost control, budgets and reports, the accumulation of overheads and the application of same to products on the various recognized methods.

Additionally, I designed and installed a job cost system for an automotive parts manufacturer.

I gained experience in the audit of regulated companies as the supervisor in charge of all railroad audits for the Detroit office of Peat, Marwick, including audits of the Detroit, Toledo and Ironton Railroad, the Ann Arbor Railroad, and portions of the Penn Central Railroad Company. In 1967, I was the supervisory senior accountant in charge of the audit of the Michigan State Highway Department, for which Peat, Marwick was employed by the State Auditor General and the Attorney General.

In October of 1969, I left Peat, Marwick to become a partner in the public accounting firm of Tischler & Lipson of Detroit. In April of 1970, I left the latter firm to form the certified public accounting firm of Larkin, Chapski & Company. In September 1982 I re-organized the firm into Larkin & Associates, a certified public accounting firm. The firm of Larkin & Associates performs a wide variety of auditing and accounting services, but concentrates in the area of utility regulation and ratemaking. I am a member of the Michigan Association of Certified Public Accountants and the American Institute of Certified Public Accountants. I testified before the Michigan Public Service Commission and in other states in the following cases:

U-3749	Consumers Power Company - Electric Michigan Public Service Commission
U-3910	Detroit Edison Company Michigan Public Service Commission
U-4331	Consumers Power Company - Gas Michigan Public Service Commission
U-4332	Consumers Power Company - Electric Michigan Public Service Commission
U-4293	Michigan Bell Telephone Company Michigan Public Service Commission
U-4498	Michigan Consolidated Gas sale to Consumers Power Company Michigan Public Service Commission
U-4576	Consumers Power Company - Electric Michigan Public Service Commission
U-4575	Michigan Bell Telephone Company Michigan Public Service Commission
U-4331R	Consumers Power Company - Gas - Rehearing Michigan Public Service Commission
6813	Chesapeake and Potomac Telephone Company of Maryland, Public Service Commission, State of Maryland
Formal Case No. 2090	New England Telephone and Telegraph Co. State of Maine Public Utilities Commission
Dockets 574, 575, 576	Sierra Pacific Power Company, Public Service Commission, State of Nevada

U-5131	Michigan Power Company Michigan Public Service Commission
U-5125	Michigan Bell Telephone Company Michigan Public Service Commission
R-4840 & U-4621	Consumers Power Company Michigan Public Service Commission
U-4835	Hickory Telephone Company Michigan Public Service Commission
36626	Sierra Pacific Power Company v. Public Service Commission, et al, First Judicial District Court of the State of Nevada
American Arbitration Assoc.	City of Wyoming v. General Electric Cable TV
760842-TP	Southern Bell Telephone and Telegraph Company, Florida Public Service Commission
U-5331	Consumers Power Company Michigan Public Service Commission
U-5125R	Michigan Bell Telephone Company Michigan Public Service Commission
770491-TP	Winter Park Telephone Company, Florida Public Service Commission
77-554-EL-AIR	Ohio Edison Co., Public Utility Commission of Ohio
78-284-EL-AEM	Dayton Power and Light Co., Public Utility Commission of Ohio
0R78-1	Trans Alaska Pipeline, Federal Energy Regulatory Commission (FERC)
78-622-EL-FAC	Ohio Edison Co., Public Utility Commission of Ohio
U-5732	Consumers Power Company - Gas, Michigan Public Service Commission
77-1249-EL-AIR, et al	Ohio Edison Co., Public Utility Commission of Ohio
78-677-EL-AIR	Cleveland Electric Illuminating Co., Public Utility Commission of Ohio
U-5979	Consumers Power Company, Michigan Public Service Commission
790084-TP	General Telephone Company of Florida, Florida Public Service Commission
79-11-EL-AIR	Cincinnati Gas and Electric Co., Public Utilities Commission of Ohio



790316-WS	Jacksonville Suburban Utilities Corp., Florida Public Service Commission
790317-WS	Southern Utility Company, Florida Public Service Commission
U-1345	Arizona Public Service Company, Arizona Corporation Commission
79-537-EL-AIR	Cleveland Electric Illuminating Co., Public Utilities Commission of Ohio
800011-EU	Tampa Electric Company, Florida Public Service Commission
800001-EU	Gulf Power Company, Florida Public Service Commission
U-5979-R	Consumers Power Company, Michigan Public Service Commission
800119-EU	Florida Power Corporation, Florida Public Service Commission
810035-TP	Southern Bell Telephone and Telegraph Company, Florida Public Service Commission
800367-WS	General Development Utilities, Inc., Port Malabar, Florida Public Service Commission
TR-81-208**	Southwestern Bell Telephone Company, Missouri Public Service Commission **Issues Stipulated
810095-TP	General Telephone Company of Florida, Florida Public Service Commission
U-6794	Michigan Consolidated Gas Company, 16 refunds Michigan Public Service Commission
U-6798	Cogeneration and Small Power Production -PURPA, Michigan Public Service Commission
810136-EU	Gulf Power Company, Florida Public Service Commission
E-002/GR-81-342	Northern State Power Company Minnesota Public Utilities Commission
820001-EU	General Investigation of Fuel Cost Recovery Clauses, Florida Public Service Commission
810210-TP	Florida Telephone Corporation, Florida Public Service Commission

810211-TP	United Telephone Co. of Florida, Florida Public Service Commission
810251-TP	Quincy Telephone Company, Florida Public Service Commission
810252-TP	Orange City Telephone Company, Florida Public Service Commission
8400	East Kentucky Power Cooperative, Inc., Kentucky Public Service Commission
U-6949	Detroit Edison Company - Partial and Immediate Rate Increase Michigan Public Service Commission
18328	Alabama Gas Corporation, Alabama Public Service Commission
U-6949	Detroit Edison Company - Final Rate Recommendation Michigan Public Service Commission
820007-EU	Tampa Electric Company, Florida Public Service Commission
820097-EU	Florida Power & Light Company, Florida Public Service Commission
820150-EU	Gulf Power Company, Florida Public Service Commission
18416	Alabama Power Company, Public Service Commission of Alabama
820100-EU	Florida Power Corporation, Florida Public Service Commission
U-7236	Detroit Edison-Burlington Northern Refund - Michigan Public Service Commission
U-6633-R	Detroit Edison - MRCS Program, Michigan Public Service Commission
U-6797-R	Consumers Power Company - MRCS Program, Michigan Public Service Commission
82-267-EFC	Dayton Power & Light Company, Public Utility Commission of Ohio
U-5510-R	Consumers Power Company - Energy Conservation Finance Program, Michigan Public Service Commission
82-240-E	South Carolina Electric & Gas Company, South Carolina Public Service Commission

8624	Kentucky Utilities, Kentucky Public Service Commission
8648	East Kentucky Power Cooperative, Inc., Kentucky Public Service Commission
U-7065	The Detroit Edison Company (Fermi II), Michigan Public Service Commission
U-7350	Generic Working Capital Requirements, Michigan Public Service Commission
820294-TP	Southern Bell Telephone Company, Florida Public Service Commission
Order RH-1-83	Westcoast Gas Transmission Company, Ltd., Canadian National Energy Board
8738	Columbia Gas of Kentucky, Inc., Kentucky Public Service Commission
82-168-EL-EFC	Cleveland Electric Illuminating Company, Public Utility Commission of Ohio
6714	Michigan Consolidated Gas Company Phase II, Michigan Public Service Commission
82-165-EL-EFC	Toledo Edison Company, Public Utility Commission of Ohio
830012-EU	Tampa Electric Company, Florida Public Service Commission
ER-83-206**	Arkansas Power & Light Company, Missouri Public Service Commission **Issues Stipulated
U-4758	The Detroit Edison Company - (Refunds), Michigan Public Service Commission
8836	Kentucky American Water Company, Kentucky Public Service Commission
8839	Western Kentucky Gas Company, Kentucky Public Service Commission
83-07-15	Connecticut Light & Power Company, Department of Utility Control State of Connecticut
81-0485-WS	Palm Coast Utility Corporation, Florida Public Service Commission
U-7650	Consumers Power Company - (Partial and Immediate), Michigan Public Service Commission

83-662**	Continental Telephone Company, Nevada Public Service Commission **Issues Stipulated
U-7650	Consumers Power Company - Final Michigan Public Service Commission
U-6488-R	Detroit Edison Co. (FAC & PIPAC Reconciliation), Michigan Public Service Commission
Docket No. 15684	Louisiana Power & Light Company, Public Service Commission of the State of Louisiana
U-7650 Reopened	Consumers Power Company (Reopened Hearings) Michigan Public Service Commission
38-1039**	CP National Telephone Corporation Nevada Public Service Commission **Issues Stipulated
83-1226	Sierra Pacific Power Company (Re application to form holding company), Nevada Public Service Commission
U-7395 & U-7397	Campaign Ballot Proposals Michigan Public Service Commission
820013-WS	Seacoast Utilities Florida Public Service Commission
U-7660	Detroit Edison Company Michigan Public Service Commission
U-7802	Michigan Gas Utilities Company Michigan Public Service Commission
830465-EI	Florida Power & Light Company Florida Public Service Commission
U-7777	Michigan Consolidated Gas Company Michigan Public Service Commission
U-7779	Consumers Power Company Michigan Public Service Commission
U-7480-R	Michigan Consolidated Gas Company Michigan Public Service Commission
U-7488-R	Consumers Power Company - Gas Michigan Public Service Commission
U-7484-R	Michigan Gas Utilities Company Michigan Public Service Commission
U-7550-R	Detroit Edison Company Michigan Public Service Commission

U-7477-R Indiana & Michigan Electric Company  
Michigan Public Service Commission

U-7512-R Consumers Power Company - Electric  
Michigan Public Service Commission

18978 Continental Telephone Company of the South - Alabama,  
Alabama Public Service Commission

9003 Columbia Gas of Kentucky, Inc.  
Kentucky Public Service Commission

R-842583 Duquesne Light Company  
Pennsylvania Public Utility Commission

9006\* Big Rivers Electric Corporation  
Kentucky Public Service Commission  
\*Company withdrew filing

U-7830 Consumers Power Company - Electric (Partial and Immediate)  
Michigan Public Service Commission

7675 Consumers Power Company - Customer Refunds  
Michigan Public Service Commission

5779 Houston Lighting & Power Company  
Texas Public Utility Commission

U-7830 Consumers Power Company - Electric -  
"Financial Stabilization"  
Michigan Public Service Commission

U-4620 Mississippi Power & Light Company (Interim)  
Mississippi Public Service Commission

U-16091 Louisiana Power & Light Company  
Louisiana Public Service Commission

9163 Big Rivers Electric Corporation  
Kentucky Public Service Commission

U-7830 Consumers Power Company - Electric - (Final)  
Michigan Public Service Commission

U-4620 Mississippi Power & Light Company - (Final)  
Mississippi Public Service Commission

76-18788AA  
& 76-18793AA Detroit Edison (Refund - Appeal of U-4807) Ingham County  
Circuit Court  
Michigan Public Service Commission

U-6633-R Detroit Edison (MRCS Program Reconciliation)  
Michigan Public Service Commission

19297 Continental Telephone Company of the South - Alabama,  
Alabama Public Service Commission

9283	Kentucky American Water Company Kentucky Public Service Commission
850050-EI	Tampa Electric Company Florida Public Service Commission
R-850021	Duquesne Light Company Pennsylvania Public Service Commission
TR-85-179**	United Telephone Company of Missouri Missouri Public Service Commission
6350	El Paso Electric Company The Public Utility Board of the City of El Paso
6350	El Paso Electric Company Public Utility Commission of Texas
85-53476AA & 85-534855AA	Detroit Edison-refund-Appeal of U-4758 Ingham County Circuit Court Michigan Public Service Commission
U-8091/ U-8239	Consumers Power Company-Gas Michigan Public Service Commission
9430	Leslie County Telephone Company, Inc. Kentucky Public Service Commission
85-212	Central Maine Power Company Maine Public Service Commission
850782-EI & 850783-EI	Florida Power & Light Company Florida Public Service Commission
ER-85646001 & ER-85647001	New England Power Company Federal Energy Regulatory Commission
Civil Action * No. 2:85-0652	Allegheny & Western Energy Corporation, Plaintiff, - against - The Columbia Gas System, Inc., Defendant
Docket No. 850031-WS	Orange Osceola Utilities, Inc. Before the Florida Public Service Commission
Docket No. 840419-SU	Florida Cities Water Company South Ft. Myers Sewer Operations Before the Florida Public Service Commission
R-860378	Duquesne Light Company Pennsylvania Public Service Commission
R-850267	Pennsylvania Power Company Pennsylvania Public Service Commission

R-860378	Duquesne Light Company - Surrebuttal Testimony - OCA Statement No. 2D Pennsylvania Public Service Commission
Docket No. 850151	Marco Island Utility Company Before the Florida Public Service Commission
Docket No. 7195 (Interim)	Gulf States Utilities Company Public Utility Commission of Texas
R-850267 Reopened	Pennsylvania Power Company Pennsylvania Public Service Commission
Docket No. 87-01-03	Connecticut Natural Gas Corporation Connecticut Department of Public Utility Control
Docket No. 5740	Hawaiian Electric Company Hawaii Public Utilities Commission
1345-85-367	Arizona Public Service Company Arizona Corporation Commission
Docket 011 No. 86-11-019	Tax Reform Act of 1986 - California Generic, California Public Utilities Commission
Case No. 29484	Long Island Lighting Company New York Department of Public Service
Docket No. 7460	El Paso Electric Company Public Utility Commission of Texas
Docket No. 870092-WS*	Citrus Springs Utilities Before the Florida Public Service Commission
Case No. 9892	Dickerson Lumber EP Company - Complainant vs. Farmers Rural Electric Cooperative and East Kentucky Power Cooperative - Defendants Before the Kentucky Public Service Commission
Docket No. 3673-U	Georgia Power Company Before the Georgia Public Service Commission
Docket No. U-8747	Anchorage Water and Wastewater Utility Report on Management Audit
Docket No. 861564-WS	Century Utilities Before the Florida Public Service Commission
Docket No. FA86-19-001	Systems Energy Resources, Inc. Federal Energy Regulatory Commission
Docket No. 870347-TI	AT&T Communications of the Southern States, Inc. Florida Public Service Commission

Docket No. 870980-WS	St. Augustine Shores Utilities Inc. Florida Public Service Commission
Docket No. 870654-WS*	North Naples Utilities, Inc. Florida Public Service Commission
Docket No. 870853	Pennsylvania Gas & Water Company Pennsylvania Public Utility Commission
Civil Action* No. 87-0446-R	Reynolds Metals Company, Plaintiff, v. The Columbia Gas System, Inc., Commonwealth Gas Services, Inc., Commonwealth Gas Pipeline Corporation, Columbia Gas Transmission Corporation, Columbia Gulf Transmission Company, Defendants - In the United States District Court for the Eastern District of Virginia Richmond Division
Docket No. E-2, Sub 537	Carolina Power & Light Company North Carolina Utilities Commission
Case No. U-7830	Consumers Power Company - Step 2 Reopened Michigan Public Service Commission
Docket No. 880069-TL	Southern Bell Telephone & Telegraph Florida Public Service Commission
Case No. U-7830	Consumers Power Company - Step 3B Michigan Public Service Commission
Docket No. 880355-EI	Florida Power & Light Company Florida Public Service Commission
Docket No. 880360-EI	Gulf Power Company Florida Public Service Commission
Docket No. FA86-19-002	System Energy Resources, Inc. Federal Energy Regulatory Commission
Docket Nos. 83-0537-Remand & 84-0555-Remand	Commonwealth Edison Company Illinois Commerce Commission
Docket Nos. 83-0537-Remand & 84-0555-Remand	Commonwealth Edison Company - Surrebuttal Illinois Commerce Commission
Docket No. 880537-SU	Key Haven Utility Corporation Florida Public Service Commission
Docket No. 881167-EI***	Gulf Power Company Florida Public Service Commission
Docket No. 881503-WS	Poinciana Utilities, Inc. Florida Public Service Commission



Cause No. U-89-2688-T	Puget Sound Power & Light Company Washington Utilities & Transportation Committee
Docket No. 89-68	Central Maine Power Company Maine Public Utilities Commission
Docket No. 861190-PU	Proposal to Amend Rule 25-14.003, F.A.C. Florida Public Service Commission
Docket No. 89-08-11	The United Illuminating Company State of Connecticut, Department of Public Utility Control
Docket No. R-891364	The Philadelphia Electric Company Pennsylvania Public Utility Commission
Formal Case No. 889	Potomac Electric Power Company Public Service Company of the District of Columbia
Case No. 88/546*	Niagara Mohawk Power Corporation, et al Plaintiffs, v. Gulf+ Western, Inc. et al, defendants (In the Supreme Court County of Onondaga, State of New York)
Case No. 87-11628*	Duquesne Light Company, et al, plaintiffs, against Gulf + Western, Inc. et al, defendants (In the Court of the Common Pleas of Allegheny County, Pennsylvania Civil Division)
Case No. 89-640-G-42T*	Mountaineer Gas Company West Virginia Public Service Commission
Docket No. 890319-EI	Florida Power & Light Company Florida Public Service Commission
Docket No. EM-89110888	Jersey Central Power & Light Company Board of Public Utilities Commissioners
Docket No. 891345-EI	Gulf Power Company Florida Public Service Commission
BPU Docket No. ER 8811 0912J	Jersey Central Power & Light Company Board of Public Utilities Commissioners
Docket No. 6531	Hawaiian Electric Company Hawaii Public Utilities Commissioners
Docket No. 890509-WU	Florida Cities Water Company, Golden Gate Division Florida Public Service Commission
Docket No. 880069-TL	Southern Bell Telephone Company Florida Public Service Commission
Docket Nos. F-3848, F-3849, and F-3850	Northwestern Bell Telephone Company South Dakota Public Utilities Commission

Docket Nos. ER89-* 678-000 & EL90-16-000	System Energy Resources, Inc. Federal Energy Regulatory Commission
Docket No. 5428	Green Mountain Power Corporation Vermont Department of Public Service
Docket No. 90-10	Artesian Water Company, Inc. Delaware Public Service Commission
Case No. 90-243-E-42T*	Wheeling Power Company West Virginia Public Service Commission
Docket No. 900329-WS	Southern States Utilities, Inc. Florida Public Service Commission
Docket Nos. ER89-* 678-000 & EL90-16-000	System Energy Resources, Inc. (Surrebuttal) Federal Energy Regulatory Commission
Application No. 90-12-018	Southern California Edison Company California Public Utilities Commission
Docket No. 90-0127	Central Illinois Lighting Company Illinois Commerce Commission
Docket No. FA-89-28-000	System Energy Resources, Inc. Federal Energy Regulatory Commission
Docket No. U-1551-90-322	Southwest Gas Corporation Before the Arizona Corporation Commission
Docket No. R-911966	Pennsylvania Gas & Water Company The Pennsylvania Public Utility Commission
Docket No. 176-717-U	United Cities Gas Company Kansas Corporation Commission
Docket No. 860001-EL-G	Florida Power Corporation Florida Public Service Commission
Docket No. 6720-TI-102	Wisconsin Bell, Inc. Wisconsin Citizens' Utility Board
(No Docket No.)	Southern Union Gas Company Before the Public Utility Regulation Board of the City of El Paso
Docket No. 6998	Hawaiian Electric Company, Inc. Before the Public Utilities Commission of the State of Hawaii
Docket No. TC91-040A	In the Matter of the Investigation into the Adoption of a Uniform Access Methodology Before the Public Utilities Commission of the State of South Dakota
Docket Nos. 911030-WS & 911067-WS	General Development Utilities, Inc. Before the Florida Public Service Commission

Docket No. 910890-EI	Florida Power Corporation Before the Florida Public Service Commission
Docket No. 910890-EI	Florida Power Corporation, Supplemental Before the Florida Public Service Commission
Case No. 3L-74159	Idaho Power Company, an Idaho corporation In the District Court of the Fourth Judicial District of the State of Idaho, In and For the County of Ada - Magistrate Division
Cause No. 39353*	Indiana Gas Company Before the Indiana Utility Regulatory Commission
Docket No. 90-0169 (Remand)	Commonwealth Edison Company Before the Illinois Commerce Commission
Docket No. 92-06-05	The United Illuminating Company State of Connecticut, Department of Public Utility Control
Cause No. 39498	PSI Energy, Inc. Before the State of Indiana - Indiana Utility Regulatory Commission
Cause No. 39498	PSI Energy, Inc. - Surrebuttal testimony Before the State of Indiana - Indiana Utility Regulatory Commission
Docket No. 7287	Public Utilities Commission - Instituting a Proceeding to Examine the Gross-up of CIAC Before the Public Utilities Commission of the State of Hawaii
Docket No. 92-227-TC	US West Communications, Inc. Before the State Corporation Commission of the State of New Mexico
Docket No. 92-47	Diamond State Telephone Company Before the Public Service Commission of the State of Delaware
Docket Nos. 920733-WS & 920734-WS	General Development Utilities, Inc. Before the Florida Public Service Commission
Docket No. 92-11-11	Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control
Docket Nos. EC92-21-000 & ER92-806-000	Entergy Corporation Before the Federal Energy Regulatory Commission
Docket No. 930405-EI	Florida Power & Light Company Before the Florida Public Service Commission
Docket No. UE-92-1262	Puget Sound Power & Light Company Before the Washington Utilities & Transportation Commission
Docket No. 93-02-04	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control

Docket No. 93-02-04	Connecticut Natural Gas Corporation - Supplemental State of Connecticut, Department of Public Utility Control
Docket No. 93-057-01	Mountain Fuel Supply Company Before the Utah Public Service Commission
Cause No. 39353 (Phase II)	Indiana Gas Company Before the Indiana Utility Regulatory Commission
PU-314-92-1060	US West Communications, Inc. Before the North Dakota Public Service Commission
Cause No. 39713	Indianapolis Water Company Before the Indiana Utility Regulatory Commission
93-UA-0301*	Mississippi Power & Light Company Before the Mississippi Public Service Commission
Docket No. 93-08-06	SNET America, Inc. State of Connecticut, Department of Public Utility Control
Docket No. 93-057-01	Mountain Fuel Supply Company - Rehearing on Unbilled Revenues - Before the Utah Public Service Commission
Case No. 78-T119-0013-94	Guam Power Authority vs. U.S. Navy Public Works Center, Guam - Assisting the Department of Defense in the investigation of a billing dispute. Before the American Arbitration Association
Application No. 93-12-025 - Phase I	Southern California Edison Company (Before the California Public Utilities Commission)
Case No. 94-0027-E-42T	Potomac Edison Company (Before the Public Service Commission of West Virginia)
Case No. 94-0035-E-42T	Monongahela Power Company (Before the Public Service Commission of West Virginia)
Docket No. 930204-WS**	Jacksonville Suburban Utilities Corporation (Before the Florida Public Service Commission)
Docket No. 5258-U	Southern Bell Telephone and Telegraph Company (Before the Georgia Public Service Commission)
Case No. 95-0011-G-42T*	Mountaineer Gas Company (Before the West Virginia Public Service Commission)
Case No. 95-0003-G-42T*	Hope Gas, Inc. (Before the West Virginia Public Service Commission)

Docket No. 95-02-07

Connecticut Natural Gas Corporation  
State of Connecticut, Department of Public Utility Control

Docket No. 95-03-01

Southern New England Telephone Company  
State of Connecticut, Department of Public Utility Control

- \*Case Settled
- \*\*Issues Stipulated
- \*\*\*Company withdrew case

Additionally, I performed an investigation and analysis of Michigan Consolidated Gas Company and participated in the discussion which led to the settlement of Michigan Consolidated rate case which was culminated in Rate Order U-4166.

From April 28, 1975, to March 15, 1976, I was under contract to the Michigan House of Representatives as Technical Staff Director of a Special House Committee to study and evaluate the effectiveness of the Michigan Public Service Commission and the rates and service of public utilities. As Technical Staff Director, I supervised personnel loaned to the Committee from the State Auditor General's Office. The reports to that Committee prepared by myself and Allen Briggs, an attorney, to revise utility regulation, were adopted in virtually all material respects in its final report and recommendations and served as a basis of numerous bills introduced in the 1976 and 1977 sessions of the legislature. The Staff of the Committee, under my direction, investigated and reported to the Committee on numerous regulatory issues, including ratepayer participation in utility regulation, fuel cost adjustment clauses, purchased gas adjustment clauses, comparative electric, gas and telephone rates, treatment of subsidiaries of utilities in ratemaking, research and planning capabilities of the Michigan Public Service Commission, utility advertising, regulatory oversight of utility management, deferred taxes in ratemaking and the organizational structure and functions of the Michigan Public Service Commission.

In the course of my work as a certified public accountant, I advise clients concerning the obtaining of capital funds, and have worked with banking institutions in obtaining loans. I have participated in negotiating the sale and purchase of businesses for clients, in connection with which I have valued the physical assets of various business firms, and also determined the value of present and

future earnings measured by market rates of return. I have participated in acquisition audits on behalf of large national companies interested in acquiring smaller companies.

My testimony in utility rate cases has been sponsored by state Attorney Generals, groups of municipalities, a district attorney, Peoples' Counsel, Public Counsel, a ratepayers' committee, and I have also worked as a Staff Consultant to the Arizona Corporation Commission.

In November 1985, with two members of the firm, I presented a seminar on utility accounting for the Legal Services Regional Utilities Task Force in Atlanta, Georgia.

In September, 1988, with two members of the firm, I presented a seminar on utility accounting for the Office of Consumer Advocate, Attorney General's Office, State of Pennsylvania. Individuals from that division as well as Commission Staff members attended.

APPENDIX I

QUALIFICATIONS OF DONNA DERONNE, C.P.A.

Q. WHAT IS YOUR OCCUPATION?

A: I am a certified public accountant and regulatory consultant in the firm of Larkin & Associates, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I graduated with honors from Oakland University in Rochester, Michigan in 1991. I have been employed by the firm of Larkin & Associates since 1991.

As a certified public accountant and regulatory consultant with Larkin & Associates, my duties have included the analysis of utility rate cases, researching accounting and regulatory developments, preparation of computer models and spreadsheets, and assisting in the preparation of testimony and schedules and testifying in regulatory proceedings. Cases which I have participated in are included below:

Performed Analytical Work in the Following Cases:

Docket No. 92-06-05	The United Illuminating Company State of Connecticut, Department of Public Utility Control
Docket No. R-00922428	The Pennsylvania American Water Company Pennsylvania Public Utility Commission

Cause No. 39498	PSI Energy, Inc. Before the State of Indiana - Indiana Utility Regulatory Commission
Docket No. 6720-TI-102	Wisconsin Bell, Inc. Wisconsin Citizens' Utility Board
Docket No. 90-1069 (Remand)	Commonwealth Edison, Inc. Before the Illinois Commerce Commission
Docket Nos. 920733-WS & 920734-WS	General Development Utilities, Inc. - Port Labelle and Silver Springs Shores Divisions. Before the Florida Public Service Commission
Case No. PUE910047	Virginia Electric and Power Company (State Corporation Commission)
Docket No. U-1565-91-134	Sun City Water Company Residential Utility Consumer Office
Docket No. 930405-EI	Florida Power & Light Company Before the Florida Public Service Commission
Docket No. UE-92-1262	Puget Sound Power & Light Company Before the Washington Utilities & Transportation Commission
Docket No. R-932667	Pennsylvania Gas & Water Company Before the Pennsylvania Public Utility Commission
Docket No. 7700	Hawaiian Electric Company, Inc. Before the Public Utilities Commission of the State of Hawaii
Docket No. R-00932670	Pennsylvania American Water Company Before the Pennsylvania Public Utility Commission
Case No. 78-T119-0013-94	Guam Power Authority vs. U.S. Navy Public Works Center, Guam - Assisting the Department of Defense in the investigation of a billing dispute.
Case No. 90-256	South Central Bell Telephone Company Before the Kentucky Public Service Commission
Case No. 94-355	Cincinnati Bell Telephone Company Before the Kentucky Public Service Commission



Docket No. 7766 Hawaiian Electric Company, Inc.  
Before the Public Utilities Commission of the State of  
Hawaii

Docket No. 2216 Narragansett Bay Commission  
On Behalf of the Division of Public Utilities and Carriers,  
Before the Rhode Island Public Utilities Commission

Docket No. 2216 Narragansett Bay Commission - Surrebuttal  
On Behalf of the Division of Public Utilities and Carriers,  
Before the Rhode Island Public Utilities Commission

Docket No. 94-0097 Citizens Utilities Company, Kauai Electric Division  
Before the Public Utilities Commission of the State of  
Hawaii

Docket No. 5863 Central Vermont Public Service Corporation  
On Behalf of the Vermont Department of Public Service

Submitted Testimony in the Following Cases

Docket No. 92-11-11 Connecticut Light & Power Company  
State of Connecticut, Department of Public Utility  
Control

Docket No. 93-02-04 Connecticut Natural Gas Corporation  
State of Connecticut, Department of Public Utility  
Control

Docket No. 93-02-04 Connecticut Natural Gas Corporation  
Supplemental  
State of Connecticut, Department of Public Utility  
Control

Docket No. 95-02-07 Connecticut Natural Gas Corporation  
State of Connecticut, Department of Public Utility  
Control

Case No. 94-0035-E-42T Monongahela Power Company  
Before the Public Service Commission of West Virginia

Case No. 94-0027-E-42T

Potomac Edison Company  
Before the Public Service Commission of West Virginia

Case No. 95-0003-G-42T\*

Hope Gas, Inc.  
Before the West Virginia Public Service Commission

Case No. 95-0011-G-42T\*

Mountaineer Gas Company  
Before the West Virginia Public Service Commission

Case Settled\*

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