STATE OF FLORIDA

OFFICE OF THE PUBLIC COUNSEL

c/o The Florida Legislature
111 West Madison Street
Room 812
Tallahassee, Florida 32399-1400
904-488-9330

JACK SHREVE
PUBLIC COUNSEL

ORIGINAL FILE COPY

March 25, 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:

Enclosed is the original second supplemental testimony of Kimberly H. Dismukes. Along with this we are filing an original and 15 copies of Citizen's Motion to Allow Filing of Supplemental Testimony motion.

Southern States Utilities, Inc., claims that the documents addressed in this testimony are confidential and has filed a motion for a temporary protective order. Even though we believe that none of this testimony actually contains confidential information, it must be treated as confidential pending final resolution of this matter.

I am providing a copy of this letter and motion to all parties of record, but I am not forwarding a copy of the supplemental testimony until the Commission rules on Southern States' claim of confidentiality.

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

Sincerely,

Charles J. Beck
Deputy Public Counsel

CJB:bsr

Enclosure

cc: All parties of record
(w/o enclosure)

RECEIVED & FILED
FPSC-BUREAU OF RECORDS

motion
DOCUMENT NUMBER-DATE
03540 MAR 25 96
FPSC-RECORDS/REPORTING

testimony
DOCUMENT NUMBER-DATE
03539 MAR 25 96
FPSC-RECORDS/REPORTING

STATE OF FLORIDA

OFFICE OF THE PUBLIC COUNSEL

c/o The Florida Legislature
111 West Madison Street
Room 812
Tallahassee, Florida 32399-1400
904-488-9330

JACK SHREVE
PUBLIC COUNSEL

April 19, 1996

Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Case No. 950495-WS

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket are 15 copies of the Second Supplemental Direct Testimony of Kimberly H. Dismukes on Behalf of the Citizens of the State of Florida. An original confidential copy was filed on March 25, 1996. Southern States Utilities has since waived any claim to confidentiality respecting these materials.

Please indicate the time and date of receipt on the enclosed duplicate of this letter and return it to our office.

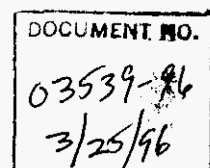
Sincerely,

Charles J. Beck
Deputy Public Counsel

CJN:bsr

Enclosures

cc: All parties of record
(with enclosure)



BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a rate increase and increase in service availability charges by Southern States Utilities, Inc.	))))	Docket No. 950495-WS Filed: March 25, 1996

Second Supplemental Testimony

of

Kimberly H. Dismukes

On Behalf of the Citizens of the State of Florida

Jack Shreve
Public Counsel

Office of the Public Counsel
c/o The Florida Legislature
111 West Madison Street
Room 812
Tallahassee, Florida 32399-1400

(904) 488-9330

Attorney for the Citizens
of the State of Florida

1 SECOND SUPPLEMENTAL TESTIMONY
2 OF
3 KIMBERLY H. DISMUKES
4
5 On Behalf of the
6 Florida Office of the Public Counsel
7
8 Before the
9 FLORIDA PUBLIC SERVICE COMMISSION
10
11 Docket No. 950495-WS
12

13 Q. What is your name and address?

14 A. Kimberly H. Dismukes, 5688 Forsythia Avenue, Baton Rouge, Louisiana 70808.

15 Q. Are you the same Kimberly H. Dismukes that prefiled direct testimony in this

16 proceeding?

17 A. Yes.

18 Q. Do you have an exhibit in support of your testimony?

19 A. Yes. Exhibit__(KHD-3) contains 3 Schedules that supports my testimony.

20 Q. What is the purpose of your supplemental testimony?

21 A. The purpose of my supplemental testimony is to address the income tax returns of

22 Southern States and its parent companies which were recently provided to the Office

23 of the Public Counsel.

24 Q. What subject regarding the income tax returns would you like to discuss?

25 A. I would like to address the acquisition of Lehigh Acquisition Corporation (LAC) by

26 Topeka Group, Inc. (TGI). In July 1991 TGI acquired a two-thirds ownership

1 interest in Lehigh Acquisition Corporation for $6.0 million. Lehigh Acquisition
2 Corporation subsequently acquired for $34.0 million the stock of Lehigh Corporation
3 and several other subsidiaries involved in real estate from the Resolution Trust
4 Corporation. Lehigh Utilities, Inc. (Lehigh Utilities, Inc. was subsequently merged
5 into SSU and is now a system of SSU) was part of this purchase. The total purchase
6 price of the assets was $40.0 million, the net book value of the assets was $99.0
7 million--representing a discount of $59.0 million or approximately 60%. At the time
8 of the purchase, Lehigh Acquisition Corporation apparently decided that the entire
9 discount associated with the acquisition should be attributed to the non-regulated
10 operations of Lehigh Acquisition Corporation and not Lehigh Utilities, Inc. (LUI).
11 The reason for this allocation is unclear. However, TGI hired Raymond James &
12 Associates, Inc. to check the reasonableness of the allocation.
13
14 The Raymond James report, which I have attached as Schedule 1 to my Exhibit,
15 essentially endorsed the allocation proposed by LAC. Raymond James endorsed the
16 allocation because 1) it essentially agreed with MPL that MPL would have paid book
17 value for the assets of Lehigh Utilities, Inc. and 2) there were numerous uncertainties
18 and contingencies associated with the non-utility assets of LAC.
19
20 Apparently, with the endorsement of Raymond James, SSU/LUI argued in LUI's last
21 rate case that all of the discount associated with the purchase of the Lehigh group
22 should be allocated entirely to the non-regulated operations of the Lehigh group.

1 From a regulatory perspective, this would prove advantageous for TGI MPL
2 because there would be less risk that the Commission would include a negative
3 acquisition adjustment in the rate base of Lehigh Utilities, Inc. Furthermore, as it
4 turns out, it provides a significant benefit to TGI and its stockholders.
5
6 As I have stated elsewhere in my prior testimony, in the last Lehigh rate case, Docket
7 No. 911188-WS, the Commission did not endorse the arguments of the Citizens
8 concerning the attribution of a 60% discount to the operations of LUI. The
9 Commission apparently believed the arguments made by SSU/LUI that the discount
10 was entirely attributable to the non-utility operations. The reasons for rejecting the
11 Citizens' arguments and adoption of the SSU/LUI's arguments were summarized by
12 Commissioner Clark at the January 19, 1993 Special Agenda conference concerning
13 the Lehigh rate case:
14 COMMISSIONER CLARK: I just want to have clear
15 in my mind an added reason for not making any
16 acquisition adjustment. It seems to me, first of all, that
17 we don't make acquisition adjustments, either up or
18 down, absent extraordinary circumstances. And what
19 would add to the argument that you not make [an]
20 adjustment in this case is that it appears that where
21
22

1 the devaluation really took place was not in the utility
2 assets, but in the property held for development. That
3 the market had -- in effect, the bottom had gone out of
4 the market, and any devaluation that took place we
5 could reasonably conclude was not really related to the
6 utility, but more related to land development value.
7 And, therefore, one could argue that there is no -- they
8 didn't pay less than book value for the utility assets.
9 [Transcript of January 19, 1993 Special Agenda
10 Conference in Docket No. 91118-WS, p. 19, emphasis
11 supplied.]

12 Q. Did the arguments made by LUI/SSU in fact materialize, i.e., that the fair value of the
13 non-utility assets was substantially below the book value of the non-utility assets?

14 A. No. SSU/LUI's arguments that the value of the non-utility assets was significantly
15 less than book or fair value is in stark contrast to how the acquisition was recorded
16 on the books of TGI. Subsequent to the Raymond James report, and LUI/SSU's
17 contention that the fair market value of LUI approximated book value and that the
18 fair market value of the non-utility operations of LAC approximated $39.0 million
19 less than book value, it was determined that the fair market value of LAC was
20 actually substantially greater than argued to the Commission in Docket No. 921118-
21 WS. In fact, instead of a fair market value of $34.0 million, the actual fair market
22 value of the non-utility assets was $96.0 million.

1 Q. Where did you obtain this information?

2 A. As part of the workpapers to the 1992 income tax returns of TGI, the Company
3 provided the financial statements and accompanying notes to the financial statements
4 of TGI. (I have included this page of the financial statements as Schedule 2 to my
5 Exhibit.) One on the notes to TGI's financial statements has particular relevance to
6 the value of the LAC. Specifically, note 5 to the financial statements discusses the
7 acquisition of Lehigh Acquisition Corporation in 1991 by TGI.

> 8 The fair value of the net assets acquired by Lehigh
> 9 Acquisition Corporation exceeded the purchase price
> 10 by approximately $62 million. The excess of fair value
> 11 over purchase price (the bargain purchase amount) has
> 12 been allocated to acquired receivables, land, land
> 13 improvements and residential construction, and
> 14 property and equipment expected to be realized after
> 15 June 30, 1992 on a pro rata basis based upon the
> 16 estimated fair value of these assets. Recognition of the
> 17 bargain purchase amount as income began on July 1,
> 18 1992, as principal payments on acquired receivables
> 19 are received and cash funds are received for the sale of
> 20 assets. During 1992 $7.0 million of this bargain
> 21 purchase differential was recognized as income.

22 In other words, the fair market value of the non-utility assets was determined to be

1 substantially more than the purchase price. This differential allows TGI/MPL to
2 recognize as income approximately $7.0 per year over the period that the bargain
3 purchase amount is amortized.

4 Q. What significance does this have to the instance proceeding?

5 A. At least in part, the support for the Commission's decision in Docket No. 911188-WS,
6 was either not factually accurate, or changed dramatically at about the time the
7 decision was made in that docket. Consequently, it would be more than appropriate
8 for the Commission to reevaluate the issue of a negative acquisition adjustment for
9 the Lehigh system of SSU. In my opinion, the facts today, do not support an
10 allocation of the entire discount of the purchase price to the book value to the non-
11 utility operations of LAC.

12 Q. Do you have any other support for your contention that part of the discount should
13 be attributed to Lehigh?

14 A. Yes. In a recent acquisition, specifically, Lakeside Golf, Inc., the Company prepared
15 a draft due diligence study that compared the purchase price of Lakeside Golf, Inc.
16 to Lehigh Utilities, Inc. I have attached as Schedule 3 to my exhibit a portion of this
17 draft study. This comparison stated:"As shown by the following measures, terms of
18 the proposed purchase compare favorably to that of Lehigh Utilities." The comparison
19 showed that the purchase price of Lakeside Golf, Inc. was .41 times book value while
20 the purchase price of Lehigh Utilities, Inc. was .45 times book value. In other words,
21 for purposes of this comparison, the Company showed that Lehigh was purchased at
22 45% of book value, not the 100% alleged in Docket No. 911188-WS. The difference

1 closely approximates the 60% discount that the Citizens argued should be attributed

2 to Lehigh in Docket No. 911188-WS.

3 Q. What are your conclusions?

4 A. The facts and arguments made by LUI/SSU in Docket No. 911188-WS turned out to

5 be incorrect. In my opinion, the substantial extraordinary difference between what

6 was alleged in Docket No. 911188-WS and what actually happened, clearly warrant

7 that the Commission include a negative acquisition adjustment in the rate base of

8 the Lehigh system of SSU. The amount of the negative acquisition adjustment is

9 depicted on Schedule 17 of the Citizens witnesses Larkin and DeRonne.

10 Q. Does this complete your supplemental testimony prefiled on March 25, 1996?

11 A. Yes, it does.

EXHIBIT

OF

KIMBERLY H. DISMUKES

Docket No. 950495-WS
Kimberly H. Dismukes
Exhibit No. ___(KHD-3)
Schedule 1
Cover Page

Southern States Utilities, Inc.
Raymond James Report

LEHIGH UTILITIES, INC.
RESPONSE TO INTERROGATORIES
DOCKET NO. 911188-WS

REQUESTED BY:	OPC
SET NO.:	1
INTERROGATORY NO.:	11
ISSUE DATE:	Jun 02, 1992
PREPARED BY:	Forrest Ludsen

INTERROGATORY: 11

Provide any study or appraisal prepared by or on behalf of Topeka which addressed the advantages to Topeka of the Lehigh purchase.

RESPONSE: 11

Topeka hired Raymond James & Associates, Inc. to review the purchase of Lehigh Corporation and related companies, including Lehigh Utilities, Inc. A copy of Raymond James' opinion and analysis summary is attached as Appendix 11-A.

August 8, 1991

Board of Directors
Topeka Group Incorporated
30 West Superior Street
Duluth, Minnesota 55802

Gentlemen:

You have requested Raymond James & Associates, Inc., ("Raymond James") to review the purchase of Lehigh Corporation, Lehigh Corporation subsidiaries, and related companies ("Lehigh Group") by Lehigh Acquisition Corporation ("Acquisition") and Seminole Utility Co. ("Seminole"). Under the terms of the purchase contract dated July 3, 1991, for the Lehigh Group, Acquisition purchased all companies of the Lehigh Group except Lehigh Utilities, Inc., which was purchased by Seminole. Acquisition has proposed to allocate $34 million of the $40 million combined purchase price to the non-utility companies of the Lehigh Group and $6 million to Lehigh Utilities, Inc. You have requested Raymond James to provide you with our opinion as to the reasonableness of the above purchase price allocation.

In providing our opinion as to the reasonableness of the purchase price allocation, we performed the following:

1) Visited Lehigh Group's significant real estate holdings;

2) Reviewed relevant financial statements, internal analyses, and related documentation provided by the Lehigh Group concerning their businesses;

3) Reviewed appraisals, internal analyses, and related information utilized by Topeka Group Incorporated ("Topeka"), its due diligence team and Acquisition in preparing the purchase price allocation;

4) Reviewed comparable sales of real estate and compared companies of the Lehigh Group to representative public and/or private company valuations;

5) Interviewed Lehigh Group and Acquisition management and Topeka's acquisition team;

6) Reviewed the Kenneth Leventhal and Company valuation report on the Lehigh Group to the Resolution Trust Company dated October 10, 1990; and,

7) Utilized Raymond James' extensive experience in the Florida real estate market.

In connection with our review, we have assumed the accuracy and completeness of the financial and other information furnished to us by Topeka, Acquisition and Lehigh Group management and have not independently verified such information.

RAYMOND JAMES
& ASSOCIATES, INC.
Member New York Stock Exchange/SIPC
The Raymond James Financial Center 880 Carillon Parkway P.O. Box 12749
St. Petersburg, Florida 33733-2749 (813) 573-3800

Our opinion on the reasonableness of the purchase price allocation is based upon circumstances existing as of the closing date of the purchase.

Subject to the foregoing and based upon our experience as investment bankers, our work described above, and other factors we deemed relevant, it is our opinion that the purchase price allocation of $6 million to Lehigh Utilities, Inc., and $34 million to the non-utility companies of the Lehigh Group is reasonable.

Very truly yours,

Raymond James & Associates, Inc.

Raymond James & Associates, Inc.

RAYMOND JAMES
& ASSOCIATES, INC.
Member New York Stock Exchange/SIPC

INTEROFFICE CORRESPONDENCE

TO: Lehigh Acquisition File

DATE: August 19, 1991

FROM: Charlie Uhrig & Gary Downing

SUBJECT: Lehigh/LUI Purchase Price Allocation

Introduction

Seminole Utilities Company ("Seminole Utilities"), a subsidiary of Minnesota Power, and Lehigh Acquisition Corporation ("LAC"), a joint venture between Topeka Group, Inc., ("Topeka"), also a subsidiary of Minnesota Power, Frank Ford and Richard McMahon, are proposing to buy 100% of the stock of Lehigh Corporation and subsidiaries (collectively "Lehigh"), including Lehigh Utilities, Inc. ("LUI"), and certain other subsidiaries of Land Resources Corporation for $40 million. The purchase price will consist of a cash down payment of $15 million, a note guaranteed by Topeka of $5 million, and a $20 million contingent note payable solely from collections on land and timeshare receivables.

The current audited net book value of the to be acquired companies is approximately $99 million. Accordingly, the accounting purchase price allocation will involve writing down certain assets and recording negative goodwill. The purchase contract calls for LAC to buy all non-utility subsidiaries and Seminole Utilities to buy 100% of LUI. The contract specifies a purchase price allocation of $6 million for LUI (approximate book value at March 31, 1991, is $6.5 million) and the $34 million balance to Lehigh Corporation and subs (approximate book value at March 31, 1991, is $92.5 million).

Given the large discount to net book value for the Lehigh purchase and the near book value purchase price for LUI, Raymond James has been asked to render an opinion on the reasonableness of the purchase price allocation between Lehigh and LUI.

Our analysis will focus on two major issues: 1) Is it reasonable to allocate the majority of the purchase price discount to the non-utility businesses and assets; and 2) What is the fair market value of LUI if it were to be sold to an unrelated buyer. In order to determine LUI's fair market value, we reviewed recent comparable utility purchases, relevant comparable valuations of other publicly traded companies, and other traditional utility company valuation benchmarks. A detailed review of LUI's historical operating results, current status, commitments, and contingencies was performed and the results considered in determining our estimate of LUI's fair market value.

In reviewing the reasonableness of the discount allocated to the non-utility assets we reviewed components of the non-utility assets, reviewed the proposed LAC business plan, visited all significant real estate holdings, discussed the plan with LAC management and estimated the plan's impact on non-utility assets, analyzed the value of the key business and operational risks at LAC's businesses,

and ascertained whether these risks and uncertainties warrant the writedown/discounts applied to them in the purchase price allocation.

Allocation to the Non-Utility Assets

After allocating approximately current net book value to LUI, the remaining $34 million in purchase price must be allocated to assets with a net book value of $92.5 million. A summary of these assets is listed in Exhibit 1. The proposed GAAP accounting allocation results in substantial write downs to the fixed assets, receivables, and land inventory. LAC's analysis of fair market value does not support these writedowns. In the proposed business plan, almost all assets are projected to be sold at greater than their current net book values. However, these projections are clouded with many major uncertainties. Additionally, there are several pending lawsuits relating to land sales activities which could adversely impact the land and receivable values and possibly result in a major settlement payment.

LAC's business plan contemplates the closing down of the land sales and timeshare sales operations and the gradual liquidation of related businesses and assets. The plan projects the disposal of all major land inventory and fixed assets holdings over the next five years. The following analyses will discuss the major asset categories, their net book value, projected selling prices, and risk and uncertainties associated with their ultimate realizable value.

1) Cash – Net of Accounts Payable and Other Liabilities

Book value at March 31, 1991 was $4.2 million.
Fair market value is equal to net book value.

2) Contracts, Mortgages, and Other Receivables

Net book value at March 31, 1991 was $35.8 million.
Projected collections (five years - undiscounted) per business plan - $57.3 million.

The purchase accounting will result in a substantial writedown of the receivable portfolio. Yet as shown above, LAC expects to more than realize the net book value. Valuation of the receivables is a highly subjective and uncertain exercise. Most analyses of the receivables have consisted of taking the contracted amortization schedules, adjusting them for historical cancellation rates and then discounting at various interest rates. The present value, at a 20% discount rate, is approximately $35 million which is near the current net book value. While this would appear to be a reasonably conservative valuation approach, it does not account for all of the substantial qualitative factors which are expected to impact future collections. Specifically, these non-quantitative factors which we believe warrant a significant discount to the receivable portfolio are:

a) The basic credit underwriting is very weak. The typical receivable balance is well in excess of the fair market value of the underlying collateral. The average receivable balance is in the $5,000 range and the fair market value of the average undeveloped lot is in the $1,000 - $2,000 range. There are no credit checks of any kind performed on the customers prior to buying a lot. Furthermore, historically the average Lehigh lot purchaser is a middle-to-lower middle

income, blue collar individual. This customer profile is more susceptible to economic downturns.

b) The $20 million contingent note, payable solely from receivable collections, is evidence that LAC has doubts about the ultimate realizability of the portfolio.

c) The planned cessation of land sales operations may adversely impact collections. This could happen from fired land salesmen contacting receivable customers and convincing them to cancel and buy a lot from a new company. Alternatively, customers may interpret the shut down as impairing the long term viability of the community, and thus, the value of their lot.

d) The General Development Bankruptcy has received considerable negative press coverage and is likely to create increased uncertainty in customers' minds as to the value of their lots. Increased cancellations are likely from this type of press coverage.

e) The impact of the recession has recently adversely impacted the number of delinquent accounts. A continuing sustained recession could result in higher than expected cancellations and in past cancellation statistics not being an accurate forecaster of future cancellation rates.

f) If any of the fraudulent sales practices suits were to be certified as class action and customers notified, an increase in cancellations is likely as a result of customers reacting negatively to the realization that their land may be worth less than what they owe.

g) There is no viable market to sell the receivables without recourse. The current lending environment combined with the uncertainties surrounding the shut down of the land sales operations effectively prevent any sale of receivables without recourse.

3) Property, Plant, and Equipment

Net book value at March 31, 1991 was $6.4 million
Projected sales price (five years - undiscounted) per business plan - $6 million
The purchase accounting will result in the PP&E written down to zero.

The major components of this balance are:

a) The Two Lehigh Golf Courses. Approximate Book Value $550,000

The courses currently suffer from substantial deferred maintenance and lose money on an operating basis. The business plan projects selling both golf courses for a total of $2 million. While this does not appear to be an exorbitant estimate, it is not clear what level of capital improvements are required and what is a reasonable estimate of stabilized net operating income. These will be the ultimate determinants of value to profit motivated buyers. The cessation of lands sales derived tourism will most likely reduce golf course usage, thus potentially impairing value.

b) Company Buildings and Improvements. Approximate Book Value $3.5 million

This balance consists of various sales and administrative buildings, the auditorium, 121-room motel, model center, and building supply store. The liquidation mode that Lehigh is now entering will clearly impair the value of the various sales and administrative facilities. The motel's biggest user is the Lehigh land sales operation. The loss of this business combined with some deferred maintenance and the current operating loss position, do not appear to justify LAC's $2 million sales price projection. This projection is based upon increased group golf usage replacing the loss of land sales prospects. Lehigh has limited appeal as a group golf destination and any increase in business is not likely to be significant. The auditorium is rarely used, loses money, and has essentially no value. In our opinion, it is likely these assets will be sold at significant discount to current book value.

c) Company Equipment and Fixtures. Approximate Book Value $2.2 million

This consists of road building equipment, vehicles, computers, furniture, golf course equipment, etc. If the business to which this equipment belongs is closed down, the related equipment may only have scrap value. While the majority of this equipment has value in a liquidation, it may be significantly less than book value.

d) Land and Land Improvements. Approximate Book Value $800,000

This represents the land component of the various company buildings. Many of these buildings are well located with the current business district. Book value appears to be reasonable estimate of fair value.

4) Land Inventory

Net book value at March 31, 1991 was $43 million
Projected sales price - undiscounted - $79.1 million

While the land inventory will be substantially reduced for purchase accounting purposes, the above seems to indicate the fair market value is greater than the book value. However, there are major uncertainties and risks associated with realizing the projected sales prices in the business plan. These risks and uncertainties include:

a) Selling costs are likely to be substantial. LAC projects selling costs in the 10 -20% of sales price range. Actual selling costs could be higher if sales volumes are inadequate from initial sales methods. The above sales prices should be reduced by direct selling costs.

b) Many of the potential strategic buyers (GDC, Deltona, PGI, etc.) are either in bankruptcy or in significant financial difficulty. They are highly unlikely to be able to buy any of the property.

c) Since Lehigh has always controlled most of the land in town, there are very few comparable sales. Once it is known that all of the Lehigh inventory is for sale, it is likely that past comparable sales (on which some of the projected sales values are based) may not be truly indicative of value. The past comparable sales were completed when there was a restriction

on the supply of Lehigh commercial inventory. There really is no comparable sales data for the magnitude of the land to be disposed.

d) The national and regional real estate recession has substantially reduced the number of potential buyers. The banking and savings & loan crisis has reduced the financing sources available. These factors cast significant uncertainty as to the realizability of the projected sales proceeds.

e) The business plan recognizes the current real estate credit crunch and projects providing financing to land purchasers. It is possible the availability of terms will attract land speculators as opposed to end users. The collectibility of these purchase money mortgages could become questionable if the Lehigh area does not develop and grow as projected.

f) There are only limited uses for even the more desirable commercial property. For example, there are approximately 50 commercially-zoned acres along Lee Boulevard, the main road between Lehigh and Ft. Myers. The business plan, recognizing the desirable location of this land, projects selling prices of $50,000 - $100,000 per acre. However, an analysis of this land reveals that almost all of these lots are only 200 feet deep and have dedicated roads behind them. They are currently suitable only for narrow small strip center users, fast food locations, gas stations, etc. There are already many such users on this road. This land is not suitable for large retail centers or related commercial development which require much deeper acreage. It may be difficult to achieve the projected selling prices for all of this property and it is possible the absorption period could be substantially longer than projected.

g) The business plan contemplates a sale of the Lehigh Building Company and implementation of sales of developed lots to a group of selected local and national builders. This is a big change from how the more valuable developed lots have historically been sold. There is uncertainty as to whether this new sales method will be successful in Lehigh. If this new program is not successful, projected sales values will be adversely impacted.

h) Much of the Lehigh land inventory is not developable in the near future. Many of the commercial and single family parcels are located in remote areas several miles from current development. It is likely that these properties will only be sold at a substantial discount to business plan value.

i) There are uncertainties as to whether all of the Lehigh land inventory is "vested" under Lee County Comprehensive Land Use Plan for concurrency purposes. If it is not vested, certain areas may not be developable and other developable areas could have higher development costs. This would adversely impact the value of the affected land inventory.

j) The Laidlaw environmental report identified several environmental problems which will need to be corrected. Their estimate of the cost to clean up was approximately $2.2 million. The actual clean up could cost substantially more.

5) Deferred Selling Expenses and Other Assets

Net book value at March 31, 1991 as $3.1 million.

Estimated fair market value is $0

The majority of this category is deferred selling expenses relating to sales which have not been recorded for accounting purposes due to less than 20% down payments. The value of the related receivables has already been considered in the Receivable section. Accordingly, the fair market value of the selling expenses is considered negligible. The balance of this line item is primarily deferred debt costs which have no fair market value.

6) Commitments and Contingencies

As the following discussion indicates there are numerous contingent liabilities associated with the purchase of Lehigh. The RTC is providing a limited indemnification fund by putting all sales proceeds into an escrow account which will then be used to pay any pre-LAC acquisition litigation liabilities. However, a review of pending litigation suggests there could still be substantial liabilities incurred by LAC. All of the significant pending litigation pertains to the non-utility businesses, primarily land and timeshare sales. A review of the major contingent liabilities is as follows:

a) Possible Liability and Future Exposure Related to Paragraph C Litigation. Paragraph C is a section of the Agreement for Deed entered into for each lot sale. The section describes the grace periods and termination provisions of the contract. It states that "In the event of default, Seller will refund the amount, if any, paid in by Buyer (exclusive of interest) that exceeds 15% of the purchase price (exclusive of interest) or the amount of actual damages incurred by the Seller, whichever is greater."

Currently, Lehigh is involved in litigation (potentially class action) regarding their method of calculating actual damages. If the court determines that Lehigh's actual damages are limited to commissions paid, a worst case ruling, the maximum potential liability resulting from this litigation would be approximately $10 million.

In addition, according to the Purchase Agreement, LAC will be responsible for making refunds for lot sale cancellations that occur after the closing date of the acquisition. The RTC will reimburse LAC for the portion of the refund related to monies collected before the closing date. The reimbursement will come from the indemnification fund created as a result of the purchase.

Using historical cancellation rates and some general assumptions, under the current method of calculating damages, LAC estimates its portion of the refund obligation to be $1.4 million and RTC's portion to be $1.2 million. However, if a worst case ruling is received from the Paragraph C litigation discussed above, the refund obligation is estimated as $8.4 million for LAC and $7.1 million for RTC.

b) Damages Caused by Potential Fraudulent Sales Practice Allegations and Resulting Adverse Publicity for Topeka, its Affiliates, and/or Partners. Over the past several years, the Florida land sales business has been under considerable public scrutiny for purported deceptive sales practices. As an example, a suit has recently been brought against General Development Corporation (GDC) and its lenders alleging conspiracy in a fraudulent scheme to sell lots and

homes to out-of-state buyers. The main allegations are that homes and lots were sold for substantially more than market value, promised lot improvements were never intended to be completed, and home mortgages were granted based on nonconforming appraisals which concealed the true fair market value of GDC built homes.

Lehigh is also in the retail lot and homes sales business in Florida. At Lehigh, lots have been sold at prices in excess of the prices for similar lots on the resale market. However, Lehigh's lot prices reflect high selling costs and providing out-of-state customers a service by giving them the opportunity to purchase developed property on favorable payment terms. Moreover, Lehigh's Offering Statements since at least 1980 have contained bold-faced disclosures advising purchasers that lot resale prices are substantially lower than Lehigh's lot prices and, in fact, that lots may not be resalable at any price.

As for promised lot improvements, Lehigh has completed drainage and road development in all sold areas except 18 lots. This remaining improvement obligation has been reserved for on the financial statements.

Lastly, in the GDC suit, GDC's lenders are being charged with conspiring to perpetrate the fraudulent scheme by purchasing home mortgages that they knew were supported by nonconforming appraisals. By doing so, the lenders provided GDC with the financial capacity to continue its business.

In the case of Lehigh, LAC will benefit from Lehigh's Contracts Receivable proceeds, and as a result, could be named in a suit against Lehigh. However, the facts regarding Lehigh and LAC are much different than in the case of GDC and its lenders. Based on work performed, LAC believes that Lehigh did not use nonconforming appraisals in the sales of its homes. In addition, LAC intends to terminate existing lot sales programs. As a result, there will be no basis for a conspiracy argument which is the crux of the allegations against GDC's lenders.

In conclusion, although Lehigh's sales practices are dissimilar from GDC's in many regards, a suit based upon lot values is a possibility. While it is unlikely that such a suit would be successful, it could result in adverse publicity and financial exposure for Lehigh and possibly LAC.

c) <u>Potential Liability Due to Chang Sales Practices.</u> Paul Chang was an independent lot sales broker for Lehigh from March, 1983, to June, 1990. Planning to develop a Chinatown subdivision, Mr. Chang sold Lehigh lots to individuals of Chinese heritage in the Mirror Lakes area of Lehigh Acres. The lots were sold at a premium due to the Chinatown concept. He also purchased commercial land and intends to build a hotel and a pagoda in the area.

Mr. Chang's broker agreement with Lehigh was terminated in June, 1990, when it was found that he had sold lots and not reported the sales to Lehigh. Since then, some misrepresentation allegations have been made against Mr. Chang, and it was found that unlicensed associates were selling lots under his agreement. When individuals who no longer wish to own Lehigh lots bring such sales to Lehigh's attention, all monies collected plus taxes and dues, are refunded subject to verification of allegations.

As a result, there are two main exposures related to Chang sales practices: 1) refunds required due to representations made by Chang that are not carried out, and 2) refunds required for lots sold by the unlicensed associates.

As of December 31, 1990, $11.7 million, net of refunds, had been collected on Chang sales contracts. While management believes it is highly unlikely that all contracts will be canceled due to misrepresentation. LAC's estimate of this exposure would be up to $700,000 based upon calculations performed by Lehigh personnel. In addition, the refund exposure related to the unlicensed associates sales is estimated to range from $350,000 to $1.4 million, including taxes and dues.

d) Liability for Costs to Fill Sold Lots in the Greenbriar Subdivision. The Florida Public Offering Statement, included as part of each lot sale contract, represents that the purchaser's cost to clear and fill a lot prior to home construction will average $3,500 per homesite. However, some sections of the Greenbriar and Mirror Lakes areas would cost substantially more to fill. It is felt that Lehigh may be liable for the excess cost related to sold lots. At September, 30, 1990, a $970,000 liability existed on Lehigh's financial statements for the Mirror Lakes excess fill liability, but no such reserve had been established for Greenbriar. The Greenbriar potential liability for sold lots could range from $1.4 million to $2.3 million.

Allocation to LUI

LUI is being allocated a purchase price of $6 million. Minnesota Power is basing this allocation on what it would have paid separately (or what it believes another third party would have paid) for LUI. LUI would appear to be a very marketable company if it were to be sold. Factors which we believe make LUI an attractive acquisition candidate are:

1) LUI has an exclusive franchise to provide water, sewer, gas, and garbage services in the Lehigh area.

2) The company has been consistently profitable with pre-tax earnings in the $1 million range over the last several years.

3) The outlook for LUI is favorable. Revenue growth has averaged 7% per year over the last five years and is anticipated to continue to grow at least this fast into the foreseeable future.

4) LUI is earning well below the Florida Public Service Commission (PSC) allowable return on its water and sewer rate base and it would appear to be an excellent candidate for an increase in water and sewer rates.

This outlook should be tempered by the following factors:

1) LUI is heavily regulated. Water and sewer rates are set by the PSC and garbage rates are set by Lee County. Gas is not regulated. The PSC will only allow a certain return on rate base, thus the profitability of these businesses is somewhat restricted. The garbage business, although currently very

profitable, is reviewed annually and rates are adjusted to reflect estimated average costs in Lee County.

2) LUI is currently undertaking an expansion plan which will result in some of this new plant being categorized as not used and useful. If the utility plant is not considered used and useful and is not expected to be used and useful in the near future, it will be excluded from rate base by the PSC and no return can be earned on it until it is used and useful. A used and useful study prepared for LAC by Hartman Associates indicated that the water facilities were on average 88% used and useful. Sewer plant was estimated to be 97% used and useful. This study was based on 1990 account balances. Significant additions have been made in 1991 and will continue into the foreseeable future. The requirement of large capital expenditures with the possibility of no immediate return could be a drag on profitability.

3) Approximately 2,000 lots exist which LUI is obligated to provide water and wastewater treatment hookups at a cost to Lehigh of $650. Currently, the cost to connect water and wastewater treatment service is $1,739. Therefore, LUI could have imputed Contributions in Aid of Construction (CIAC) for the difference between the current and agreed upon charge. At today's hookup fee, $2.2 million would be recorded as CIAC if all lots were connected. Such a charge would reduce rate base by $2.2 million and thus significantly negatively impact profitability since current water and sewer rate base is only approximately $6.5 million.

In order to determine fair market value, we compared the LUI acquisition to the pricing of several other recent similar utility acquisitions, and compared LUI to the market valuation of other publicly traded utilities. The results of these valuations were then adjusted to reflect the operating characteristics specific to LUI.

Comparable Utility Acquisitions

Minnesota Power, through its subsidiaries, has been actively acquiring water and sewer utilities in Florida over the past several years. The PSC allows a certain minimum return on the water and sewer plant rate base. Generally, rate base approximates net book value of water and sewer property, plant, and equipment. If an acquirer pays more than rate base for a utility, the original rate base is not changed and thus an acquirer would earn less than the PSC allowable return on its investment. If an acquirer pays less than rate base, we understand that the PSC has tried, unsuccessfully to date, to establish this discount price as the new rate base. In other words, there is no incentive to pay more than rate base and possibly only limited benefits to purchasing at less than rate base.

Minnesota Power's strategy has been to acquire water and sewer utilities at no more than rate base. As can be seen at Exhibit 2, they have generally been successful in this strategy. In particular, Minnesota Power has purchased utilities from other landsales/community development companies which are substantially similar to Lehigh. The utility acquisitions listed in Exhibit 2 were selected because they were most similar to LUI in terms of size, growth potential, maturity, and past operating history. These transactions are perhaps the best indicator of LUI's value due to their strong similarities to LUI and the fact they were independently negotiated with five different sellers over a three year time period. We believe this analysis provides strong support that the $6 million allocated to LUI is reasonable.

Comparable Publicly-Traded Water and Sewer Utilities

As shown in Exhibit 3, the pricing multiples implied by a $6 million purchase price appear to be on the low side of publicly-traded water and sewer utilities. However, we believe the discount to comparable public water utilities is reasonable for the following reasons:

1) The comparable public companies are much larger, more established, and more diversified firms. Accordingly, an investor would normally be willing to pay a premium for these types of companies because they generally have less overall business risk than a small, one location utility such as LUI.

2) Since LUI is a private company, an investor would apply a discount versus public utilities for illiquidity.

3) The comparable public companies have the financial ability to attract more capable management and lower cost capital than smaller, privately held companies, such as LUI.

Lehigh Utilities Commitments and Contingencies

Our review of the litigation summary provided by the RTC and LAC's internal analysis, revealed no material pending litigation which could significantly impact the current or future value of Lehigh Utilities, Inc.

Based upon our review LAC's acquisition analysis and discussions with Lehigh Group and LAC management, we did not become aware of any major contingencies, other than the potential CIAC exposure previously discussed in the report, which might significantly impair the current or future value of Lehigh Utilities, Inc.

Summary

It is very difficult to specifically quantity the discounts to apply to the major non-utility assets. However, we believe the purchase price discount in general is properly attributed to the non-utility assets and not the utility assets for the following reasons:

1) The uncertainty related to the post liquidation Lehigh business environment creates many significant questions as to the value of the major non-utility subsidiaries, businesses, and assets.

2) The lack of historical bulk land sales activity combined with the current real estate credit crunch, and a national real estate recession create a wide range of potential outcomes for the valuation of the land inventory.

3) The collectibility of the receivables is difficult to estimate given the proposed cessation of the retail land sales business, increasing negative press on the land sales business and impact of the current national recession.

4) The contingent liabilities associated with current or future litigation, while tempered by the RTC indemnity escrow account could still result in a large unexpected litigation settlement payment. The risks of these potential liabilities are entirely traceable to the land sales and timeshare businesses.

We believe the purchase price allocated to LUI is reasonable for the following reasons:

1) It is consistent with the pricing of other recent comparable water and sewer utility acquisitions.

2) It is in line with the valuation of comparable publicly-traded water and sewer utility companies.

3) We are not aware of any material uncertainties or deficiencies in current LUI operations or in expected future results which warrant the allocation of a significant discount to the pre-acquisition book value.

Exhibit 1

Summary of Non-Utility Assets Acquired by LAC
(in millions)

Assets	Book Value at 03/31/91	Business Plan Value (undiscounted)	Comments
Cash	$ 12.9	$ 12.9	Market value equals book value
Contracts, Mortgages, and Other Receivables	35.8	57.3	(A)
Property, Plant, and Equipment	6.4	6.0	(B)
Land Inventory	43.0	79.1	(C)
Deferred Selling and Other Assets	3.1	0.0	No market value
Total Assets	$ 101.2	$ 155.3	
Accounts Payable and Other Liabilities	8.7	8.7	Mainly payables and reserves. Offset against cash.
Total Liabilities	$ 8.7	$ 8.7	Contingent liabilities must be considered
Common Stock and Retained Earnings	92.5	146.6	
Total Liabilities and Equity	$ 101.2	$ 155.3	

(A) Book value may be overstated due to change in business strategy and recent industry problems which could affect collections.

(B) Cessation of land sales may significantly impair usage and therefore value.

(C) Substantial uncertainty regarding timing and potential value of land inventory.

Lehigh Utilities, Inc.
Balance Sheet
March 31, 1991
(000s)

Assets		Comments
Cash	$ 522	
Accounts Receivable	618	Normal customer receivables
Property, Plant and Equipment	16,193	Primarily water and sewer plant including construction in progress
Other Assets	777	Deferred debt expense
	$ 18.110	
Liabilities and Stockholder's Equity		
Accounts Payable	$ 870	Normal trade payables
Mortgage Payable and Other Debt	6,731	
Contributions in Aid of Construction	3,797	Non-interest bearing hook-up fees, amortized as reduction in depreciation expense
Deferred Income Tax	177	Will likely be contributed to capital by Lehigh
Total Liabilities	11,575	
Stockholder's Equity	6,535	
Total Liabilities & Stockholder's Equity	$ 18.110	

Comparable Water and Sewer Utility Acquisitions by Minnesota Power 1986 - 1989*

Exhibit 2

Utility	Acquisition Date	Purchase Price	Rate Base	Book Value	Multiple of Rate Base	Multiple of Book Value
Amelia Island	1986	2,100,000	2,766,464	2,766,404	0.76	0.76
Gulfstream	1987	13,000,000	11,450,000	11,450,000	1.13	1.13
Sugar Mill	1987	1,175,000	900,000	900,000	1.30	1.30
PGI	1988	7,500,000	7,290,845	7,290,845	1.03	1.03
Deltona	1989	36,000,000	36,000,000	42,000,000	0.86	0.86
Average					1.01	1.01
Lehigh Utilities, Inc.		6,000,000	6,378,000	6,535,000	0.94	0.92

* Data supplied by Donnie Crandell of Minnesota Power.

Certain Publicly-Traded Water and Sewer Utilities

Exhibit 3

Symbol	Company Name	Revenue	EBITD	EBIT	Net Income	TTM EPS	Stock Price 06/02/91	P/E	60 Mo. Average P/E	PRC/ Sales	PRC/ Book	MV+LTD /EBITD	MV+LTD /EBIT	5 Year Growth Rev/Shr	5 Year Growth EPS	Market Value (Equity)	LTD
AWK	American Water Works, Inc.		228.08	181.03	57.09	1.96	21.750	11.1	10.3	1.17	1.3	6.4	8.1	5.1	1.4	665.912	799.691
WTR	Aquarion Co	77.80	25.09	17.44	7.07	1.42	22.125	15.6	13.1	1.37	1.2	8.2	11.8	1.7	(5.0)	106.266	99.905
CWTR	California Water Service Co		41.19	32.96	14.37	2.51	28.500	11.4	11.0	1.30	1.4	6.5	8.1	2.3	1.5	162.137	104.905
CTWS	Connecticut Water Svc, Inc.	32.30	13.99	11.24	2.98	1.14	19.500	17.1	12.7	1.61	1.3	7.5	9.3	4.8	(1.0)	52.026	52.953
CONW	Consumers Water Co		27.46	22.47	(1.95)	1.11	15.500	14.0	13.0	1.15	1.5	7.3	8.9	(0.6)	(4.6)	93.930	105.420
DOMZ	Dominguez Services Corp	19.14	4.03	3.09	1.37	1.37	16.375	12.0	10.7	0.85	1.4	5.0	6.5	5.1	3.5	16.342	3.766
EWAT	E'town Corp		29.61	24.00	7.09	1.86	25.500	13.7	13.0	1.17	1.3	7.1	8.7	3.2	(3.3)	90.958	118.155
GWCC	GWC Corp		40.13	35.52	15.15	1.50	14.500	9.7	11.5	1.65	1.1	7.3	8.3	5.3	0.5	160.472	133.443
IWCR	IWC Resources Corp	53.63	25.77	21.58	5.83	1.11	17.500	15.8	13.7	1.72	1.9	7.1	8.5	1.5	(6.7)	92.347	91.675
3JWTS	Jamaica Water Supply Co	57.83	15.89	13.30	6.61	10.17	55.000	5.4	n/a	0.56	0.7	5.2	6.2	7.6	14.0	32.615	49.595
MSEX	Middlesex Water Co	26.42	9.31	7.72	3.47	1.78	24.500	13.8	13.1	1.60	1.3	8.8	1.06	1.9	(1.3)	42.336	39.350
PSC	Philadelphia Suburban Corp	66.38	34.77	27.74	4.09	0.54	13.375	24.8	12.1	1.57	1.2	8.1	10.1	1.1	0.3	104.379	175.885
SJW	SJW Corp	70.46	22.97	17.72	8.54	2.68	29.250	10.9	11.9	1.18	1.1	5.1	6.7	0.3	(7.0)	83.012	35.193
SWTR	Southern Calif. Water Co		n/a	n/a	9.70	2.59	31.000	12.0	11.4	1.11	1.4	n/a	n/a	(5.0)	2.1	97.340	67.377
SWWC	Southwest Water Co	39.85	8.83	6.22	2.92	1.29	18.250	14.0	13.1	1.05	1.4	6.5	9.2	9.1	(6.0)	41.646	15.813
UWR	United Water Resources		62.55	51.11	18.29	1.03	13.750	13.3	16.1	1.40	1.5	7.7	9.4	6.1	4.7	230.918	251.062
3YORW	York Water Co	12.24	6.39	5.42	2.10	3.88	50.000	12.9	10.5	2.22	1.7	8.9	10.5	0.9	0.5	27.200	29.744
	Average							13.4	12.3	1.30	1.3	7.0	8.8				
	Lehigh Utilities, Inc.	5.1	2.08	1.5	.765			7.8		0.80	0.9	6.1	8.3	7.0		6.000	6.700

Southern States Utilities, Inc.
Cover Page for TGI Note To Financial Statements

5. Acquisition of Lehigh Acquisition Corporation

In July 1991 Topeka acquired a two-thirds ownership interest in Lehigh Acquisition Corporation for $6 million. Lehigh Acquisition Corporation subsequently acquired for $34 million all of the stock of Lehigh Corporation and various other real estate subsidiaries of Land Resources Corporation whose properties are located near Fort Myers, Florida. The purchase price included $9 million in cash and $25 million of debt issued to the seller, Resolution Trust Corporation (RTC), which was to be paid over the next five years. The acquisition was accounted for under the purchase method and consolidated with Topeka beginning in July 1991. Lehigh Acquisition Corporation's subsidiaries are primarily engaged in the sale of residential and commercial real estate and other ancillary businesses. Management with extensive Florida real estate experience was hired at Lehigh Acquisition Corporation to implement a 10-year business plan to sell these real estate holdings and related operations to qualified buyers in an orderly manner.

The fair value of the net assets acquired by Lehigh Acquisition Corporation exceeded the purchase price by approximately $62 million. The excess fair value over purchase price (the bargain purchase amount) has been allocated to acquired receivables, land, land improvements and residential construction, and property and equipment expected to be realized after June 30, 1992 on a pro rata basis based upon the estimated fair value of these assets. Recognition of the bargain purchase amount as income began on July 1, 1992, as principal payments on acquired receivables are received and cash funds are received for the sale of assets. During 1992, $7.0 million of this bargain purchase differential was recognized as income.

Topeka received dividends from Lehigh Acquisition Corporation of $800,000 and $2.0 million in 1992 and 1991, respectively. Minority interest in the equity of Lehigh Acquisition Corporation at December 31, 1992 of approximately $6.2 million is reflected in other deferred credits on the consolidated balance sheet. On December 30, 1992, Lehigh Acquisition Corporation extinguished, at a discount, the $15.5 million remaining principal balance of the $25 million of debt issued to the RTC and assumed certain contingent liabilities for which it had previously been indemnified. The early extinguishment of debt resulted in a nontaxable extraordinary gain to Lehigh Acquisition Corporation of approximately $7.0 million. Topeka's share of this gain was approximately $4.7 million net of the one-third minority interest. The operating results of Lehigh Acquisition Corporation and subsidiaries for the year ended December 31, 1992 and the period July 1, 1991 to December 31, 1991 are presented below and included in other income-nonutility subsidiary on the consolidated statement of income.

Docket No. 950495-WS
Kimberly H. Dismukes
Exhibit No. ___(KHD-3)
Schedule 3
Cover Page

Southern States Utilities, Inc.
Due Diligence Study

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Office of
Public Counsel

ACQUISITION PROPOSAL
FOR
LAKESIDE WATER UTILITY

1. COMPANY BACKGROUND

Lakeside Water Utility is a privately held corporation located 5 miles north of Inverness, Florida in Citrus County. The first phase of this water system was formed in 1978 by Mr. Max Smith to serve approximately 100 connections with 74 connections served at the present time. The second phase is now being developed by new second owner Nobuyoshi Hirukawa of Japan. The transfer of ownership took place on October 15, 1992. The second phase has approximately 152 potential connections with 5 connections served at the present time.

2. UTILITY SYSTEM

The plant assets of this system are summarized in the table below.

ASSET	QUALITY	COMMENTS
Water Plant	1	6" backup well with 300 gpm submersible well pump
	1	12" well with 1,000 gpm 75 HP Goulds vertical turbine pump.
	1	125 KW Caterpillar emergency generator equipped with automatic start up.
	1	Dual scale mounted 150 lb. chlorine cylinders with Capital Controls chlorinators equipped for automatic switch over.
	1	20' x 20' concrete block building housing the 12", the turbine pump as well as the diesel generator.
	1	15,000 gallon hydropneumatic tank.
	4	Iron Removal Filters with automatic backwash.
	14,200	Feet on 6" PVC Main.

The first phase was supplied potable water by a 6" well and 300 gpm submersible well pump. This well is being used as a standby well at the present time. The original plant also included equipment such as hydropneumatic tank, block building, chlorinator, ect. that was abandoned as part of the recent phase II WTP expansion. The distribution system consists of approximately 2,500 feet of 6" PVC main. The lots are served by 1" meters. These meters have never been read except for the one at the pump house.

The second phase was completed in late 1992 with the addition of a new second well. The second well is 12" and is the primary well with the older 6" well as the standby. The well has a 75 HP Goulds vertical turbine pump with a capacity of 1,000 gpm that operates automatically on demand. The pump and well are housed within a brand new 20' x 20' concrete block building that also houses the Auxiliary Generator and Chlorination equipment. The emergency generator is a Diesel 125 KW Caterpillar equipped for automatic start-up. The building also has a separate room for the chlorination system. The chlorination system consists of dual scale mounted 150 lb. chlorine cylinders with Capital Controls chlorinators equipped for automatic switch over.The room does have a exhaust fan and loss of vacuum detection alarm as well as a chlorine leak detector in the adjacent room. Adjacent to the block building there is a 15,000 gallon hydropneumatic tank to provide the necessary pressure to the system. The water in this area of Citrus County is high in iron thus requiring there to be four Iron Removal Filters with automatic backwash. The distribution system for the second phase consists of 11,700 feet of 6" PVC main. This phase also has seven fire hydrants to meet the necessary fire fighting requirements. The connections to each home in phase II also have 1" meters that have never been read.

Currently, net utility plant assets in service are booked at a value of $293,737. Projected rate base is just over $119,000. No additional investment is needed over the next several years.

Southern States inspections concluded that facilities are in satisfactory condition and have been reasonably maintained.

3. REGULATION

Lakeside is subject to the regulation of the Florida Public Service Commission. The utility presently operates without a FPSC approved certificate, but SSU will incorporate a Citrus County water certificate amendment with the FPSC.

Contacts with the State and local environmental regulators indicate that the utility is properly permitted, has no unresolved violations and has no current operating problems.

4. PURCHASE PROPOSAL

Terms of a purchase agreement to acquire Lakeside assets have been negotiated by SSU subject to Senior Management's approval. Total purchase price is $119,000 cash. As shown by the following measures, terms of the proposed purchase compare favorably to that of Lehigh Utilities.

$119,000 Purchase Price	Lakeside	Lehigh
Per connection	$1,608	$445
Times Annual Revenues	7.7x	1.6x
Times Net Book Value	0.41x	0.45x

5. PROJECTED OPERATING RESULTS

Under the uniform rates ordered in Docket No. 920199-WS the annualized first year (prior to being incorporated into the 1994 consolidated filing) earning are $1,174, representing a (9.93%) return on Common Equity. AS in many other SSU systems, the stand alone revenue requirements are higher than what the uniform states generate.

6. PRO FORMA - ASSUMPTIONS

(a) Revenues based on SSU uniform water rates at current customer level. Rate base adjusted for non used & useful is approximately $163,326 on net plant. The 1994 consolidated FPSC rate case will incorporate Lakeside and its revenue requirements.

(b) O&M expenses only reflected projected direct cost for electric and chemicals at the plant. Customer and administrative cost were excluded as was. general plant from the rate base.

(c) Capital structure was the projected 1993 as filed in the Sarasota County Venice Garden Utilities filing. In this capital structure Common Equity was at 12.40%.

(d) Although not incorporated into this rate study, this is possible growth behind the golf course as well as across the road. Also the City of Hernando, Florida wants to purchase water from Lakeside Utility.

Southern States is serving several water utilities within a twenty mile radius. The system is approximately two miles from the Golden Terrace system.

The following is a three year income statement projection of Lakeside Utility:

	PROJECTION		
	1993	1994	1995
Revenues	$16,157	$17,787	$24,255
O&M	$929	$957	$986
A&G	$0	$0	$0
Depreciation	$7,517	$7,517	$7,517
Amortization	($1,114)	($1,114)	($1,114)
Taxes Other	$1,261	$1,343	$1,643
Operating Income	$7,664	$9,184	$16,223
Interest Expense	$5,682	$4,990	$4,661
Pre-tax Income	$1,882	$4,195	$10,563
Income taxes	$708	$1,578	$3,975
Net Income	$1,174	$2,616	$6,588
Actual Rate of Return	0.98%	2.49%	6.71%
Less debt, Cust Deposits & ITC	4.92%	4.92%	4.92%
Actual Return less 'Other'	(3.94%)	(2.43%)	1.79%
Percent Equity	39.68%	39.68%	39.68%
Actual Rate of Return on Common Equity	(9.93%)	(6.12%)	4.52%

These returns are based on stand alone requirements versus uniform rates from the 'Giga' case as well as the consolidated 1994 filing.

7. RECOMMENDATION

Corporate Development recommends acquisition of Lakeside Water Utility as discussed in the foregoing.

Prepared and Recommended ______________________

Recommended ______________________

Approved ______________________

ACQUISITION TEAM

(1). JOE MACK - ENGINEERING
(2). FRANK SANDERSON - OPERATIONS
(3). RALPH TERRERO - ENVIRONMENTAL
(4). BILL WILLIAMS - WEST REGION
(5). GARY MORSE - RATES DIVISION
(6). JUDY KIMBALL - ACCOUNTING & FINANCE