

PREFILED REBUTTAL TESTIMONY OF
JAMES A. PERRY
FILED ON BEHALF
OF
FLORIDA WATER SERVICES CORPORATION
DOCKET NO. 980744-WS
JUNE 11, 2001

DOCUMENT NUMBER-DATE
07237 JUN 11 2001
FPSC-RECORDS/REPORTING

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is James A. Perry and my business address is 1000 Color Place,
3 Apopka, Florida 32703.

4 **Q. ARE YOU THE SAME JAMES A. PERRY WHO PROVIDED DIRECT**
5 **TESTIMONY IN THIS PROCEEDING?**

6 A. Yes, I am.

7 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

8 A. The purpose of my rebuttal testimony is to respond to three issues raised in
9 the direct testimony of Kimberly H. Dismukes filed on behalf of the Citizens
10 of the State of Florida. Specifically, I will address:

11 1. The gain on the sale of the River Park Facilities which the
12 Commission determined should be amortized above the line over five years
13 in Order No. PSC-96-1320-FOF-WS issued October 30, 1996.

14 2. Ms. Dismukes' statements concerning the approximately \$465,000 of
15 earnings of Florida Water's Orange County systems available to offset costs
16 applicable to other service areas.

17 3. How the sale of the Orange County systems and the investment of the
18 proceeds from that sale in the Palm Coast systems enhances the financial
19 viability of Florida Water and the ability of Florida Water to provide safe
20 drinking water and environmentally compliant wastewater service at
21 reasonably priced rates.

22 **Q. PLEASE DISCUSS THE CIRCUMSTANCES SURROUNDING THE**
23 **SALE OF THE RIVER PARK FACILITIES.**

24 A. The River Park service area was a small water service area with
25 approximately 350 customers in Putnam County. Florida Water agreed to

1 sell the River Park facilities to the River Park Homeowners Association.
2 There was a gain on the sale of the River Park facilities of \$33,726.

3 **Q. HOW DID THE COMMISSION TREAT THE GAIN ON THE SALE**
4 **OF THE RIVER PARK FACILITIES?**

5 A. In Order No. PSC 96-1320-FOF-WS, the Commission amortized the gain
6 above the line over 5 years.

7 **Q. WHY DID FLORIDA WATER NOT APPEAL THIS DECISION?**

8 A. The relatively minimal amount of the gain on sale of the River Park facilities
9 was simply not of sufficient magnitude to warrant an appeal. The decision
10 concerned one financially minimal issue in Florida Water's 1995 rate case in
11 Docket No. 950495-WS where the parties litigated roughly 150 issues. As
12 in virtually every rate case, there are issues where the utility prevails and
13 there are issues where the utility does not prevail. In evaluating the issues to
14 pursue on appeal, Florida Water felt that the approximate \$33,000 gain on the
15 sale of the River Park facilities did not justify the expenditure of resources
16 and attorney's fees to challenge the Commission's decision. Further, in
17 contrast to the record that has been established in this case concerning the
18 sale of Florida Water's Orange County systems, there was very little evidence
19 in the 1995 rate case record concerning the sale of the River Park facilities
20 and customers for an appellate court to consider in reviewing the
21 Commission's decision.

22 **Q. ON PAGES 22 AND 23 OF HER TESTIMONY, MS. DISMUKES**
23 **DISCUSSES THE APPROXIMATELY \$465,000 OF AGGREGATE**
24 **"CONTRIBUTION" MADE BY THE ORANGE COUNTY SYSTEMS**
25 **TO FLORIDA WATER'S REMAINING CUSTOMERS UNDER**

1 **COMMISSION JURISDICTION. DO YOU AGREE WITH HER**
2 **COMMENTS?**

3 A. No, I do not. First, I note that Ms. Dismukes does not take issue with the
4 company's calculation of the \$465,000 "contribution" which was performed
5 under my direction and supervision. Second, in Order Nos. PSC-93-0423-
6 FOF-WS and Order PSC-93-0301-FOF-WS, the Commission determined that
7 Florida Water's remaining customers should not share in the gain on the sale
8 of Florida Water's St. Augustine Shores systems due to the fact that these
9 remaining customers did not contribute to the recovery of any return on
10 investment or cost of service of the sold systems. As the Commission stated
11 in Order No. PSC-93-0423-FOF-WS, at page 59:

12 Since SSU's remaining customers never subsidized
13 the investment in the SAS systems, they are no more
14 entitled to share in the gain from that sale than they
15 would be required to absorb a loss from it.
16

17 **Q. ALTHOUGH MS. DISMUKES CONCEDES THAT THE FIVE**
18 **ORANGE COUNTY SYSTEMS THAT WERE SOLD PROVIDED A**
19 **NET CONTRIBUTION TO FLORIDA WATER'S REMAINING**
20 **CUSTOMERS, SHE NOTES THAT FOUR OF THE FIVE SYSTEMS**
21 **WERE SUBSIDIZED DURING THE ROUGHLY TWO AND A HALF**
22 **YEARS FROM SEPTEMBER 1993 - JANUARY 1996 WHEN THE**
23 **COMPANY CHARGED UNIFORM RATES. HOW DO YOU**
24 **RESPOND?**

25 A. There are two essential points. First, Ms. Dismukes' contention ignores the
26 realities of the transaction. The sale of the five Orange County systems was
27 a negotiated transaction for the sale of all five systems and should be viewed
28 for what it was - - a package transaction. Second, the result of the negotiated

1 “packaged” sale of all 5 systems was that the remaining customers under
2 Commission jurisdiction contributed nothing to the recovery of the cost of
3 service or any return on the 5 systems viewed as a collective, packaged sale.

4 **Q. ON PAGES 23 AND 24 OF HER TESTIMONY, MS. DISMUKES**
5 **CHALLENGES FLORIDA WATER’S CONTENTION THAT**
6 **RETENTION ON THE SALE OF THE ORANGE COUNTY SYSTEMS**
7 **IN FULL IS CONSISTENT WITH THE PROMOTION OF UTILITY**
8 **VIABILITY AS ENVISIONED BY THE 1996 AMENDMENTS TO**
9 **THE SAFE DRINKING WATER ACT. DO YOU AGREE?**

10 A. The Company has presented testimony of Mr. Hughes who has significant
11 experience with this issue. Mr. Hughes has testified that the retention in full
12 of the gain on the sale of a utility’s facilities and customer revenues and the
13 reinvestment of those monies into utility operations promotes utility viability
14 and capacity development as envisioned by the 1996 amendments to the Safe
15 Drinking Water Act. In this case, as Dr. Cirello has testified, the Orange
16 County systems that were sold had roughly a 1% growth rate and
17 approximately 8,000 customers. There was little opportunity for further
18 growth with these systems. By selling the Orange County systems and using
19 the proceeds to partially fund the purchase of the Palm Coast water and
20 wastewater systems, Florida Water was in fact able to enhance its financial
21 viability and ability to maintain and develop water supplies and comply with
22 increasing environmental regulations affecting the water and wastewater
23 industry by purchasing two systems that have a 6% to 7% growth rate and
24 more than 30,000 customers. In addition, the exchange of the 8,000 Orange
25 County customers for the 30,000 Palm Coast customers enhances Florida

1 Water's ability to spread its administrative and general expenses and
2 customer costs over a larger number of customers.

3 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

4 A. Yes, it does.

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