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**ORIGINAL  
FILE COPY**

**REBUTTAL TESTIMONY OF SCOTT W. VIERIMA  
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
ON BEHALF OF  
SOUTHERN STATES UTILITIES, INC.  
DOCKET NO. 920199-WS**

DOCUMENT NUMBER-DATE  
12619 OCT 27 1992  
FPSC-RECORDS/REPORTING

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

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

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

11 A. Yes, I am.

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

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

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

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

17       Q.    I SHOW YOU EXHIBIT \_\_\_ (SWV-2) UNDER COVER PAGE  
18            ENTITLED "PUBLIC COUNSEL INTERROGATORY NO. 176 TO  
19            SOUTHERN STATES UTILITIES, INC. CONCERNING MERGER  
20            EFFICIENCIES AND THE COMPANY'S RESPONSE THERETO."  
21            WAS THIS EXHIBIT PREPARED BY YOU OR UNDER YOUR  
22            DIRECTION AND SUPERVISION?

23       A.    Yes, it was.

24       Q.    COULD YOU DESCRIBE THIS EXHIBIT?

25       A.    The exhibit contains a copy of Public Counsel's

1           interrogatory no. 176 to the Company requesting that  
2           the Company speculate as to the level of cost  
3           savings, if any, which would be achieved by the  
4           Company in the future as a result of the merger.  
5           The Company's response indicates as follows:  
6                     The Company anticipates savings in the future  
7                     from the consolidation in terms of reduced  
8                     accounting fees, reduced costs of reporting,  
9                     etc. However, estimates of such savings are  
10                    merely speculative.     The savings may be  
11                    absorbed in the future by further cost  
12                    increases associated with accounting fees,  
13                    reporting fees, additional reports which may  
14                    be required in the future, etc. Since the  
15                    consolidation was not completed until July 15,  
16                    1992, the Company has not yet been able to  
17                    measure actual savings. Qualitative benefits  
18                    also should arise in terms of less customer  
19                    confusion as to the identity of their service  
20                    provider, increased employee esprit d' corps,  
21                    etc. Since any estimate of cost savings is  
22                    based on mere speculation at this time, such  
23                    speculative savings have not been considered  
24                    in this filing since only known and  
25                    quantifiable items should be considered.

1 Ms. Dismukes' testimony does not in any way refute  
2 the facts contained in the Company's response.

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

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

1           our parent, Topeka).

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

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

1 requirements, but she applies a double standard when  
2 cost increases outside the test year are indicated.  
3 Ms. Dismukes also suggests that the merger costs  
4 are non-recurring which, she alleges, justifies the  
5 removal of the costs entirely from the Company's  
6 revenue requirements. This allegation highlights  
7 Ms. Dismukes' heavy handed approach to downward  
8 adjustments. Ms. Dismukes presents no facts which  
9 suggest that the merger was not prudent or that the  
10 costs incurred to effectuate the merger were not  
11 reasonable. She makes no attempt to show that the  
12 merger constituted an extraordinary event outside  
13 of the ordinary course of operating a utility  
14 business in the best interests of customers and  
15 shareholders alike. She also makes no suggestion  
16 that customers were harmed by the merger and she  
17 failed to refute in any way the facts presented to  
18 Public Counsel by the Company which identified the  
19 various benefits bestowed on customers as a result  
20 of the merger. Yet, Ms. Dismukes suggests that it  
21 would be proper for the Commission to deny the  
22 Company the opportunity to recover from our  
23 customers any of the expenses associated with  
24 achieving these benefits. We believe that absent  
25 a showing either that the decision to merge the

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

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

10 **A.** The fact that costs may not recur on an annual basis  
11 does not justify a complete denial of a utility's  
12 recovery of the costs. Under Ms. Dismukes' apparent  
13 theory of recoverability, Southern States could  
14 never recover legal costs, costs associated with  
15 professional studies or the like since these costs  
16 invariably are incurred on a project by project  
17 basis. Since all projects have a beginning and an  
18 end, all such projects and their related costs  
19 theoretically are "non-recurring". However, this  
20 fact does not render the costs non-recoverable.  
21 Rather, the Commission must recognize that the  
22 Company will incur legal expenses and expenses  
23 associated with professional studies each year and  
24 these expenses are an ordinary cost of doing  
25 business. No adjustments are justified to these

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

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

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

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

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

21          **A. Yes, it does.**

Exhibit \_\_\_\_\_ (SWV-2)  
Cover Page

PUBLIC COUNSEL INTERROGATORY NO. 176  
TO SOUTHERN STATES UTILITIES, INC.  
CONCERNING MERGER EFFICIENCIES AND THE  
COMPANY'S RESPONSE THERETO

**SOUTHERN STATES UTILITIES, INC.**  
**RESPONSE TO INTERROGATORIES**  
**DOCKET NO. 920199-WS**

REQUESTED BY: OPC  
SET NO.: 2  
INTERROGATORY NO.: 176  
ISSUE DATE: Jun 02, 1992  
PREPARED BY: Forrest L. Ludsen

INTERROGATORY: 176

**Merger/Consolidation**

- a. Does the company anticipate any cost savings associated with the consolidation of its operations/companies? (Consolidation for purposes of this request and all subsequent requests is intended to cover the consolidation of the company, Deltona, SSUSI, and any other companies or divisions owned by The Topeka Group, or Southern States Utilities that were consolidated or merged with the company during 1989, 1990, and 1991).
- b. If the response to (a) is affirmative, when does the company expect these cost savings to materialize?
- c. Has the company estimated the impact of any cost savings associated with its consolidation?
- d. If the response to (c) is affirmative, please provide all calculations and source documents used to prepare all estimates of the cost savings and provide the estimated cost savings by year and month.
- e. If the response to (c) is not affirmative, why hasn't the company prepared such an estimate?
- f. If the response to (a) is not affirmative, why doesn't the company expect any cost savings associated with its consolidation?
- g. Has the company incorporated the savings associated with the consolidation into its test year?
- h. If the response to (g) is affirmative, please identify how these savings have been incorporated into the test year operations.
- i. If the response to (g) is not affirmative, please indicate why these savings have not been incorporated into the test year.

**RESPONSE: 176**

(a through i). The Company anticipates savings in the future from the consolidation in terms of reduced accounting fees, reduced costs of reporting, etc. However, estimates of such savings are merely speculative. The savings may be absorbed in the future by further cost increases associated with accounting fees, reporting fees, additional reports which may be required in the future, etc. Since the consolidation was not completed until July 15, 1992, the Company has not yet been able to measure actual savings. Qualitative benefits also should arise in terms of less customer confusion as to the identify of their service provider, increased employee esprit d' corps, etc. Since any estimate of cost savings is based on mere speculation at this time, such speculative savings have not been considered in this filing since only known and quantifiable items should be considered.