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

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

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

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

11 A. Yes, I am.

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

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

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

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

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

22 A. Yes, I am.

23 Q. COULD YOU DESCRIBE THIS EXHIBIT?

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

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

4 The Company's response indicates as follows:

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

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

1 the facts contained in the Company's response.

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

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

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

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

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

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

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

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

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

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

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

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

22 Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

23 A. Yes, it does.