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MORNING SESSION

1  
2 (Transcript continues in sequence from Volume  
3 III.)

4 (Hearing reconvened at 9:00 a.m.)

5 CHAIRMAN BEARD: Let's go ahead and get  
6 started.

7 MR. FEIL: If I could, I'd like to mention  
8 two preliminary matters. The first is, Staff counsel  
9 has handed out the errata sheet to Exhibit No. 38,  
10 which was Mr. Gangnon's deposition. The other thing  
11 was, at the beginning of the hearing on Friday, I  
12 mentioned some issues which might be stipulated to, in  
13 particular Issues 21, 55, 76 and 98. Citrus County and  
14 COVA elected not to participate any of those  
15 stipulations, they were essentially taking no position  
16 on those. Staff and the Utility and OPC stipulated as  
17 to all the rest, except for Issue 98, a rate issue,  
18 which OPC took no position on.

19 CHAIRMAN BEARD: Okay. Are we ready?  
20 Anything else?

21 MR. HOFFMAN: Mr. Chairman, I have two  
22 preliminary matters.

23 CHAIRMAN BEARD: Okay.

24 MR. HOFFMAN: First, I distributed an exhibit  
25 of a revised rate case expense summary to the

1 Commissioners and to the parties. It's up in front of  
2 you there, and I would ask that that be marked for  
3 identification and admitted into the record.

4 CHAIRMAN BEARD: Okay.

5 MR. McLEAN: Is Mr. Ludsen sponsoring that  
6 exhibit or do we know?

7 MR. HOFFMAN: Yes.

8 MR. McLEAN: We are probably, having just  
9 received it, not going to be prepared to cross Mr.  
10 Ludsen on that item today. So at the appropriate time,  
11 we're probably going to move to recall Mr. Ludsen so  
12 that we could ask a few questions about it. We  
13 originally thought we could do that today, but we  
14 didn't know we were going to get a new exhibit today.

15 CHAIRMAN BEARD: I'm, I guess, a little  
16 confused -- and I don't have a problem with recalling  
17 him, unless there's some scheduling problem --

18 MR. McLEAN: I was only mentioning a  
19 discussion that Mr. Hoffman and I had had, thinking  
20 that we might be able to be done with him today.

21 CHAIRMAN BEARD: You're going to cross him  
22 without the exhibit?

23 MR. McLEAN: No.

24 CHAIRMAN BEARD: I'm confused as to what  
25 you're going to do today.

1 MR. McLEAN: Well, at some point, I'm going  
2 to say, "Mr. Chairman, we'd like to reserve the right  
3 to recall Mr. Ludsen for cross examination on the issue  
4 of rate case expense," period.

5 CHAIRMAN BEARD: That's fine. Is there any  
6 problem with timing or scheduling?

7 MR. HOFFMAN: I'm not sure. I'd have to  
8 speak with Mr. Ludsen about that, but I guess I should  
9 put on the record that basically all this document is  
10 is a more organized version of documents, which have  
11 already been produced to all the parties. I say Mr.  
12 Ludsen is sponsoring the document because he is the one  
13 that we made available to the Commission, to the  
14 parties, to answer questions about rate case expense.

15 COMMISSIONER EASLEY: Mr. Hoffman, is it my  
16 understanding that you're saying that there's nothing  
17 in here that the parties haven't already had, there's  
18 nothing new in here, nothing different in here?

19 MR. HOFFMAN: Yes, I think that's correct.

20 CHAIRMAN BEARD: Public Counsel is reserving  
21 the right to recall this witness, in case he finds  
22 something new and exciting in here that he otherwise  
23 hadn't already seen, and I'm going to allow that. I  
24 would suggest, Public Counsel, that to the extent that  
25 you have questions on rate case expenses that you already

1 had prepared, you probably should proceed with those.

2 MR. McLEAN: Certainly. And we probably can  
3 finish him today.

4 CHAIRMAN BEARD: Okay. To the extent there  
5 is something new and exciting in there that you haven't  
6 seen, though, you certainly have that ability to  
7 reserve that right.

8 COMMISSIONER EASLEY: Does it have to be both  
9 new and exciting, or can be one of the other?

10 CHAIRMAN BEARD: Oh, heck, one out of two isn't bad.

11 COMMISSIONER EASLEY: Oh. Okay.

12 MR. HOFFMAN: Mr. Chairman, we've also  
13 distributed a copy of the revised Exhibit 7. It's a  
14 prefiled exhibit previously filed. It's directed to an  
15 exhibit previously filed by Mr. Ludsen, to his rebuttal  
16 testimony, it was No. 7; this is a revised and shorter  
17 version. That's all I have.

18 CHAIRMAN BEARD: Anything else?

19 MR. McLEAN: Yes, sir. We are prepared to  
20 comply with discovery, which your Highness addressed on the --

21 CHAIRMAN BEARD: Wait a minute, wait a minute.

22 COMMISSIONER EASLEY: That's my line. He's  
23 forgetting who is running this one.

24 CHAIRMAN BEARD: "Your Royal Scumbag" will  
25 do. (Laughter)

1 MR. McLEAN: Anyway, we are prepared to  
2 comply with it with the exception of the two questions  
3 which dealt with Legislative matter. Mr. Shreve has  
4 been at a conference dealing with health care --

5 CHAIRMAN BEARD: I met him yesterday at the airport.

6 MR. McLEAN: So you know I'm not lying, correct.

7 CHAIRMAN BEARD: No, I made sure he got on  
8 the airplane safely. He's doing real well.

9 MR. McLEAN: Did he get on on time, is the question?

10 CHAIRMAN BEARD: Yeah.

11 MR. McLEAN: In any case, we're ready to  
12 comply with discovery, and would entrust the Chairman  
13 to ensure that we don't get one up. I'm ready to  
14 comply if Mr. Hoffman is, essentially.

15 MR. HOFFMAN: It's on the way, we're ready.

16 CHAIRMAN BEARD: What does "on the way" mean?  
17 Is it on the way from Minnesota and is going to be here  
18 by Friday?

19 MR. HOFFMAN: On the way from my office building.

20 CHAIRMAN BEARD: Okay.

21 MR. HOFFMAN: Apart from two questions, which --

22 CHAIRMAN BEARD: Could we have a ceremonial  
23 exchanging of the discovery in the hallway, or something with --

24 MR. McLEAN: Could we do it on a bridge? I'd  
25 like to do it in the middle of a bridge, if possible.

1 CHAIRMAN BEARD: I've got several in mind.

2 Okay. Anything else? Okay. Moving right  
3 along. I understand that some people from Citrus  
4 County will be coming. I guess our lawyer from that  
5 county has not arrived yet.

6 Okay, go ahead.

7 COMMISSIONER EASLEY: Mr. Twomey is  
8 co-counsel. Do you know anything about it, Mr. Twomey?

9 CHAIRMAN BEARD: That's correct, I'm sorry.  
10 Let me say this, okay: My intention is once they  
11 arrive here is to get a list of those people who intend  
12 to testify and have not testified before. And once I  
13 have that list, we will find an appropriate point at  
14 which to break the technical portion and take that  
15 testimony. I will not be accepting testimony from  
16 those who have testified. So, if we can just balance  
17 that out, we'll move along as expeditiously a possible.

18

- - - - -

19

FORREST L. LUDSEN

20 was called as a witness on behalf of Southern States  
21 Utilities, Inc. and, after being duly sworn, testified  
22 as follows:

23

DIRECT EXAMINATION

24 BY MR. HOFFMAN:

25 Q Could you state your name and business address?

1           A     Forrest L. Ludsen, 1000 Color Place, Apopka,  
2 Florida, 32703.

3           Q     Mr. Ludsen, did you prepare and cause to be  
4 filed prefiled direct testimony and prefiled rebuttal  
5 testimony on behalf of Southern States Utilities, Inc.,  
6 in this proceeding?

7           A     Yes, I did.

8           Q     Do you have any changes to your prefiled  
9 direct testimony?

10          A     No, I don't.

11          Q     Do you have any changes or revisions to your  
12 prefiled rebuttal testimony?

13          A     Yes, I do.

14          Q     Could you please provide those?

15          A     Page 19, Line 25, of my rebuttal testimony,  
16 Docket No. 900329-WS should read Docket No. 920005-WS.

17          Q     Any other changes to your rebuttal testimony?

18          A     No.

19          Q     So that if I asked you the same questions  
20 contained in your prefiled direct and prefiled rebuttal  
21 testimony, with that one revision, would your answers  
22 be the same?

23          A     Yes, they would.

24                MR. HOFFMAN: Mr. Chairman, I would ask that  
25 Mr. Ludsen's prefiled direct and prefiled rebuttal

1 testimony be inserted into the record as though read.

2 CHAIRMAN BEARD: It will be so inserted.

3 Q (By Mr. Hoffman) Mr. Ludsen, have you  
4 prepared or attached any exhibits to your direct testimony?

5 A Yes, I have.

6 Q Could you please briefly identify those exhibits?

7 A Yes. FLL-1, Financial Rate and Engineering  
8 Minimum Filing Requirements of Southern States  
9 Utilities, Inc., and Deltona Utilities, Inc.  
10 (Previously filed with the Commission and all parties).  
11 Exhibit FLL-2, Supplemental Information Supplied by  
12 Southern States on June 17, 1992, to Comply With the  
13 Commission's Minimum Filing Requirements (Previously  
14 filed with the Commission and all parties). Exhibit  
15 FLL-3, FPSC's September 1988 management audit report.  
16 Exhibit FLL-4, PSC Audit Correspondence. Exhibit  
17 FLL-5, Pre and Post Audit Reports, Staffing Modifications  
18 of Lehigh/Southern States. And exhibit FLL-6, Descriptions  
19 of the Duties and Responsibilities of the Administrative  
20 and General Departments of Southern States.

21 Q Mr. Ludsen, have you prepared or attached any  
22 exhibits to your rebuttal testimony, including revised  
23 exhibits?

24 A Yes, I have.

25 Q Would you please identify those?



1           A     Exhibit FLL-7 revised, revised Adjusted  
2 Nonused and Useful Percentages for Property Tax  
3 Purposes. Exhibit FLL-8, Information Substantiating  
4 Requested 5% Payroll Increase.

5           MR. HOFFMAN: Mr. Chairman, would I ask that  
6 Mr. Ludsen's prefiled direct and prefiled rebuttal  
7 exhibits, including the substitution of revised Exhibit  
8 7 for his originally filed Exhibit 7, be marked for  
9 purposes of identification.

10           CHAIRMAN BEARD: The exhibits attached to his  
11 direct testimony FLL-1 through 6 will be identified as  
12 Exhibit No. 39. FLL-7 to include the revised  
13 information will be Exhibit No. 40.

14           MR. HOFFMAN: Mr. Chairman, excuse me, did we  
15 get a number for the rate case expense exhibit?

16           COMMISSIONER EASLEY: No.

17           CHAIRMAN BEARD: No, we didn't. We'll give  
18 that 41.

19                   (Exhibit Nos. 39, 40 and 41 marked for  
20 identification)

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1 Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?

2 A. My name is Forrest L. Ludsen and my business  
3 address is 1000 Color Place, Apopka, Florida  
4 32703.

5 Q. WHAT IS YOUR POSITION WITH SOUTHERN STATES  
6 UTILITIES, INC. AND DELTONA UTILITIES, INC.?

7 A. My position is Vice President in charge of  
8 Customer Services for Southern States Utilities,  
9 Inc. and Deltona Utilities, Inc. (which I will  
10 refer to collectively as "Southern States").

11 Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND WORK  
12 EXPERIENCE?

13 A. I am a graduate of the University of Minnesota  
14 where I received a Bachelor of Arts degree in  
15 Business and Economics. Prior to holding my  
16 current position with Southern States, I was  
17 employed by the Minnesota Power & Light Company  
18 ("Minnesota Power") from 1969 until 1989. I  
19 began my career in Minnesota Power's accounting  
20 department and subsequently worked for 16 years  
21 in the rates department, ultimately as its  
22 manager. As manager of the rates department, I  
23 was responsible for revenue requirement  
24 determinations and the filing and administration  
25 of rate case applications. While with Minnesota

1 Power I directly oversaw the preparation and  
2 filing of over a dozen major rate cases.

3 **Q. WHAT ARE YOUR PRESENT DUTIES AS VICE PRESIDENT**  
4 **IN CHARGE OF CUSTOMER SERVICES?**

5 **A.** Generally, I am responsible for all matters  
6 relating to customer service including the  
7 administration of customer billing, complaints  
8 and service requests as well as the determination  
9 of Southern States' revenue requirements,  
10 administration of rates, filing and  
11 administration of rate applications and the  
12 coordination of all activities required to comply  
13 with the rules and regulations of the Florida  
14 Public Service Commission.

15 **Q. HAVE YOU EVER TESTIFIED BEFORE A REGULATORY**  
16 **AGENCY?**

17 **A.** Yes, I testified before the Florida Public  
18 Service Commission on behalf of Southern States  
19 and United Florida Utilities Corporation in  
20 Docket No. 900329-WS. I have submitted pre-filed  
21 direct testimony on behalf of Lehigh Utilities,  
22 Inc. in Docket No. 911188-WS. I also have  
23 testified on behalf of Minnesota Power before the  
24 Minnesota Public Service Commission and the  
25 Federal Energy Regulatory Commission.

1 Q. PLEASE DESCRIBE THE SCOPE OF YOUR TESTIMONY IN  
2 THIS PROCEEDING.

3 A. First, I will present the information contained  
4 in Southern States' filing to satisfy the  
5 Commission's minimum filing requirements  
6 ("MFRs").

7 Q. I SHOW YOU EXHIBIT 39 (FLL-1) UNDER COVER PAGE  
8 ENTITLED "FINANCIAL, RATE AND ENGINEERING MINIMUM  
9 FILING REQUIREMENTS OF SOUTHERN STATES UTILITIES,  
10 INC. AND DELTONA UTILITIES, INC." WERE THESE  
11 MFRS PREPARED BY YOU OR UNDER YOUR DIRECTION AND  
12 SUPERVISION?

13 A. Yes, I had ultimate responsibility to ensure that  
14 the MFRs contained the information required in  
15 the Commission's rules. Of course, I am not  
16 qualified to address certain portions of the  
17 voluminous information contained in the MFRs.  
18 However, Southern States believes it will be  
19 easier to identify the MFRs as one exhibit and to  
20 introduce other witnesses with the necessary  
21 expertise to describe and sponsor various  
22 portions of the MFRs for Southern States. A  
23 further point regarding Southern States'  
24 application. As a result of the denial of rate  
25 relief in Docket No. 900329-WS, Southern States'

1 financial situation is tenuous at best. Indeed,  
2 Southern States was unable to cover its debt  
3 costs from operating revenues in 1991.  
4 Therefore, we have attempted to file the most  
5 non-controversial case possible. Disputed issues  
6 such as consolidated rate structures, charitable  
7 contributions and organization costs have been  
8 eliminated since we are not seeking recovery of  
9 associated costs in this proceeding. However,  
10 Southern States reserves the right to pursue  
11 recovery of these and other such costs in future  
12 proceedings.

13 Q. I SHOW YOU EXHIBIT 39 (FLL-2) UNDER COVER PAGE  
14 ENTITLED "SUPPLEMENTAL INFORMATION SUPPLIED BY  
15 SOUTHERN STATES ON JUNE 17, 1992 TO COMPLY WITH  
16 THE COMMISSION'S MINIMUM FILING REQUIREMENTS."  
17 WAS THIS EXHIBIT PREPARED BY YOU OR UNDER YOUR  
18 DIRECTION AND SUPERVISION?

19 A. Yes, it was.

20 Q. COULD YOU BRIEFLY DESCRIBE THIS EXHIBIT?

21 A. This exhibit contains information submitted on  
22 June 17, 1992 in response to certain alleged  
23 deficiencies in the MFRs previously submitted on  
24 May 11, 1992 as well as information intended to  
25 supplement and/or revise certain portions of the

1 MFRs.

2 Q. WILL YOU BE PROVIDING ANY ADDITIONAL TESTIMONY?

3 A. Yes. For purposes of this filing, the  
4 administrative and general (A&G) expenses of  
5 Southern States have been rolled into the A&G  
6 expenses of Southern States' affiliate, Lehigh  
7 Utilities, Inc. ("Lehigh"). All A&G type services  
8 including accounting, customer service, legal,  
9 engineering, pensions and benefits, etc. for  
10 Southern States and Lehigh are provided on a  
11 consolidated basis. The consolidated A&G  
12 expenses and the expenses allocated to each of  
13 Southern States' systems are set forth in Volume  
14 I, Book 2 of the MFRs. I will provide an  
15 overview of the A&G expenses which Southern  
16 States seeks to recover from customers served by  
17 each of the 127 systems included in this  
18 proceeding and demonstrate that the costs we seek  
19 to recover are reasonable. I also will discuss  
20 the impact on A&G expenses of internal corporate  
21 restructuring made in large part to comply with  
22 recommendations made by the Commission through  
23 its audit staff in a management audit report  
24 issued in September 1988. After review of the  
25 audit recommendations, Southern States determined

1           that many of the recommendations were consistent  
2           with Southern States' plans for growth as well as  
3           its goal to provide the highest quality water and  
4           wastewater service at the lowest possible cost.  
5           Therefore, Southern States initially agreed with  
6           62 of the 79 audit recommendations. Commission  
7           Staff aggressively pursued implementation of the  
8           17 recommendations with which we disagreed and  
9           ultimately we agreed with Staff to implement,  
10          with modifications, 15 of the remaining 17. By  
11          letter dated June 2, 1992 to Charles E. Wood,  
12          Vice President of Southern States, staff  
13          recognized our completion of the implementation  
14          phase of the audit process and commended Southern  
15          States as follows:

16                 Thank you for your cooperation and  
17                 dedication to the requirements of the  
18                 implementation program. The timeliness and  
19                 quality of the documentation you have  
20                 provided has been appreciated. We wish to  
21                 commend you and all other participants  
22                 involved in implementing these  
23                 recommendations, for the professional manner  
24                 in which you have responded and completed  
25                 this program.

1           Finally, I will describe the methodology used to  
2           allocate common costs to each of our systems in  
3           this proceeding.

4           **Q. DID SOUTHERN STATES PERFORM AN ANALYSIS OF ITS**  
5           **O&M AND A&G EXPENSES DURING THE TEST YEAR AND**  
6           **COMPARE THEM TO THE COMMISSION'S "GUIDELINES"?**

7           **A. Yes. The results of this analysis are presented**  
8           **in Volume I, Book 3 of the MFRs. Volume I, Book**  
9           **3, pages 1 through 15 explain the process**  
10           **Southern States used to apply the Commission's**  
11           **benchmark "guidelines" and identify the**  
12           **categories of expense which exceed such**  
13           **guideline. As demonstrated in these pages,**  
14           **Southern States' expenses, including those which**  
15           **fall above the guideline, are reasonable for a**  
16           **water and wastewater utility operating**  
17           **approximately 150 systems and serving**  
18           **approximately 160,000 customers in 27 counties**  
19           **in Florida.**

20           **Q. I SHOW YOU EXHIBIT 39 (FLL-3) UNDER COVER PAGE**  
21           **ENTITLED "FPSC SEPTEMBER 1988 MANAGEMENT AUDIT**  
22           **REPORT." WAS THIS EXHIBIT PREPARED BY YOU OR**  
23           **UNDER YOUR DIRECTION AND SUPERVISION?**

24           **A. Yes, it was.**

25           **Q. COULD YOU BRIEFLY DESCRIBE THIS EXHIBIT?**



1       A.    This exhibit contains a copy of the Final Report  
2           of the Management Review of Southern States  
3           Utilities, Inc. issued in September of 1988 "by  
4           authority of The State of Florida for The Florida  
5           Public Service Commission" ("Audit Report"). The  
6           audit was conducted and the report prepared by  
7           the Commission's Bureau of Management Studies,  
8           Division of Auditing and Financial Analysis. As  
9           the introduction to the Audit Report states,

10                     . . . the Commission has established the  
11                     Bureau of Management Studies within the  
12                     Division of Auditing and Financial Analysis  
13                     to perform Management Audits on a selected  
14                     basis. While the results of these audits  
15                     are not intended to reflect directly on the  
16                     ratemaking process, they are intended to  
17                     provide important supplemental information  
18                     as to the overall prudence of the way the  
19                     utility conducts its business.

20           The Audit Report further defines the scope and  
21           objectives of the audit (p. 2) as follows:

22                     The scope of our review was designed to be  
23                     comprehensive in nature, comprising all  
24                     major aspects of the management and  
25                     operations of Southern States Utilities . .

1 . The primary objectives of this review were  
2 as follows:

3 -To provide an independent and comprehensive  
4 review of the effectiveness and efficiency  
5 of Southern States' management and of  
6 selected company operations.

7 -To develop meaningful, cost-effective  
8 recommendations for improvement.

9 -To produce an accurate and comprehensive  
10 report of our findings, conclusions and  
11 recommendations

12 -To ensure the satisfactory implementation  
13 of our recommendations.

14 I emphasize the last stated objective since it  
15 was Southern States' experience in its last rate  
16 filing that Public Counsel disputed the authority  
17 behind, if not the very merits of, the Audit  
18 Report. These objectives clearly establish the  
19 less than "permissive" character of the  
20 Commission's recommendations contained in the  
21 Audit Report. In addition, as I indicated  
22 previously, the Commission's Division of Auditing  
23 and Financial Analysis has aggressively required  
24 implementation by Southern States of all of the  
25 Audit Report recommendations.

1 Q. I SHOW YOU EXHIBIT 39 (FLL - 4) UNDER COVER  
2 PAGE ENTITLED "PSC AUDIT CORRESPONDENCE." WAS  
3 THIS EXHIBIT PREPARED BY YOU OR UNDER YOUR  
4 DIRECTION AND SUPERVISION?

5 A. Yes, it was.

6 Q. COULD YOU BRIEFLY DESCRIBE THIS EXHIBIT?

7 A. Yes, this exhibit contains copies of various  
8 correspondence between Southern States and the  
9 Commission concerning the Audit Report  
10 recommendations for change, improvement and  
11 supplementation of Southern States' internal  
12 corporate structure. This exhibit also contains  
13 several examples of the status update reports  
14 filed by Southern States which the Commission  
15 required Southern States to provide on a  
16 quarterly basis as well as a copy of the June 2,  
17 1992 letter from Staff to Mr. Wood to which I  
18 referred earlier.

19 Q. WHY DOES SOUTHERN STATES BELIEVE THE AUDIT REPORT  
20 IS RELEVANT AT THIS TIME?

21 A. As indicated in Staff's June 2 letter, the  
22 implementation process for the audit  
23 recommendations only recently has been completed.  
24 Therefore, we believe a discussion of the Audit  
25 Report is timely. Moreover, discussion of the

1           Audit Report is critical to the Commission's  
2           understanding of Southern States' current A&G  
3           expenses which we seek to recover from our  
4           customers in this proceeding. As I mentioned  
5           earlier, we have rolled together the A&G expenses  
6           of Southern States and Lehigh and allocated the  
7           pool of expenses to each of the systems operated  
8           by these utilities based on the number of  
9           customers served by each system. This is the  
10          same method used in Docket No. 911188-WS  
11          concerning Lehigh's request for a rate increase.  
12          If any of the systems included in this proceeding  
13          attempted to purchase or provide the level and  
14          scope of A&G services currently provided by  
15          Southern States, the stand alone costs to each  
16          system would be significantly higher than those  
17          which Southern States seeks to recover in this  
18          proceeding. The ability of Southern States to  
19          offer these services is in large part  
20          attributable to the internal restructuring of  
21          Southern States which was initiated after receipt  
22          of the Commission's findings and recommendations  
23          in the Audit Report.

24          **Q.    COULD YOU BRIEFLY DISCUSS THE AUDIT REPORT'S**  
25          **FINDINGS AND RECOMMENDATIONS?**

1       A.    The Commission's Audit Report foresaw Southern  
2           States' growth through acquisitions and commended  
3           Southern States for several steps it had taken to  
4           accommodate such growth, including moving  
5           corporate management activities to its current  
6           Central Florida location in Apopka, foreseeing  
7           the need to construct a larger corporate  
8           headquarters facility in Apopka and understanding  
9           the need to perform a major upgrade of Southern  
10          States' electronic data processing capabilities.  
11         However, as early as September 1988, the  
12         Commission's Staff confirmed that:

13                 Many responsibilities are at the point of  
14                 needing to become separate from each other  
15                 and are on the verge of requiring added  
16                 specialization for those who occupy the  
17                 positions. Functions throughout the Company  
18                 are becoming more departmentalized, adding  
19                 structure to the organization. All  
20                 management tasks, but especially those of  
21                 the upper managers, are in the process of  
22                 changing from a hands-on approach to one of  
23                 guidance and decision-making.

24                 The transition from a "Mom and Pop" company  
25                 to a small business is not necessarily a

1 gradual evolution. Southern States is  
2 experiencing this "threshold" phenomenon,  
3 the point at which change becomes necessary.

4 The proper management of this change  
5 separates companies which are marginal from  
6 those which become successful.

7 The Commission's Audit Report further  
8 acknowledges that:

9 . . . it is quite common for any company  
10 undergoing rapid growth and expansion to  
11 require extensive changes in its management  
12 functioning. Southern States is no  
13 exception. While management has performed  
14 well in many respects, there are still a  
15 number of improvement opportunities to be  
16 acted upon. As Southern States expands, the  
17 management functions of planning,  
18 organizing, directing, and controlling will  
19 need to become more differentiated,  
20 formalized, and systematic.

21 Again, I have emphasized certain of the  
22 statements made in the Commission's Audit Report  
23 because these statements are consistent with the  
24 findings and conclusions of Southern States'  
25 management -- that the ability to provide high

1 quality water and wastewater service to a large  
2 customer base in today's regulatory environment  
3 at the lowest cost possible requires a large  
4 utility company with the financial capability and  
5 internal corporate expertise to satisfy  
6 regulatory requirements and achieve economies of  
7 scale to the greatest extent possible. Of  
8 course, to maintain the financial capability to  
9 meet the ever expanding base of regulatory  
10 requirements, Southern States must be authorized  
11 to charge its customers rates which at least give  
12 it an opportunity to earn the return ultimately  
13 authorized by the Commission. It also must be  
14 noted that even after achieving the current  
15 economies of scale, Southern States often can  
16 only minimize inevitable cost increases  
17 associated with the ever expanding and ever more  
18 strict multitude of federal, state and local  
19 rules, regulations, standards and laws impacting  
20 Florida's water and wastewater utilities. We  
21 also are striving to minimize increases in the  
22 level of costs incurred to serve our customers  
23 whenever possible. In this regard, we must note  
24 our dissatisfaction with requirements such as  
25 those imposed on Southern States in the "Order

1           Establishing Procedure" issued by the Commission  
2           on July 10, 1992 in this proceeding which require  
3           Southern States to provide no less than 4 notices  
4           of service hearings and evidentiary hearings to  
5           each customer in this proceeding, including 3  
6           direct written notices to customers and a  
7           newspaper notice.       Compliance with such  
8           requirements will cost the Company, and  
9           ultimately our customers, approximately \$100,000.  
10          While we recognize the need to keep our customers  
11          informed, we wonder whether the majority of our  
12          customers would be pleased to know that they will  
13          be required to pay this kind of money for a  
14          series of duplicative notices. I also wish to  
15          note that the Company experiences similar  
16          frustrations in our attempts to reduce the cost  
17          of serving our customers when the Environmental  
18          Protection Agency and Florida Department of  
19          Environmental Regulation continue to promulgate  
20          and enforce costly regulations to reduce  
21          (allegedly) the risk of one person getting cancer  
22          from drinking water in this state by 1 in  
23          100,000.       The extreme nature of such  
24          regulations is highlighted by the fact that EPA  
25          bases estimates of risk from contaminated



1 drinking water on the premise that individuals  
 2 consume two liters of drinking water per day from  
 3 the same contaminated source for seventy (70)  
 4 consecutive years. It is these types of  
 5 regulatory requirements which unnecessarily  
 6 increase the cost of providing service to our  
 7 customers. It is our goal to work with  
 8 regulators to eliminate such inefficient  
 9 requirements in the future.

10 **Q. COULD YOU SUMMARIZE THE COMMISSION'S AUDIT**  
 11 **RECOMMENDATIONS?**

12 **A.** Yes, the Commission made 79 recommendations for  
 13 changes to Southern States' internal corporate  
 14 structure, policies and procedures. These  
 15 recommendations generally include, but are not  
 16 limited to, the following:

- 17
- |    |                               |              |
|----|-------------------------------|--------------|
| 18 | 1. The need to concentrate on | (Executive/  |
| 19 | planning and operational      | All          |
| 20 | guidance to staff through     | Departments) |
| 21 | the creation and dis-         |              |
| 22 | semination of formal          |              |
| 23 | policies and procedures;      |              |
| 24 | 2. The need to secure more    | (All         |
| 25 | personnel, equipment and      | Departments  |

- 1 materials to make assimilation of acquisitions easier;
- 2
- 3
- 4 3. The need to commit more (All  
5 personnel, money, time, Departments)  
6 materials, equipment and  
7 know-how of the required  
8 quality and quantity to  
9 meet long-term organiza-  
10 tional needs;
- 11
- 12 4. The need to establish an (Parent  
13 internal audit review Company Audit  
14 function as well as an Services)  
15 internal review program  
16 for the company's computer  
17 system;
- 18
- 19 5. The need to formalize and (Budget  
20 computerize the budgeting Department)  
21 process, including the  
22 training of management  
23 personnel in the budgeting  
24 process and the provision of  
25 budget and budget deviation

- 1 reports to managers;  
2
- 3 6. The need to provide revenue (Rates  
4 and gallonage billing com- Department)  
5 parisons;  
6
- 7 7. The need to implement a work (Property  
8 order and property records Accounting  
9 system; Department)
- 10
- 11 8. The need to create written (Accounting  
12 accounting department Department)  
13 policies and procedures;  
14
- 15 9. The need to computerize the (Accounting/  
16 preparation of annual Information  
17 reports to the Commission; Systems (IS)  
18 Departments)  
19
- 20 10. The need to establish and (Treasury  
21 implement more formalized Department)  
22 internal controls of cash  
23 management, including the  
24 separation of cash manage-  
25 ment duties among various

- 1 employees rather than  
2 having one employee perform  
3 all cash management functions;  
4
- 5 11. The need to explore alter- (Treasury  
6 native long-term borrowing Department/  
7 mechanisms which, while Parent  
8 unavailable to small, self- Company  
9 sustaining wastewater Services)  
10 utilities, might be avail-  
11 able to the larger utility  
12 resulting from Southern  
13 States' growth;  
14
- 15 12. The need to upgrade or (Information  
16 replace the then existing Systems  
17 telephone system or develop Department)  
18 a totally new means of  
19 communication with field  
20 personnel;  
21
- 22 13. The need to develop and (Treasury  
23 implement guidelines and Department)  
24 written criteria for max-  
25 imizing interest earnings





- 1 plan as well as emergency and Department)  
2 fire procedures to prevent  
3 risk of loss of data;  
4
- 5 21. The need to develop and pro- Budgets/  
6 duce computer operating Systems and  
7 statistics for management Procedures  
8 review; Department)
- 9
- 10 22. The need to use computers (Information  
11 to generate customer notices, Systems  
12 when feasible; Department)
- 13
- 14 23. The need to remove employee (Payroll  
15 payroll entry responsibility Department)  
16 from the managerial level to  
17 lower level employees;  
18
- 19 24. The need to centralize the (Purchasing  
20 purchasing function; Department)
- 21
- 22 25. The need to develop and (Purchasing  
23 implement policies and Department)  
24 procedures for bulk purchase  
25 decisions;





- 1
- 2           30. The need to develop and                   (Administra-
- 3                   implement scheduled preven-           tive Services
- 4                   tive maintenance procedures           Department)
- 5                   for vehicles;
- 6
- 7           31. The need to develop and                   (Administra-
- 8
- 9                   implement written policies           tive Services
- 10                   and procedures for transport-           Department)
- 11                   ation management; and
- 12
- 13          32. The need to develop and                   (Administra-
- 14
- 15                   implement controls to prevent           tive Services
- 16                   the potential misappropria-           Department)
- 17                   tion of gasoline purchases
- 18                   including a computerized
- 19                   tracking system.
- 20
- 21           Mr. Sweat will address those portions of the Audit
- 22           Report relating to field operations, training and
- 23           related subjects as well as Southern States'
- 24           compliance with related Commission recommendations.
- 25           As previously noted, each of the recommendations I

1 listed above and virtually all of the other  
2 recommendations, with modifications, were accepted  
3 and implemented by Southern States after careful  
4 analysis and study.

5 Q. I SHOW YOU EXHIBIT 39 (FLL-5) UNDER COVER PAGE  
6 ENTITLED "PRE AND POST-AUDIT REPORT STAFFING  
7 MODIFICATIONS OF SOUTHERN STATES. " WAS THIS  
8 EXHIBIT PREPARED BY YOU OR UNDER YOUR DIRECTION AND  
9 SUPERVISION?

10 A. Yes, it was.

11 Q. PLEASE BRIEFLY DESCRIBE THIS EXHIBIT.

12 A. This exhibit identifies the structure of the  
13 various departments within Southern States that  
14 provide administrative and general services to all  
15 of our systems as opposed to the structure which  
16 existed prior to the issuance of the Audit Report.  
17 This exhibit demonstrates that Southern States has  
18 achieved the departmentalization and specialization  
19 of services which the Audit Report indicated would  
20 be required to enable it to become a successful  
21 utility company as opposed to its prior "Mom and  
22 Pop" existence. Indeed, Southern States and Lehigh  
23 combined currently provide service to approximately  
24 160,000 customers or almost 4 times as many  
25 customers as when the Audit Report was issued. As

1 demonstrated in the exhibit, Southern States was  
2 not capable of providing the services required of  
3 a large utility company prior to the post-Audit  
4 Report modifications.

5 **Q. DID THE COST OF PROVIDING UTILITY SERVICE RISE AS**  
6 **A RESULT OF THE POST-AUDIT REPORT MODIFICATIONS?**

7 **A.** Yes, they did. However, as indicated throughout  
8 the Audit Report, the structures and procedures  
9 which existed prior to the indicated modifications  
10 were deficient in many ways and were not conducive  
11 either to the proper running of a large utility  
12 company or to the rendition of high quality utility  
13 service to our customers. Perhaps if we had not  
14 made these required modifications, we would now be  
15 in receivership like the prior owner of our  
16 affiliate, Lehigh. However, we believe that with  
17 our current structure and operations, and given  
18 appropriate regulatory treatment, we can become the  
19 preferred provider of utility service to many more  
20 Florida residents.

21 **Q. COULD YOU BRIEFLY DISCUSS THE INTERRELATIONSHIP**  
22 **BETWEEN THE IMPLEMENTATION OF THE AUDIT REPORT**  
23 **RECOMMENDATIONS AND THE CURRENT CORPORATE STRUCTURE**  
24 **OF SOUTHERN STATES IDENTIFIED IN YOUR EXHIBIT 39**  
25 **(FLL-5)?**

1       A.    The Audit Report admonished us by pointing out that  
2            we needed to commit the "personnel, money, time,  
3            materials, equipment and know-how . . . of the  
4            required quality and quantity if SSU is to meet  
5            long-term organizational needs." I hasten to point  
6            out that since the Audit Report was issued Southern  
7            States has spent more than \$50 million in plant  
8            improvements and expansions, that Southern States  
9            employs more than 450 employees, that the O&M and  
10           A&G expenses of Southern States now exceed \$24.5  
11           million and that the general plant assets of  
12           Southern States now exceed \$17.2 million.  
13           In general, implementation of the recommendations  
14           has created a more defined corporate structure  
15           comprised of various new departments with clearly  
16           defined areas of specialization. For instance, I  
17           identified 3 audit recommendations relating to  
18           inadequate purchasing functions. In response, we  
19           created a purchasing department (3 employees) which  
20           established and implemented formal purchasing  
21           guidelines and bidding procedures. The purchasing  
22           department also oversees the bidding of all  
23           purchases and capital projects to ensure that we  
24           receive the most reasonable prices possible.  
25           In response to the numerous recommendations

1 concerning the need to upgrade and increase  
2 utilization of our computer system, including the  
3 production of annual reports to the Commission,  
4 management reports, customer notices, budget  
5 reports, etc., I note that our information systems  
6 department is now staffed by 12 employees which  
7 serve Southern States' 160,000 customers. Revenue  
8 and billing comparisons are now available to  
9 management due to the creation of a rates  
10 administration department (including billing  
11 personnel) (10 employees) with the required  
12 equipment to make these reports possible. In  
13 addition, we created a budget department (2  
14 employees) which is responsible for developing  
15 budgets, training management personnel in the  
16 budget process and producing budget deviation  
17 reports. Our accounting department has developed  
18 and implemented written policies and procedures and  
19 established a property records department (3  
20 employees). A treasury department (5 employees)  
21 also has been established which has developed and  
22 implemented written procedures and controls for  
23 cash management. The treasury department also  
24 monitors our sources of funds and is primarily  
25 responsible for obtaining debt funds at the most

1 favorable terms possible, although access to such  
2 funds has become virtually impossible under current  
3 circumstances. A manager no longer performs  
4 payroll entry activities but rather these and other  
5 related functions are performed for our 450  
6 employees by our payroll department consisting of  
7 3 employees. Our customer service department (11  
8 employees, including meter readers) has revised our  
9 application for service, developed and implemented  
10 written policies and procedures and undergoes  
11 appropriate training in customer relations and  
12 communications from an employee certified to  
13 conduct such training. It is noted that effective  
14 January 1, 1992, customer service personnel,  
15 including meter readers, throughout Southern  
16 States' service territory and at Lehigh report  
17 directly to the customer service department in  
18 Apopka rather than operations. On that basis,  
19 total customer service personnel including meter  
20 readers is 69 employees. The expertise required to  
21 conduct a wage and salary analysis, establish  
22 salary guidelines, develop and implement employer  
23 and managerial evaluation procedures, administer  
24 our pension and benefits programs and other related  
25 activities are now performed by members of our

1 human resources department (4 employees). Our  
2 administrative services department (1 employee) has  
3 developed and implemented a Fleet Management  
4 Program which includes the utilization of the  
5 services of Wright Express for the monitoring of  
6 vehicle maintenance requirements and gas purchases  
7 for our vehicles. This department also is  
8 responsible for bidding out insurance coverages and  
9 administering our insurance policies. We also have  
10 created a records retention department (1 employee)  
11 which is responsible for filing and maintaining  
12 critical documentation regarding our operations,  
13 including the project files referred to in the  
14 Commission's Audit Report.

15 Q. I SHOW YOU EXHIBIT 39 (FLL-6) UNDER COVER PAGE  
16 ENTITLED "DESCRIPTIONS OF THE DUTIES AND  
17 RESPONSIBILITIES OF THE ADMINISTRATIVE AND GENERAL  
18 DEPARTMENTS OF SOUTHERN STATES. " WAS THIS EXHIBIT  
19 PREPARED BY YOU OR UNDER YOUR DIRECTION AND  
20 SUPERVISION?

21 A. Yes, it was.

22 Q. COULD YOU BRIEFLY DESCRIBE THIS EXHIBIT?

23 A. Yes. This exhibit identifies the duties and  
24 responsibilities of the various departments which  
25 provide A&G services for all of our systems. In

1 addition to the duties and responsibilities I have  
2 identified earlier in my testimony (which are in  
3 direct response to the Commission's Audit Report),  
4 each of these various departments provides many  
5 other services which are integral to the effective  
6 and efficient operation of a water and wastewater  
7 utility company in today's regulatory environment.

8 **Q. DID THE AUDIT REPORT IDENTIFY ANY DEFICIENCIES IN**  
9 **GENERAL PLANT FACILITIES TO WHICH SOUTHERN STATES**  
10 **RESPONDED?**

11 **A. Yes. However, before I discuss the identified**  
12 **deficiencies I would like to restate that the**  
13 **Commission's Audit Report commends Southern States'**  
14 **foresight and planning in centralizing its**  
15 **management in Apopka, Florida and constructing a**  
16 **new office building to accommodate the consolidated**  
17 **operations. In addition, we have made significant**  
18 **investments to upgrade and replace our computer**  
19 **facilities and communications systems. These**  
20 **investments have assisted us both in satisfactorily**  
21 **addressing the Commission's concerns regarding our**  
22 **communications systems, and fulfilling the**  
23 **recommendations concerning the computerization of**  
24 **reports, customer notices, billing, Commission**  
25 **filing, etc.**



- 1       **Q.    COULD YOU BRIEFLY DESCRIBE THE METHODOLOGY USED TO**  
2       **ALLOCATE COMMON COSTS TO THE SOUTHERN STATES WATER**  
3       **AND WASTEWATER SYSTEMS INCLUDED IN THIS PROCEEDING?**
- 4       **A.    Yes.    The methodologies used to allocate common**  
5       **costs are set forth in Volume I, Book 2, page 2 of**  
6       **the MFRs.    Customer accounts, A&G and general plant**  
7       **expenses were allocated to each water and**  
8       **wastewater system based on the number of customers**  
9       **served by them as a proportion of the total number**  
10       **of customers served by and receiving the benefits**  
11       **of Southern States' A&G services.    The allocation**  
12       **of common costs based on the number of customers**  
13       **served by individual systems is the established**  
14       **methodology of the Commission for water and**  
15       **wastewater utilities as evidenced by the use of**  
16       **this methodology by all such utilities which must**  
17       **allocate common costs similar to those we allocated**  
18       **in this proceeding.    Southern States is not aware**  
19       **of any water and wastewater utility in this state**  
20       **which currently allocates common costs on any other**  
21       **basis.    In addition, Southern States is not aware**  
22       **of any Commission order which indicates that an**  
23       **allocation based on the number of customers served**  
24       **by individual systems is unreasonable.    There is no**  
25       **logical basis for distinguishing Southern States**

1 from other water and wastewater utilities in this  
2 state for purposes of selecting a reasonable and  
3 appropriate allocation methodology. For these  
4 reasons, we believe that the allocation of customer  
5 accounts, A&G and general plant based on the number  
6 of customers served by each of the water and  
7 wastewater systems included in this proceeding is  
8 reasonable and proper.

9 As also indicated on page 2 of Book 2 of Volume I  
10 of the MFRs, deferred taxes, investment tax credits  
11 and the parent debt adjustment were allocated based  
12 on either a gross plant allocation factor or a  
13 combination of gross plant and CIAC allocation  
14 factors. These allocation methodologies also are  
15 consistent with past Commission practice and thus  
16 are reasonable and proper.

17 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

18 **A. Yes, it does.**

19

1 Q. ARE YOU THE SAME FORREST L. LUDSEN WHO TESTIFIED  
2 PREVIOUSLY IN THIS PROCEEDING?

3 A. Yes, I am.

4 Q. COULD YOU BRIEFLY DESCRIBE THE PURPOSE OF YOUR  
5 REBUTTAL TESTIMONY?

6 A. I will address several of Ms. Dismukes' proposed  
7 adjustments to the Company's revenue requirements,  
8 beginning with her proposal concerning the  
9 appropriate method for allocating common costs.  
10 Before addressing the deficiencies in Ms. Dismukes'  
11 proposed allocation method which she advocates for  
12 use in future proceedings(not this one), I have the  
13 following preliminary observations. First, to my  
14 knowledge, Ms. Dismukes' proposed method is unlike  
15 any other previously broached in any utility  
16 proceeding. Second, her proposal mistakenly assumes  
17 the existence of some relationship between water  
18 usage (ERCs) and the level of the Company's  
19 administrative and general ("A&G") and other common  
20 costs. Ms. Dismukes does not even attempt to  
21 identify any such relationship -- I believe simply  
22 because no such relationship exists. Third, Ms.  
23 Dismukes' sole justification for her proposal to  
24 deviate from past Commission practice is the size  
25 of Southern States as opposed to the size of other

1 water and wastewater utilities in this State.  
2 However, the implementation of Ms. Dismukes'  
3 proposal would eliminate one of the most significant  
4 benefits which Southern States' size brings to our  
5 customers -- economies of scale. Finally, Ms.  
6 Dismukes' proposal appears to be nothing more than  
7 an attempt to needlessly add complexity to future  
8 rate proceedings in such a manner that obfuscates  
9 the principal issue -- is the allocation method fair  
10 and does it assist in the creation of reasonable  
11 rates for our customers?

12 Ms. Dismukes' lengthy quotation of my testimony in  
13 Docket No. 900329-WS does nothing to suggest that  
14 Ms. Dismukes' proposal is either fair or reasonable.  
15 At the time I testified in Docket No. 900329-WS, I  
16 proposed an allocation based on direct labor due to  
17 my past experience in the electric industry.  
18 However, since that time I have seen that an  
19 allocation based on customers is the best allocation  
20 method for the Company and our customers for many  
21 reasons, including the following:

22 (1) The allocation of A&G costs based on direct  
23 labor was proposed by the Company in Docket  
24 No. 900329-WS and was rejected by the  
25 Commission. Indeed, a review of the

1 Commission's order in that docket reveals that  
2 the Commission was not satisfied with the  
3 results of such methodology and the high costs  
4 allocated to some systems. There is no  
5 conflict with prior Company testimony in Docket  
6 No. 900329-WS since the Company clearly stated  
7 that no allocation methodology is perfect and  
8 we never indicated that an allocation based on  
9 customers was in any way unreasonable.

10 (2) Commission precedent confirms that an  
11 allocation based on customers is reasonable  
12 and is consistent with SSU's prior Commission  
13 approved rate cases. Ms. Dismukes' proposal  
14 is untested, not supported by the facts,  
15 heretofore unheard of by the Company and would  
16 present results which the Commission previously  
17 indicated were not satisfactory, i.e., small  
18 systems paying too much of the A&G and other  
19 common costs.

20 (3) An allocation based on customers results in  
21 the same cost per customer for services whether  
22 that customer is served by a small system or  
23 a large system. By virtue of the fact that we  
24 are a large company with a large customer base,  
25 we are able to pass along economies of scale

1 benefits to small systems by allocating common  
2 costs based on number of customers. Small  
3 systems usually are relatively more labor  
4 intensive and normally have higher rates when  
5 compared to large systems. Allocating common  
6 costs on direct labor accentuates the  
7 assignment of higher costs to small systems and  
8 obliterates the beneficial impact of economies  
9 of scale which otherwise could be made  
10 available to such systems.

11 (4) An allocation based on number of customers  
12 presents a consistent methodology from one rate  
13 filing to the next because customer growth is  
14 usually steady and gradual and will not  
15 fluctuate significantly from year to year  
16 barring unusual circumstances. Small systems  
17 can be very sensitive to any change in costs  
18 because of their size. Since small systems  
19 are generally labor intensive, they are very  
20 sensitive to any fluctuations in labor charges  
21 and non-recurring or unusual events. Thus, the  
22 occurrence of such fluctuations or events may  
23 distort the allocation of common costs to  
24 systems when the allocation is based on labor.  
25 For example, a service line break in a

1 particular year may require field employees  
2 from another system to help fix the break.  
3 Depending on the time required for repairs and  
4 the size of the system, the allocation of  
5 common costs in that year could be  
6 significantly distorted by allocating costs  
7 based on labor. Ms. Dismukes' proposal ignores  
8 these facts.

9 (5) An allocation based on labor can be distorted  
10 by the fact that regulators impose staffing  
11 requirements on water and wastewater utilities  
12 both through rules and permit conditions, which  
13 is unlike most electric, gas or telephone  
14 utilities. These staffing requirements which  
15 are more extreme for the wastewater utilities,  
16 bear no direct relationship to the majority of  
17 A&G services provided to customers. Ms.  
18 Dismukes' proposal ignores these facts.

19 (6) Allocating based on number of customers  
20 allocates the same amount of common costs to  
21 a water customer as to a wastewater customer.  
22 In contrast, allocating on direct labor  
23 allocates more costs to wastewater customers  
24 than to water customers which contradicts the  
25 environmental and conservation goals of

1 regulators which is to encourage customers to  
2 connect to utility wastewater systems and  
3 conserve on water use. Increasing wastewater  
4 rates and lowering water rates is not  
5 consistent with these goals and definitely  
6 sends the wrong price signal to customers.

7 (7) An allocation based on customers is easily  
8 developed, quantified and verified. The  
9 allocation methodology selected by the  
10 Commission should be used for monthly reporting  
11 purposes on the company's books, for annual  
12 report purposes and for ratemaking purposes.  
13 Thus, we currently are booking these common  
14 costs based on number of customers and intend  
15 to allocate based on customers for reporting  
16 purposes as well. For each of these purposes,  
17 it is very important that the allocation  
18 methodology selected can be easily developed  
19 each month. Ms. Dismukes' sketchy proposal  
20 would be neither easy to develop nor to verify  
21 on a monthly basis.

22 (8) Interim rates in effect at the time this case  
23 was filed were established, in part, on  
24 allocations of A&G costs based on the number  
25 of customers -- thus, utilization of the same



1 allocation methodology (number of customers)  
2 in this proceeding limited the customer  
3 confusion which could have resulted if the  
4 Company's appeal of the Commission's decision  
5 in Docket No. 900329-WS were successful,  
6 particularly if the Company was so notified  
7 after interim or final rates in this proceeding  
8 already had been established.

9 (9) Reversion to the customer allocation  
10 methodology was expected to eliminate a  
11 controversial issue from this case. The  
12 elimination of such controversies is deemed  
13 critical by the Company due to the dire  
14 financial circumstances we face as a result of  
15 not being able to pay the cost of our debt from  
16 operating revenues. Therefore, rate relief,  
17 in the most expeditious manner possible, is  
18 imperative.

19 To conclude, Ms. Dismukes' allocation proposal for  
20 use in "SSU's next rate proceeding" adds unnecessary  
21 controversy and complexity to the allocation issue.  
22 Moreover, her proposal eliminates one of the key  
23 benefits Southern States has to offer our customers  
24 (as recognized by Staff's witness, Mr. John  
25 Williams), that is, economies of scale.

1 Of course, these economies will not be as evident  
2 during periods of rising costs and investments due  
3 to new and more stringent regulatory requirements  
4 such as the water and wastewater industry has  
5 experienced over the past several years. However,  
6 as noted by Staff witness Williams, Southern States  
7 now has gone a long way toward creating the  
8 corporate structure, including required personnel  
9 and equipment, necessary to meet such regulatory  
10 requirements and we expect that such economies can  
11 be made even more evident in the future.

12 **Q. DO YOU HAVE ANY GENERAL COMMENTS REGARDING THE**  
13 **AMOUNT OF RATE RELIEF THE COMPANY IS REQUESTING IN**  
14 **THIS PROCEEDING?**

15 **A.** Yes, I do. In each of the customer service hearings  
16 held in this proceeding, Public Counsel and our  
17 customers (often at Public Counsel's urging) have  
18 berated the Company for requesting large percentage  
19 increases in our rates for various systems. It must  
20 be remembered that Southern States is a  
21 conglomeration of over 150 water and wastewater  
22 systems the vast majority of which would be  
23 considered "small" systems in the industry. It  
24 cannot be disputed that the current regulatory  
25 environment, particularly in the environmental area,

1 has had a significantly greater impact on smaller  
2 systems where costs cannot be spread adequately to  
3 retain lower levels of rates. We believe this fact  
4 is evidenced by the numerous rate orders issued by  
5 the Commission since January 1991 which have  
6 approved rate increases at levels consistent with  
7 and greater than the increases we are requesting for  
8 systems in this proceeding. As discussed by Mr.  
9 Joseph P. Cresse, our proposed rate caps represent  
10 an attempt to moderate the otherwise required rate  
11 increases for small systems and present customers  
12 served by smaller systems with benefits in addition  
13 to the benefit of being able to share A&G and other  
14 common costs with approximately 160,000 other  
15 customers. We also would like to note that our  
16 current size also benefits customers served by all  
17 systems, large and small alike, since every system  
18 would face higher rates than those we are proposing  
19 if they were required to meet today's regulatory  
20 requirements on a stand alone basis. For instance,  
21 as we have witnessed, systems the size of Lehigh  
22 Utilities, Inc.'s water and wastewater systems  
23 (approximately 8,000 and 6,100 customers,  
24 respectively) and our own Marco Island systems  
25 (5,450 water/1,950 wastewater customers) have in the

1 past been unable to offer their employees  
2 competitive salaries and competitive benefits. This  
3 resulted in high levels of employee turnover which  
4 had direct deleterious impacts on the quality of  
5 service which could be provided by these systems,  
6 i.e., service from an untrained, inexperienced work  
7 force which did not conduct tests properly and did  
8 not even know that a utility tariff existed to  
9 govern the utility's policies and practices. These  
10 types of deficiencies no longer exist under Southern  
11 States' operation as a result of the A&G services  
12 we offer to our systems.

13 To conclude, we believe the level of our requested  
14 rate relief is required to enable us to continue to  
15 improve service to our customers, meet regulatory  
16 requirements and attract the necessary capital to  
17 do both in the most cost efficient manner possible.  
18 A comparison of the levels of percentage increases  
19 we are requesting with the increases approved by the  
20 Commission in the recent past (including  
21 determinations of actual revenue requirements)  
22 confirms the fact that our requested increases are  
23 consistent with costs imposed upon all water and  
24 wastewater utilities by current regulatory  
25 requirements, particularly in the environmental

1 areas. Finally, we believe our proposed rate  
2 structure (including rate caps) is an appropriate  
3 first step in both recognizing the benefits our  
4 Company has to offer water and wastewater consumers  
5 statewide and establishing Southern States as the  
6 preferred provider of these services.

7 **Q. DO YOU AGREE WITH MS. DISMUKES' PROPOSED ADJUSTMENT**  
8 **REGARDING THE 1992 CONSOLIDATION OF CERTAIN CUSTOMER**  
9 **SERVICE OFFICES?**

10 **A.** No, I do not. It would not be appropriate to reduce  
11 the Company's historic test year expenses by the  
12 projected savings from the office consolidations for  
13 two reasons. First, potential cost savings in one  
14 area of customer service expenses do not translate  
15 into an overall reduction of such expenses. For  
16 instance, although there may be cost savings beyond  
17 the test year resulting from the office  
18 consolidation, these costs savings may be eliminated  
19 by other cost increases that also have occurred or  
20 will occur beyond the test year. For example,  
21 Southern States proposes a uniform monthly billing  
22 cycle for each system included in this proceeding.  
23 No testimony has been presented which contests the  
24 prudence or reasonableness of this proposal. If  
25 authorized by the Commission and implemented, we

1 will mail out approximately 98,500 bills each month  
2 as opposed to the 87,000 bills we currently mail.  
3 Associated mailing costs are expected to increase  
4 by approximately \$45,500. The Company only has  
5 requested a 3.63% indexing adjustment for mailing  
6 costs in the MFRs. If Public Counsel's out of  
7 period adjustment to customer accounts expenses  
8 relating to the office consolidation is to be  
9 considered, the Company's incremental mailing costs  
10 also must be considered resulting in a net increase  
11 of \$29,000 to customer account expenses for the  
12 filed systems.

13 **Q. DO YOU AGREE WITH MS. DISMUKES' PROPOSED ADJUSTMENT**  
14 **TO REMOVE LEGAL EXPENSES ASSOCIATED WITH DER/EPA**  
15 **FINES FROM THE COMPANY'S ANNUAL REVENUE?**

16 **A.** No, I do not. To deny Southern States recovery of  
17 legal expenses incurred to oppose DER allegations  
18 of violations would deny the company recovery of  
19 legitimately incurred costs of operating its  
20 systems. Southern States, like all water and  
21 wastewater utilities, both public and private, must  
22 be able to defend its interests when violations of  
23 laws or rules are alleged by an administrative  
24 agency such as the DER or the EPA. Yet Ms. Dismukes  
25 proposes that the Company, and presumably all

1 utilities, be denied recovery of legal expenses  
2 required to present its defenses. Ms. Dismukes also  
3 would make the denial of recovery a blanket denial  
4 on one condition -- that a fine is paid. The denial  
5 of such costs would have a chilling effect on the  
6 Company's desire to dispute violations alleged by  
7 DER, which would be to our customers' detriment.  
8 Ms. Dismukes' experience, as identified in Appendix  
9 I to her testimony, reveals no dealings with DER and  
10 no familiarity with DER violations or the DER  
11 enforcement process. Knowledge of how DER operates  
12 is critical to the Commission's determination of the  
13 lack of merit of this adjustment. For example,  
14 Southern States has been notified by DER that our  
15 Fern Terrace system is in violation of a DER rule  
16 requiring an additional well for systems serving  
17 more than 350 people and that a fine is forthcoming.  
18 Southern States opposed DER's allegation and has  
19 submitted a wealth of information including census  
20 data and other information concerning the population  
21 served by the Fern Terrace system which indicates  
22 that the population served is less than 350. The  
23 sole purpose for the Company's efforts is to  
24 persuade DER that less than 350 people are served  
25 and thus an additional well source is not required.

1 In this way, we hope to be able to forego the  
2 imposition of the costs required for an additional  
3 well on our 123 customers at Fern Terrace. The  
4 Company informed DER that the imposition of such  
5 costs would raise the rates to a level which would  
6 be much less affordable for them. However, to date,  
7 DER has denied our requests for a finding that we  
8 serve less than 350 persons and rejected as  
9 insignificant the economic impact that an additional  
10 well will have on our customers. The Company faces  
11 fines as a result of our efforts. Should the  
12 Company simply have admitted to a violation, paid  
13 a fine and made the relatively large investment in  
14 a well despite our belief that the DER rule did not  
15 apply and the investment would negatively impact our  
16 customers? If legal fees incurred to oppose such  
17 violations are not recoverable, such might be the  
18 result.

19 The Commission also should be aware that the Company  
20 has not admitted to any violation associated with  
21 the DER or EPA fines paid in 1991. Consent orders  
22 often are entered because it is economical to do so  
23 since DER and EPA are noteworthy for their  
24 intransigence and litigation obviously is expensive  
25 to pursue. Therefore, it would be improper for the



1 Commission to assume (as Ms. Dismukes' apparently  
2 has) any "guilt" on the Company's part simply  
3 because fines are paid when no such admission of  
4 guilt has been made by the Company.

5 For these reasons, it would not be proper for the  
6 Commission to deny Southern States' recovery of  
7 legal expenses associated with contesting DER or  
8 EPA alleged violations.

9 Q. DO YOU AGREE WITH MS. DISMUKES' PROPOSED APPLICATION  
10 OF THE NON-USED AND USEFUL ADJUSTMENT TO PROPERTY  
11 TAXES PAID FOR ALL SYSTEMS?

12 A. I do not agree with Ms. Dismukes' proposal to apply  
13 non-used and useful percentages to property taxes  
14 for the following reasons. First, Ms. Dismukes  
15 properly quotes the Company's response to Commission  
16 Staff's interrogatory no. 27 wherein the Company  
17 noted that it is highly unlikely that there is any  
18 direct correlation between the non-used and useful  
19 percentage and the amount of property taxes assessed  
20 against the plant. Indeed, any correlation which  
21 could be fabricated would be merely fortuitous.  
22 This fact is confirmed by Ms. Dismukes' quotation  
23 of the example we provided in an interrogatory  
24 response. In our example, the Commission determines  
25 that a 1 mgd plant is 75% used and useful. Ms.

1 Dismukes was unable to identify any correlation  
2 between the 25% reduction in taxes recoverable by  
3 the Company (which she proposes), and the level of  
4 taxes which the Company otherwise would have been  
5 required to pay if the plant were a .75 mgd plant.  
6 After discussion with the Company's internal  
7 engineers as well as Mr. Hartman, who also is  
8 testifying on the Company's behalf in this case, I  
9 am confident that there is significantly less than  
10 a 25% difference in the costs of constructing a 1  
11 mgd plant versus a .75 mgd plant. The construction  
12 cost differential would be closer to 10%.  
13 Therefore, it follows that property taxes paid for  
14 a .75 mgd plant would not be 25% lower than property  
15 taxes paid for a 1 mgd plant but rather something  
16 closer to 10% lower. Second, application of the  
17 non-used and useful percentage to systems located  
18 in Citrus, Collier, Hernando, Lee, Marion, Volusia  
19 and Washington counties would not be proper since  
20 these counties do not tax, in whole or in part, non-  
21 used and useful property.

22 Q. I SHOW YOU EXHIBIT 40 (FLL-7) UNDER COVER PAGE  
23 ENTITLED "ADJUSTED NON-USED AND USEFUL PERCENTAGES  
24 FOR PROPERTY TAX PURPOSES". WAS THIS EXHIBIT  
25 PREPARED BY YOU OR UNDER YOUR DIRECTION AND

1           **SUPERVISION?**

2           A.    Yes, it was.

3           **Q.    COULD YOU BRIEFLY DESCRIBE THE EXHIBIT?**

4           A.    The first column of this exhibit identifies the  
5           counties in which the 127 systems included in this  
6           proceeding are located. Column 2 identifies the  
7           systems located in each county. Column 3 provides  
8           the non-used and useful percentages indicated in  
9           the Company's MFRs. Column 4 identifies the portion  
10          of non-used and useful property which is not  
11          considered for property tax valuation purposes by  
12          those counties which do not assess taxes against  
13          some portion of non-used and useful property.  
14          Column 5 provides the adjusted non-used and useful  
15          percentage when the percentages indicated in Column  
16          3 are multiplied by the factor indicated in Column  
17          4. Finally, Column 6 reduces the non-used and  
18          useful percentages indicated in Column 5 in half to  
19          recognize that there is less than a one to one  
20          relationship between the non-used and useful  
21          percentage and the valuation of utility plant for  
22          property tax purposes. This relationship is  
23          confirmed in Exhibit \_\_\_\_ (GCH-3) entitled, Capital  
24          Costs Curves. If the Commission determines that an  
25          adjustment must be made to property taxes to reflect

1 non-used and useful facilities, the proper non-used  
2 and useful percentages to be applied are those set  
3 forth in Column 6 and the total non-used and useful  
4 property tax amounts reflecting application of these  
5 percentages are set forth in Columns 7 and 8. The  
6 total calculated amounts are \$50,142 for water and  
7 \$59,206 for sewer for a total of \$109,348 of non-  
8 used and useful property tax.

9 Q. DO YOU HAVE ANY COMMENTS CONCERNING MS. DISMUKES'  
10 CLAIM THAT SOUTHERN STATES' TREATMENT OF PROPERTY  
11 TAXES ASSOCIATED WITH NON-USED AND USEFUL PROPERTY  
12 IS INCONSISTENT WITH THE COMPANY'S TREATMENT OF  
13 PLANT INVESTMENT AND RELATED DEPRECIATION?

14 A. Yes. The inconsistency alleged by Ms. Dismukes does  
15 not exist. Ms. Dismukes apparently cannot  
16 distinguish between items that bear a direct  
17 relationship with each other, i.e., plant and  
18 depreciation, and items which do not have such a  
19 relationship, i.e., a percentage of non-used and  
20 useful plant and the valuation of plants for  
21 property tax purposes (particularly in counties  
22 which assess non-used and useful property).

23 Q. DO YOU AGREE WITH MS. DISMUKES' PROPOSED ADJUSTMENT  
24 TO THE COMPANY'S TEST YEAR RELOCATION EXPENSES?

25 A. No, I do not. I also note that in response to

1 Public Counsel's interrogatory no. 104, Southern  
2 States informed Ms. Dismukes that 1991 relocation  
3 expenses were not unusual since these expenses were  
4 significantly lower than the expenses incurred in  
5 the preceding two years - \$85,532 (1990) and  
6 \$191,402 (1989), respectively. Therefore, Ms.  
7 Dismukes' suggestion that the 1991 level of  
8 relocation expenses was non-recurring is not  
9 accurate.

10 Q. DO YOU HAVE ANY COMMENTS REGARDING THE ISSUE RAISED  
11 BY COMMISSION STAFF IN THE PREHEARING STATEMENT  
12 CONCERNING SOUTHERN STATES' REQUEST FOR AN  
13 ADJUSTMENT OF O&M EXPENSES BY THE COMMISSION'S 3.63%  
14 INDEXING FACTOR?

15 A. Yes. Staff raises the issue without presenting any  
16 testimony, pleadings or factual predicate which  
17 would indicate that the requested adjustment is not  
18 reasonable. Therefore, Southern States is left with  
19 no opportunity to address, rebut or cross-examine  
20 any facts upon which Staff would rely, or intends  
21 to rely, to recommend to the Commission that the  
22 adjustment, in whole or in part, should be rejected.  
23 We believe our adjustment is reasonable for the  
24 following reasons: First, Commission order no. PSC-  
25 92-0136-FOF-WS in Docket No. <sup>920005-WS</sup>~~900329-WS~~ issued on

1 March 31, 1992 confirms the Commission's belief that  
2 inflation at the annual rate of 3.63% exists.  
3 Second, we rely upon all of the information  
4 considered by Staff, when recommending, and the  
5 Commission, when recognizing, the existence of this  
6 level of inflation in Docket No. 920005-WS to  
7 support our claim that inflation has and will impact  
8 our Company in 1992. This information includes a  
9 review of various United States Government  
10 indicators, including the Gross National Product  
11 (GNP) Implicit Price Deflator Index, the Common  
12 Price Index, and several wholesale indices, as well  
13 as other alternatives, and the subsequent  
14 determination by Staff that the GNP Implicit Price  
15 Deflator Index is the most appropriate for use in  
16 determining the water and wastewater index. Third,  
17 by the time the Commission establishes final rates  
18 in this proceeding, the Company's historic annual  
19 expenses for the twelve months ended December 31,  
20 1991 (the test year) will be more than thirteen (13)  
21 months old. Thus, the Company will have forever  
22 lost the ability to recover the additional expenses  
23 associated with the Commission's recognized indexing  
24 factor since March 31, 1992. Southern States should  
25 not be penalized by the urgent need for rate relief

1 which virtually forced the Company to file this case  
2 based on a historic test year in an attempt to  
3 eliminate some of the controversy which pervaded  
4 Docket No. 900329-WS. For these reasons, and the  
5 fact that no party to this case has introduced any  
6 evidence which indicates that the Company's request  
7 is unreasonable, we believe the Commission should  
8 grant our requested indexing adjustment.

9 Q. DO YOU HAVE ANY COMMENTS REGARDING MS. DISMUKES'  
10 ALLEGATION ON PAGE 18, LINES 14 AND 15 THAT SOUTHERN  
11 STATES "DID NOT ALLOCATE ANY COMMON COSTS TO ITS  
12 ACQUISITION AND SALES EFFORTS"?

13 A. Yes. Ms. Dismukes is treating acquisition and sales  
14 efforts as if they are separate business units like  
15 water, wastewater and gas and, as such, has  
16 attempted to allocate a full burden of common costs  
17 to these efforts. Acquisition and sales efforts are  
18 not a separate business unit but rather are an  
19 activity within the water, wastewater and gas  
20 businesses. Therefore, the rationale behind Ms.  
21 Dismukes' adjustment is factually defective.  
22 Moreover, the labor associated with the minimal  
23 involvement of the Company's A&G personnel in such  
24 activities is charged below the line. Thus,  
25 implementation of the proposed adjustment improperly

1 would double count these below the line labor costs.  
2 The vast majority of acquisition and sales efforts  
3 are conducted by Topeka and Minnesota Power, not  
4 Southern States. In 1991, total SSU payroll charged  
5 to possible acquisitions (deferred account 166) was  
6 only \$24,007 out of \$10,200,389 of labor costs or  
7 only .2% of payroll. In light of these facts, the  
8 sole impact of the limited Company efforts  
9 associated with acquisition and sales efforts is the  
10 de minimus amount of space which may be allocated  
11 to the performance of these activities. Acquisition  
12 and sales efforts do not impact the customer  
13 service, rates, purchasing, engineering, legal,  
14 human resources or accounting departments.  
15 Therefore, we agree with Staff's position in their  
16 Prehearing Statement that the impact of acquisition  
17 and sales efforts on Southern States' personnel and  
18 equipment is immaterial and Ms. Dismukes' proposed  
19 adjustment should be rejected.  
20 Moreover, according to Ms. Dismukes' testimony, she  
21 developed an allocation factor of 2.28% based upon  
22 the direct wages and salaries of SSU and Lehigh,  
23 relative to expenses booked during the test year to  
24 Account 166.100 Possible Acquisition-Miscellaneous  
25 Account 166.200 Possible Sales-Gas Division.



1           Clearly, Ms. Dismukes is mixing apples and oranges  
2           because Account 166 contains labor and non-labor  
3           costs. Ms. Dismukes is attempting to develop an  
4           allocation factor based on a ratio of dissimilar  
5           items (labor versus non-labor costs) and fails to  
6           identify any rational relationship between these  
7           costs. To conclude, Ms. Dismukes' proposal should  
8           be rejected for at least three reasons: (1) SSU  
9           books labor associated with acquisition and sales  
10          efforts below the line; (2) involvement in  
11          acquisition and sales activities is immaterial; and  
12          (3) Ms. Dismukes failed to identify any rational  
13          relationship between acquisition and sales efforts  
14          and her proposed adjustment.

15          **Q. DO YOU HAVE ANY COMMENTS REGARDING MS. DISMUKES'**  
16          **CRITICISMS OF SOUTHERN STATES' POOLING OF ITS**  
17          **CUSTOMER SERVICE AND A&G EXPENSES?**

18          **A.** Yes, Ms. Dismukes criticizes the Company's pooling  
19          of all A&G and customer service expenses, including  
20          those which previously were directly charged to  
21          systems for accounting purposes. First, I note that  
22          nowhere is it written that the ratemaking treatment  
23          given to expenses of any kind must be consistent  
24          with the accounting treatment of such expenses.  
25          Second, I agree that it is preferable to book

1 expenses in the same manner as such expenses are  
2 treated for ratemaking purposes, and once the  
3 Commission decides on the appropriate ratemaking  
4 treatment, book treatment will be adjusted to follow  
5 ratemaking treatment. However, this fact in no way  
6 supports an adjustment merely to accommodate Ms.  
7 Dismukes' preferences. Ms. Dismukes simply refers  
8 to one instance where legal fees were directly  
9 charged to a system for accounting purposes but were  
10 pooled for ratemaking purposes. Ms. Dismukes makes  
11 no attempt to analyze the Company's treatment of  
12 other expenses meeting this description.

13 As the Company's witnesses previously have  
14 indicated, all A&G and customer accounts services  
15 including legal, accounting, engineering, finance,  
16 billing, rate administration, etc., have been  
17 consolidated and are now administered from the  
18 Company's headquarters in Apopka. The Commission's  
19 1988 Audit Report applauded this centralization of  
20 activities. Consistent with Staff witness Williams'  
21 testimony in this proceeding regarding capital  
22 improvements and plant costs, it is undeniable that  
23 at any given time during the life of any of the  
24 Company's systems particular A&G and customer  
25 accounts services may be required as a result of a

1 variety of factors including regulatory  
2 requirements. The pooling of associated expenses  
3 enables the Company and its customers to benefit  
4 from economies of scale as these costs are spread  
5 over a larger customer base. In addition to  
6 economies of scale, the pooling and reallocation of  
7 these costs better reflect the benefits enjoyed by  
8 all customers from the expanded management  
9 capabilities, funding opportunities, training and  
10 other attributes available to the systems serving  
11 every customer as a result of the administration of  
12 A&G and customer accounts services from the  
13 Company's headquarters.

14 Q. I SHOW YOU EXHIBIT 40 (FLL-8) UNDER COVER PAGE  
15 ENTITLED "INFORMATION SUBSTANTIATING REQUESTED 5%  
16 PAYROLL INCREASE." WAS THIS EXHIBIT PREPARED BY YOU  
17 OR UNDER YOUR DIRECTION AND SUPERVISION?

18 A. Yes, it was.

19 Q. COULD YOU BRIEFLY DESCRIBE THIS EXHIBIT?

20 A. This exhibit consists of a copy of Commission Staff  
21 Interrogatory No. 44 and the Company's response  
22 thereto. Staff's pre-hearing statement identified  
23 an issue concerning whether the Company's requested  
24 5% increase in payroll expenses should be approved.  
25 Staff has presented no testimony indicating that the

1           increase is unreasonable or inappropriate. Thus,  
2           the Company is unable to address or rebut any  
3           evidence which Staff might have relied upon, or  
4           intends to rely upon, to attack the reasonableness  
5           of the Company's request. The information provided  
6           in Exhibit 40 (FLL-8) confirms that Southern  
7           States' actual payroll increase since the test year  
8           and through July 30, 1992 is 5.34%. The information  
9           further explains that the increases are not simply  
10          across the board salary increases. To the contrary,  
11          the increase represents several attempts by Southern  
12          States to improve the quality of service we can  
13          offer to our customers at the lowest cost possible  
14          by reducing employee turnover, providing more  
15          skilled and experienced utility personnel and  
16          ensuring employee qualifications and abilities to  
17          perform their jobs. These benefits are achieved,  
18          respectively, by equity and licensing adjustments,  
19          education reimbursements and a system whereby  
20          employees hired in the lowest ten (10) pay grades  
21          are hired at below market salaries and gradually are  
22          given step increases as they demonstrate their  
23          ability to fulfill the responsibilities of their  
24          jobs. As described in the exhibit, equity  
25          adjustments are provided to employees only after we

1 have confirmed that salaries previously offered to  
2 certain employees were not competitive with salaries  
3 being paid by other businesses, particularly utility  
4 providers. As confirmed by the Company's experience  
5 with the Marco Island systems, where thirteen (13)  
6 operators were lost to the Collier County utility  
7 division in the past due to salary disparities, it  
8 makes no sense to hire employees and train them only  
9 to lose them to other utility providers once they  
10 have been trained and qualified.

11 In terms of licensing adjustments, the Company  
12 offers certain employees salary adjustments as an  
13 incentive to complete additional courses of study  
14 in their respective fields, i.e., operators receive  
15 salary adjustments when they obtain or upgrade their  
16 operator's licenses. Of course, a more highly  
17 educated and trained operator is more capable of  
18 providing the highest quality of service Southern  
19 States endeavors to provide to our customers.

20 Finally, we believe we are demonstrating prudent  
21 hiring practices by hiring secretaries and other  
22 administrative type personnel at below market salary  
23 levels and increasing their salaries only after they  
24 have demonstrated their ability to fulfill the  
25 responsibilities of their respective positions. If

1 these equity, licensing and step adjustments are  
2 excluded from the total payroll increase, it is  
3 evident that only 3.3% of the increases (which is  
4 below the Commission's 1991 and 1992 index)  
5 consisted of merit increases. A review of  
6 additional information provided in Exhibit 40 (FLL-  
7 8) further reveals that merit increases were not  
8 provided across the board but rather each employee  
9 was evaluated individually to determine whether a  
10 merit increase was appropriate. Due to the  
11 existence of the equity and step adjustments I have  
12 just described, we believe the level of the payroll  
13 increases may be deceptive since a significant  
14 portion of the increases were provided in an attempt  
15 to bring the salaries of those employees who have  
16 demonstrated their capabilities up to market levels.  
17 Exhibit 40 (FLL-8) also contains the results of a  
18 national survey of the projected 1992 payroll  
19 increase of over 100 utilities. This survey  
20 confirms that average projected 1992 payroll  
21 increase for these utilities was 5.2%.  
22 For all of these reasons, we believe our requested  
23 payroll increases are reasonable.

24 Q. DO YOU KNOW OF ANY OTHER FACTS WHICH DEMONSTRATE  
25 THE REASONABLENESS OF THE COMPANY'S PAYROLL

1           **INCREASE?**

2           A.   Attached as Exhibit 40 (FLL-9) is an article from  
3           the Fall 1992 NAWC magazine which provides the  
4           results of a survey of 14 water companies throughout  
5           the United States. Based on this survey, it was  
6           determined that the 1992 salary increase budgets  
7           were 5.0% in 1992 for these utilities.

8           Q.   **DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING THE**  
9           **TESTIMONY OF THE STAFF OR PUBLIC COUNSEL WITNESSES?**

10          A.   Yes. First, I must note that Staff's pre-hearing  
11          statement of issues in this proceeding identifies  
12          a number of issues which Staff has chosen not to  
13          address in testimony or any other evidentiary form.  
14          As a result, the Company is unable to address or  
15          rebut any such evidence and unless witnesses are  
16          designated by Staff to support a position on such  
17          issues, our right to cross-examine evidence contrary  
18          to that being presented by us effectively would be  
19          denied. We also must note that certain issues  
20          identified by Staff and various portions of the  
21          testimony of Public Counsel's witnesses address  
22          proposed out of period adjustments. The  
23          significance of these proposed adjustments is that  
24          each adjustment would result in a reduction of the  
25          Company's requested revenue requirements. Both

1 Staff and Public Counsel ignore a myriad of facts  
2 which confirm that the Company's post-December 31,  
3 1991 revenue requirements exceed those requested in  
4 this proceeding. The Company believes that if the  
5 historic test year is to be ignored by the  
6 Commission, changes in investment levels and  
7 operations which confirm an increase in the  
8 Company's revenue requirements must be considered  
9 by the Commission as well as the changes indicated  
10 by Public Counsel and Staff which might decrease  
11 such requirements. These O&M type increases which  
12 the Company has incurred after 1991 include, but are  
13 not limited to: additional testing costs for 23 new  
14 contaminants, additional costs associated with  
15 sludge stabilization and hauling, and other  
16 additional costs since the conclusion of the test  
17 year. Staff and Public Counsel's proposed  
18 adjustments for "anticipated" savings, if they are  
19 to be considered at all, must be offset against  
20 "anticipated" increases in the Company's expenses  
21 which include the payroll associated with  
22 approximately 25 new positions authorized to be  
23 filled, yet which remain vacant due to our current  
24 dire financial situation. Southern States firmly  
25 believes that these positions, which are primarily



1 field positions, must be filled as soon as possible  
2 if we are to continue to be able to render high  
3 quality service to our customers. Assuming the  
4 overall average Company salary of \$22,000 were  
5 provided to these 25 employees, the Company's  
6 anticipated increase in payroll would be \$550,000.  
7 In addition, the MFRs do not reflect actual plant  
8 in service investment made by the Company to date.  
9 These actual investments are known and quantifiable  
10 by system and therefore are more appropriate for  
11 consideration in the Commission ratemaking decision  
12 than "anticipated" savings or speculative decreases  
13 in costs which may occur in the future as proposed  
14 by Staff and Public Counsel.

15 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

16 A. Yes, it does.

17

1 MR. HOFFMAN: Thank you, Mr. Chairman. He's  
2 available for cross.

3 CROSS EXAMINATION

4 BY MR. JONES:

5 Q Good morning, Mr. Ludsen. I'm Harry Jones  
6 with COVA. I just have a few things for you.

7 First of all, have you been to Sugar Mill Woods?

8 A Yes, I have.

9 Q Were you involved in the acquisition of Twin  
10 County Utilities by SSU?

11 A No, I wasn't.

12 Q I see. At the time of that acquisition,  
13 according to the MFRs, was the purchase price around  
14 \$1,900,000?

15 A I don't recall.

16 Q I think the MFRs would show that that's  
17 approximately correct. Also, according to the MFRs,  
18 were the 1989 taxes based upon that acquisition price  
19 approximately \$35,000?

20 A I'm not certain.

21 Q Then, perhaps, you do not also know that the  
22 1990 taxes were based upon an evaluation of \$9 million,  
23 and were something in excess of \$140,000 --

24 MR. HOFFMAN: Excuse me, Mr. Ludsen. Mr.  
25 Chairman, in an effort to move this along, I would

1 advise the Chairman that it is Ms. Kimball who is  
2 addressing these issues in her rebuttal testimony, and  
3 she is the witness who has been assigned to these  
4 issues in the Prehearing Order, just in the event that  
5 Mr. Jones wishes to defer these questions to Ms.  
6 Kimball.

7 MR. JONES: Since it's difficult for me to  
8 understand who is going to do what, and since I'm a  
9 neophyte in this area, you'll have to forgive me for  
10 putting on this sort of line of questioning. I'm  
11 willing to carry the questioning to Ms. Kimball, if  
12 that's --

13 COMMISSIONER EASLEY: Why don't you keep with  
14 your line of questions. One of the things you can do,  
15 if you're talking about the MFRs, is to ask him,  
16 subject to check, if that's what the MFRs say? And  
17 then, if you have any further questions, he can tell  
18 you whether or not Ms. Kimball should be the one to  
19 answer them. So, why don't you just go ahead.

20 MR. JONES: I have a number of exhibits that  
21 I would like to present; and if I present them now, can  
22 I also be the equivalent of presenting them later?

23 COMMISSIONER EASLEY: Sure.

24 CHAIRMAN BEARD: Once you have them  
25 presented, you can always refer back to them.

1 MR. JONES: All right. At this point, I'd  
2 like to present some exhibits.

3 CHAIRMAN BEARD: Okay. (Pause)

4 Let's go ahead and we'll identify these  
5 exhibits. The first one I've got is "1991 SSU/SMW  
6 Citrus County Property Taxes, Proposed Adjustments."  
7 That will be Exhibit No. 42. And the next is a single  
8 page. It's a "Letter from Ronald Schultz to Southern  
9 States, Attention Mr. Brian Armstrong, Dated September  
10 25th, 1992" and that will be Exhibit No. 43.

11 MR. JONES: There are two more.

12 (Exhibit Nos. 42 and 43 marked for  
13 identification.)

14 COMMISSIONER EASLEY: While these are being  
15 distributed, Mr. Chairman, I think I better put on the  
16 record that I received -- about two months ago, I  
17 received a request for information from Ron Schultz,  
18 who is the property appraiser in Citrus County, with no  
19 specific names as to the utility. I'm not even certain  
20 that it was concerning this particular utility, and it  
21 was strictly a request for information, generic type  
22 information, but I figured I better at least put on the  
23 record that my office has had a conversation with  
24 Mr. Schultz.

25 MR. JONES: That's Exhibit No. 44 if you keep

1 your numbers correctly.

2 CHAIRMAN BEARD: It's not yet, but it  
3 probably will be in just a minute.

4 MR. JONES: Okay.

5 CHAIRMAN BEARD: I also have another "Letter  
6 dated September 25th, to the Florida Public Service  
7 Commission from Ron Schultz," that will become Exhibit  
8 44. And then we have a -- looks like a printout of  
9 some type, "Tangible Name/Address Information," that  
10 will be exhibit -- and that's dated 9-9-92. That will  
11 be Exhibit No. 45. (Pause)

12 (Exhibit Nos. 44 and 45 marked for  
13 identification.).

14 MR. JONES: I believe these exhibits strike  
15 at the heart of the questions that I wish to ask of  
16 Mr. Ludsen, and if he is not able to answer these  
17 questions, then I would defer that part of my  
18 questioning to Ms. Kimball.

19 CHAIRMAN BEARD: That's fine.

20 MR. JONES: But I do have one other -- in the  
21 order which indicates a question about the uniform  
22 final rates, how can you justify uniform final rates  
23 for Sugar Mill Woods when all present owners and  
24 prospective owners are required to make a CIAC payment  
25 in advance of over \$2,000 for their sewer and water

1 transmission lines, et cetera?

2 A Well, first of all, the Company has not  
3 proposed uniform rates in this proceeding, and what  
4 we've proposed is basically standalone rates for Sugar  
5 Mill Woods.

6 Q Item No. 101 where you are recommending  
7 proposing a 10,000 gallon cap on sewer systems, I think  
8 that's uniform. Historically, Sugar Mill Woods has had  
9 a 6,000 gallon rate cap, and in the two previous rate  
10 cases it was accepted by the council that 6,000 gallons  
11 was reasonable. Now, are you saying that we are opted  
12 out of that 10,000 gallon recommendation?

13 A We did try to be uniform on the wastewater  
14 cap in this filing. We did not propose uniform rates  
15 necessarily, but we did propose a uniform cap. We felt  
16 that for administrative purposes, it was easier to  
17 handle than having varying caps.

18 The total revenue requirements that's  
19 recovered from the system, whether the cap is 10,000 or  
20 6,000, is still the same. The difference is that the  
21 rate, if you have a lower cap, the rate is just going  
22 to be higher, which means that you're going to -- the  
23 low-use customers are going to have a higher bill and  
24 the high-use customers are going to have a lower  
25 maximum bill. With a higher cap, you end up with a

1 lower rate for a customer, and your low-use customers  
2 are going to have a lower bill and your higher-use  
3 customers are going to have a higher bill than they  
4 would have under the 6,000 cap.

5 Q Does this not lump Sugar Mill Woods in with  
6 everybody else then when you're coming up with these  
7 numbers, because as I remember from the 1990-91 rate  
8 case the sewer system had a zero rate base?

9 A Well it does lump -- in terms of the cap, the  
10 cap is a uniform cap, and the basis for determining  
11 that cap was the fact that our average consumption,  
12 systemwide, was between 9,000 and 10,000 gallons, and  
13 we feel that for administrative purposes, a uniform cap  
14 is more favorable. And like I said, the total revenue  
15 requirement collected from each of these systems does  
16 not change, even though the cap may be higher than what  
17 was proposed in the last case, which was 6,000.

18 CHAIRMAN BEARD: How is the uniform cap more  
19 "administratively effective" or whatever the term was you  
20 used?

21 WITNESS LUDSEN: Well, when you've got 127  
22 systems with multiple -- well, we've got approximately,  
23 in this case we've got approximately 37 wastewater  
24 systems, and it's just a matter of -- administratively  
25 it's simpler to keep track of the rates when you have

1 one uniform cap. We feel it's less confusing to the  
2 customer.

3 CHAIRMAN BEARD: You've got different rates  
4 at these different wastewater systems, right?

5 WITNESS LUDSEN: Yes.

6 CHAIRMAN BEARD: So to the extent you have  
7 different rates, I don't understand how it's more  
8 administratively simple to have a uniform cap. I mean,  
9 you have to program your computer for different rates  
10 for the different systems so you've got one more data  
11 field to enter, I guess.

12 A Right. It is one more data field but, you  
13 know, again, it's one more variable that's different  
14 between systems. And what we're trying to do is move  
15 towards some uniformity in the rates between systems,  
16 and that is one step towards that. So I think, you  
17 know, we don't have strong feelings on the cap, except  
18 that as we're trying to move towards uniformity, we'd  
19 like to see a uniform cap.

20 CHAIRMAN BEARD: Sorry, go ahead.

21 Q (By Mr. Jones) In your Exhibit FLL-7, which I  
22 think was just modified slightly, you have a -- it's a  
23 number of columns, which I'm not sure I totally  
24 understand, "Filed Composite Nonused and Useful" and  
25 then carries on to "Nonused and Useful Property Tax."



1           Are you saying in this exhibit that there is  
2 nonused and useful in both the sewer and -- sewer  
3 system and the water system, and I guess I should call  
4 it wastewater but I'm in the old school.

5           A     Which column are you referring to?

6           Q     Well, it says "File Composite Nonused and  
7 Useful." And as I just happened to be on the page with  
8 Marion Oaks Utilities, it says "45.67%." I assume that  
9 means that there is 45.67% nonused and useful,  
10 composite, whatever that means. Then there's an  
11 economy of scale adjustment of 50% and then a composite  
12 adjustment factor of something or other and a property  
13 tax per the MFRs, which I assume is a property tax that  
14 was paid, and then it says, "Nonused and useful  
15 property tax of 6,707." I'm sorry to get involved in  
16 so much detail but I don't understand it.

17          A     Okay. The first column represents the  
18 composite nonused and useful percentage from the MFRs.  
19 If you're to take the total plant for the system, such  
20 as Marion Oaks, and you're to take the total calculated  
21 nonused and useful amounts and divide those amounts by  
22 the total plant, you'd come up with an overall average  
23 of 45.87%, nonused and useful plant for Marion Oaks, in  
24 total. It's a composite figure of all the plant  
25 accounts for Marion Oaks.

1           The next column represents the exclusion by  
2 the county assessors relating to the property tax  
3 determination, which in this case is 50% of nonused and  
4 useful is excluded for the assessment of property  
5 taxes.

6           WITNESS LUDSEN: This next column --

7           COMMISSIONER EASLEY: Hold the phone. The  
8 50% of nonused and useful?

9           WITNESS LUDSEN: That's correct. The column  
10 represents the adjusted amount by computing Column 3  
11 plus 1 minus 4, come down to an adjusted nonused and  
12 useful percentage of 22.93%.

13           The next column imputes or computes an  
14 economies of scale adjustment factor of .5, or 50%.  
15 And that is applied to the total property taxes per the  
16 MFRs in Column 7 to calculate the nonused and useful  
17 property tax in Column 8.

18           Q     (By Mr. Jones) The nonused and useful  
19 property tax in Column 8 then is included in Column 7,  
20 is it?

21           A     Yes. That's the Column 6 times 7. Property  
22 tax for the MFRs in Column 7 and the composit  
23 adjustment factor is Column 6 and you multiply the two  
24 together to get to Column 8.

25           Q     Is it appropriate to charge property tax on

1 nonused and useful?

2 A Well, that's, you know, up -- that's up to  
3 the tax assessor, whether they charge property taxes to  
4 the nonused and useful. In some situations, they  
5 don't. We would like to see them not charge property  
6 taxes to nonused and useful; however, in most of the  
7 situations, they do.

8 Q But in any event, you do feel that almost all  
9 the systems do have nonused and useful?

10 A Yes.

11 Q Including Sugar Mill Woods?

12 A According to the MFRs the nonused and useful  
13 percentages are showing in Column 3

14 Q Thank you.

15 MR. JONES: That's all the questions I have.

16 COMMISSIONER EASLEY: Mr. Twomey?

17 MR. TWOMEY: I will go after Mr. McLean, if I  
18 may.

19 COMMISSIONER EASLEY: Mr. McLean?

20 MR. McLEAN: I want to follow up on a couple  
21 of those questions.

22

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## CROSS EXAMINATION

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BY MR. McLEAN:

Q The general notion is that, did I hear you say that the tax assessors should not -- that there was a question from Mr. Jones, and I thought the intent of it was to ask you whether you thought it was appropriate for the Commission to approve charges, to approve as an operating expense, the property tax assessed on the nonused and useful?

A I must have misunderstood the question. I thought the question related to is it proper to charge property taxes on nonused and useful.

Q Well, with respect to -- is there any reason why property taxes --

A Assessed property taxes on nonused and useful.

Q I was trying to think of a reason for which the property tax assessor might not charge used and useful, but I couldn't think of one. I mean, typically your property irrespective of whether used or useful or non, is taxed by the property assessors; is that correct?

A That's my understanding, yes.

Q Okay. Now, with respect to the situation where there is, let's say a plant which is 75% used and

1 useful, let's look at a hypothetical sewage treatment  
2 plant that is 75% nonused and useful now.

3 A 75% nonused and useful?

4 Q I'm sorry. 75% used and useful, yes. It is  
5 our position that the taxes assessed on that plant  
6 ought to be apportioned accordingly: 75% on one hand  
7 and 25% on the other, and you disagree with that?

8 A Well, we don't really have control over how  
9 the assessor assess. I think the assessor assesses  
10 different in every county.

11 Q What I'm assuming is that the assessor  
12 doesn't make any distinction at all. He says "You owe  
13 me X number of bucks for that particular plant," and  
14 you pay it.

15 Q Well, in some cases, they do make a  
16 distinction. As is shown on this exhibit, there's, I  
17 believe, seven counties that do make a distinction as  
18 to nonused and useful property.

19 Q Go ahead.

20 A And don't assess property taxes on a portion  
21 of that nonused and useful property.

22 Q But, in that case, we don't really have an  
23 issue since they don't charge it if the customers don't  
24 pay it, right?

25 A That's correct. They don't charge it.

1           Q     So my question goes more to the county where  
2 they do charge. They give you X number of bucks for  
3 the whole plant, and our position is that if only 75%  
4 of it is used and useful, then only 75% of the taxes  
5 should be recovered from the customers. You understand  
6 that is our position, correct?

7           A     Yes. I understand that is your position. I  
8 guess, you know, the problem I have with that position  
9 is that the nonused and useful percentage is based on a  
10 very methodical method of -- or methodical calculation,  
11 and we have no idea of how the property tax calculation  
12 is determined in these areas -- in these counties.

13          Q     My question is: For where the property tax  
14 appaiser didn't pay any attention to that, but simply  
15 assessed a number of dollars that was due to the county  
16 because of the value of the system, irrespective of  
17 whether non and used and useful. That is a typical  
18 situation, isn't it?

19          A     We get a property tax assessment and we don't  
20 know how they assess it but, I guess, my point is  
21 that, it could be an apples and oranges assessment. I  
22 mean, the used and useful percentage that we have here  
23 applies to a certain evaluation determined in the MFRs.  
24 The property tax calculation or determination that the  
25 assessor makes could be based on something completely

1 different. It could be revenues for all we know. So it  
2 may not be directly related to the nonused and useful  
3 or useful plant in this situation.

4 COMMISSIONER EASLEY: May I get in here, Mr.  
5 McLean?

6 MR. McLEAN: Certainly.

7 COMMISSIONER EASLEY: I'm being thoroughly  
8 confused. I need to really understand this. Are you  
9 saying that from one county to another, the individual  
10 county property appraisers assess these properties  
11 differently?

12 WITNESS LUDSEN: Ms. Kimball is a better one  
13 to address this issue because she deals with the county  
14 assessors, but it's my understanding that there is not  
15 a set methodology for assessing property taxes from  
16 county to county. As can be seen here, There are some  
17 counties that look at nonused an useful, some counties  
18 don't get nonused and useful. So we're not necessarily  
19 specifically sure exactly what they're taking into  
20 consideration when they assess our property.

21 COMMISSIONER EASLEY: Do you know whether Ms.  
22 Kimball will know anything about the property  
23 appraisers' tax manual?

24 WITNESS LUDSEN: I'm not sure if she will or  
25 not. She does work with the assessors on property

1 taxes.

2 COMMISSIONER EASLEY: All right. I'll wait  
3 for Ms. Kimball. Thank you. Go ahead, Mr. McLean.

4 MR. McLEAN: Thank you, ma'am.

5 Q (By Mr. McLean) I want to reach a principle,  
6 Mr. Ludsen, and I may have to deal with a hypothetical  
7 to do it, and I understand that there's a great deal of  
8 ambiguity in this whole area.

9 A Yes.

10 Q But I want to reach a specific principle. So  
11 assume, if you will, that the property appraiser looks  
12 to your MFRs and says, "Oh, I see what you value at --  
13 value the plant at. I take you at your word and I  
14 assess it similarly or exactly the same." And then he  
15 charges you X number of bucks on it. And you come to  
16 the Commission wanting to recover that money as an  
17 operating expense, and Public Counsel say, "Wait a  
18 minute. Only 75% of that is used and useful."

19 Now assuming that the property tax appraiser  
20 -- if that's what they call them -- didn't introduce  
21 that but that's our principle, I want to get to that  
22 notion where 25%, whether it is an increment of the tax  
23 bill which is associated with that 25%. Do you  
24 understand my question? I'm not sure I've asked it  
25 yet, but do you understand the scenerio?



1           A     I believe, yes.

2           Q     Well, I think you all have taken the position  
3 that since it would be difficult to build, or since it  
4 would cost about the same amount to build a plant, 75%  
5 is big, well, then the valuation would be roughly the  
6 same and thus the taxes should be paid as assessed, or  
7 should be recovered as assessed, correct?

8           A     Yes.

9           Q     Okay. Now -- and that's because -- that is  
10 essentially an economies-of-scale argument, isn't it?

11          A     Yes. There's basically -- the primary  
12 argument that we have is an economics-of-scale  
13 argument. You know, the other side of that argument is  
14 that I'm not sure if there is a matching in between the  
15 property values that are in the MFRs and what the  
16 assessment is for property tax purposes. I mean,  
17 basically --

18          Q     Well, I took care of that in my hypothetical,  
19 I hope. So what you're saying is since it would cost  
20 us just as much money to build one 75% as big, you  
21 know, the valuation, the taxes should remain the same.  
22 You can't really discount the taxes because it would  
23 cost us the same -- that is the core of your argument,  
24 isn't it?

25          A     Well, basically, the basic core of my

1 argument is that I have a problem with assessing a  
2 nonused and useful amount to property taxes to start  
3 with. As the Company has to lay out that money on a  
4 year-by-year basis, and it is not assured of every  
5 recovering those funds.

6 Now, supposedly, those dollars are going to  
7 the AFPI charge, but the Company has no guarantee that  
8 it's ever going to collect for those charges. It's  
9 very speculative. And the AFPI charges only last for  
10 five years. I mean, it stops after five years. So if  
11 we're assessing or accumulating these property taxes  
12 through the AFPI charge, there's no guarantee that the  
13 Company is going to collect those into the future.

14 Q But you could make the same argument with  
15 respect to the investment which is associated with that  
16 25% nonused and useful, couldn't you?

17 A Yes, you could.

18 Q Okay. So isn't it true, then, that if the  
19 Commission wants to account for this property tax at  
20 least in the same way that they do it for the  
21 investment, that they should include it in the AFPI?

22 A I think, again, the property tax calculation  
23 is a little more subjective than the plant  
24 calculations.

25 Q Well, I would like to refer you back to the

1 scenerio that I established, tried to establish in the  
2 hypothetical, whereby those ambiguities are somewhat  
3 disaggregated from the problem, and we're dealing  
4 specifically with your defense that, which is, I think,  
5 an economies-of-scales defense.

6 A That's our primary -- that's our primary  
7 argument here, yes.

8 Q And the AFPI is designed by the Commission to  
9 capture that economy of scale, isn't it?

10 A It's not designed to capture economies of  
11 scale. I think it's to capture the costs associated  
12 with prudent investments that are nonused and useful at  
13 some future date.

14 Q Well, I mean, it gets the name because they  
15 are prudently invested, and for that investment, one  
16 obtains economies of scale, which are -- the future  
17 customers are the prime beneficiaries, correct?

18 A Well, the nonused and useful adjustment does  
19 not reconize as an economies of scale. If we have a  
20 500,000 gallon per day plant that we built -- decide  
21 that we're going to build today, and we look at it and  
22 we say, "Well, we could build a million gallon-per-day  
23 plant for another \$100,000 or \$600,000." The nonused  
24 and useful adjustment would be 50% on that. One  
25 million or 500 over 1 million. So if we multiply the

1 50% times the 600,000, we would end up being allowed a  
2 cost of \$300,000 for the 500,000 gallon-per-day plant  
3 that we needed. The actual cost of that 500,000  
4 gallon-per-day plant is 500,000, and that's what we  
5 should be allowed in rate base. Not the 300,000. And  
6 that's where the nonused and useful adjustment is not  
7 properly reflecting the economies of scale factor.

8 Q Well, be that as it may, the Commission has  
9 dealt with the problem some years ago by desinging its  
10 allowance for funds prudently invested; isn't that  
11 true?

12 A It does but it's not fair to the shareholder  
13 that they put up the capital -- they put up this  
14 investment, and the fact is that the \$500,000 is really  
15 what that investment cost for the 500,000 gallons per  
16 day, and it's not fair that the investor is not allowed  
17 to earn a cash return on that investment today.

18 COMMISSIONER CLARK: Don't you agree that  
19 your problem lies not with the Commission on this, but  
20 with the Legislature? The Legislature directs beyond  
21 used and useful property only.

22 WITNESS LUDSEN: Well, I guess, my problem is  
23 in the calculation. I think the calculation has to be  
24 modified to reflect an economies-of-scale factor. So  
25 that the proper dollar amount is being included in rate

1 base and not a lower dollar amount.

2 COMMISSIONER CLARK: Let me ask you another  
3 question. You said that the calculation of property  
4 taxes is more subjective than the used and useful.  
5 What do you mean by that?

6 WITNESS LUDSEN: Well, what I'm saying is  
7 that when we calculate nonused and useful, we're using  
8 very specific parameters in calculating these factors. I  
9 mean, there are certain rules and guidelines that the  
10 Staff has laid out on how you calculate these things,  
11 and we also have book numbers which are very specific.

12 COMMISSIONER CLARK: And you come up with a  
13 percentage of plant that's used and useful?

14 WITNESS LUDSEN: That's correct.

15 COMMISSIONER CLARK: So what makes it so  
16 subjective when you say based on it being 75% used and  
17 useful. 75% of the taxes get charged to the ratepayers  
18 and the other 25% goes for allowance.

19 WITNESS LUDSEN: The only thing I'm saying is  
20 that the 75% that you're planning the dollar amount to,  
21 which is the property taxes that we've been assessed  
22 on, may not have been calculated based on those same  
23 plant numbers that the nonused and useful percentages  
24 were calculated on.

25 COMMISSIONER EASLEY: Is that what you mean

1 by subjective?

2 WITNESS LUDSEN: Well, subjective in the  
3 sense that we're not certain exactly what methodology  
4 -- or what methodology the County uses in calculating  
5 their numbers, yes

6 COMMISSIONER EASLEY: So the County's  
7 methodology is not subjective, but perhaps not fully  
8 understood or comprehensible, or whatever word I'm  
9 looking for, if any of those might do.

10 WITNESS LUDSEN: That's all I'm saying is  
11 there's a good chance that they may not be using the  
12 exact same numbers that we're used.

13 COMMISSIONER EASLEY: It sounds to me like  
14 there's a whale of a good chance, but I'm not sure  
15 who's right and who's wrong, if there is one. All  
16 right. Go ahead. I just never heard the term  
17 "subjective" applied to property tax before.

18 Q (By Mr. McLean) Mr. Ludsen, does the  
19 appraiser disclose to you the number upon which he  
20 bases his assessment?

21 A I think this is an area that Ms. Kimball  
22 should answer because she's the one who deals with the  
23 assessors.

24 Q Okay. She's most familiar with it. I do  
25 want to ask you a question. You seem to launch into an

1 attack on AFPI there, and you recognize that that  
2 debate is some years behind us, isn't it? I mean, that  
3 decision was reached by the Commission some time ago?

4 A But I think that -- this may be true, but I  
5 think that if there is a perceived flaw in the  
6 calculation, I think it's fair to raise the issue,  
7 again, too. I mean, I think that everybody in this  
8 room recognizes that there is an economies of scale in  
9 building larger plants.

10 COMMISSIONER BEARD: Counselor, I can't  
11 believe that you would suggest any decision is every  
12 behind us. (Laugh).

13 MR. McLEAN: That's probably true.

14 Well, the point is, Mr. Chariman, I don't  
15 want to launch into trying to bolter that Commission  
16 decision, but there are certainly two sides to that  
17 equation and that was a fairly well-litigated issue, I  
18 think. I just want to ask Mr. Ludsen one more question  
19 on the issue, at the risk of opening the area even  
20 more.

21 Q (By Mr. McLean) Isn't it true also that when  
22 investors invest money in almost any enterprise, that  
23 the risk that customers might not come, that is  
24 normally borne by investors themselves, isn't it?

25 A There is a certain risk factor to an

1 investment obviously, but I believe that we're dealing  
2 with a mathematical computation here, which is fairly  
3 straightforward, and I think that if the computation is  
4 flawed and if everybody recognizes that there's an  
5 economies of scale, we should look at revising that  
6 formula approach.

7 Q Well, perhaps, so we've got some serious  
8 number grubbing to do here, so let's get started.  
9 Would you turn to page -- to Volume 1, Book 2 of the  
10 MFRs, please, sir? Okay. They're the allocation  
11 schedules. Are you there, sir?

12 COMMISSIONER EASLEY: We're not.

13 Q (By Mr. McLean) Let me tell you, I'm going  
14 to have to read you some questions as they come due and  
15 I apologize for the cumbersome nature.

16 COMMISSIONER EASLEY: Volume 1, Book 2?

17 MR. McLEAN: Yes, ma'am. Volume 1, Book 2 of  
18 4. They're the allocation schedules.

19 COMMISSIONER EASLEY: Page?

20 MR. McLEAN: 313. (Pause)

21 Q (By Mr. McLean) Mr. Ludsen, refer please to  
22 Page 313 to 315. Tell me, please, whether these pages  
23 show the amount of direct charges per books allocated  
24 customer cost and per books allocated administrative  
25 and general expenses?



1 A Yes, they do.

2 Q Now, the per books method of allocated A&G is  
3 is direct labor, isn't it?

4 A It was for the periods since our last rate  
5 case, when we proposed direct labor. And at the time  
6 we proposed direct labor, we changed the methodology on  
7 our books from customers to direct labor. So during  
8 the period of 1991, the books did reflect a direct  
9 labor allocation factor.

10 Q Okay. So what you're saying is the -- you  
11 allocated on a per books basis on direct labor because  
12 that was consistent with your last rate filing?

13 A That's correct.

14 Q And before that you had number of customers?

15 A That's correct.

16 Q And now you have returned to number of  
17 customers?

18 A That's correct.

19 Q Is that true for per books as well as the  
20 late filing?

21 A Yes.

22 Q Would you look at Page 315?

23 Look, if you will, to the one that says  
24 "Contractual Services, Legal"?

25 A Yes.

1 Q Okay. The number I see reflected there is  
2 "109,057." Do you agree?

3 A Yes.

4 Q Than, if you will, turn to Page 313 and refer  
5 down to "Contractual Services, Legal." And out to the  
6 right "3401"?

7 A Yes.

8 Q Okay. The first number I mentioned was  
9 allocated and this is direct, is that correct?

10 A That's correct.

11 Q Why were some expenses for legal services  
12 allocated and some directly charged? (Pause)

13 A I'm not sure what those specific direct  
14 charges are. But generally, I think we consider legal  
15 expenses to be of an administrative nature and would be  
16 charged to administrative expenses.

17 Q Well, then do you suppose -- are there any  
18 circumstances that you can think of where you directly  
19 charge legal contractual services? (Pause)

20 A Not offhand, no.

21 COMMISSIONER EASLEY: Could I, just for  
22 clarity, could I ask a question, Mr. McLean?

23 MR. McLEAN: Yes, ma'am.

24 COMMISSIONER EASLEY: On both of these pages  
25 you're referring to, on Page 313 as "direct" and 315 as

1 "allocated."

2 The footnote on both pages referring to, I  
3 assume that's Columns A through F, both of these say  
4 "total direct and allocated costs per-books." Should  
5 that say it that way if one is direct and one is  
6 allocated, or is that really a combination thereof?

7 WITNESS LUDSEN: That statement was carried  
8 through, I believe, to all these pages. And the page  
9 that we're looking at it should have said the total  
10 direct.

11 COMMISSIONER EASLEY: For Page 313?

12 WITNESS LUDSEN: Yes.

13 COMMISSIONER EASLEY: Okay. So any time I  
14 see that "direct" at the top, I can ignore "direct and  
15 allocated" in the footnote?

16 WITNESS LUDSEN: That's correct.

17 COMMISSIONER EASLEY: All right. Thank you.

18 WITNESS LUDSEN: And that would be the .1  
19 through .6 of columns.

20 COMMISSIONER EASLEY: All right. Thanks.

21 Q (By Mr. McLean) Mr. Ludsen, do you have an  
22 exhibit before you? (Pause)

23 MR. McLEAN: Mr. Chairman, may we have it  
24 marked for identification? It's --

25 CHAIRMAN BEARD: Exhibit No. 46. Short

1 title?

2 MR. McLEAN: "OPC Interrogatory 85."

3 Did you say 46, sir?

4 CHAIRMAN BEARD: Yes, sir.

5 MR. McLEAN: Thank you, sir.

6 (Exhibit No. 46 marked for identification.)

7 Q (By Mr. McLean) Mr. Ludsen, this exhibit is  
8 established to show a breakdown of contractual services  
9 for the year 1991, correct?

10 A I have to read the response. I didn't  
11 prepare this response.

12 Q Yes, sir. (Pause)

13 A According to the response, it provides a  
14 breakdown of contractual services for the years 1990  
15 and 1991.

16 Q All right, sir, thanks.

17 Would you turn to Page 1 of the exhibit,  
18 "Contractual Services, Engineering." It shows direct  
19 charges for water, 573.15. And then for sewer,  
20 11,584.05, is that correct?

21 COMMISSIONER EASLEY: Where --

22 MR. McLEAN: I'm sorry.

23 COMMISSIONER EASLEY: Page 1 of 29?

24 COMMISSIONER CLARK: Circled in red.

25 COMMISSIONER EASLEY: Oh, sorry, go ahead.

1 Q (By Mr. McLean) The total, if my arithmetic  
2 is correct, is \$12,157.20?

3 A You're looking at Page 1, which is  
4 "Contractual Services, Engineering"?

5 Q Yes, sir. (Pause)

6 A Go ahead.

7 Q The question addresses the total for water  
8 engineering and the total for sewer engineering appears  
9 to be 12,157.20?

10 A Yes.

11 Q I want to refer you then to the MFR so we can  
12 find that number, okay?

13 So let me refer to you Page 317. Look at  
14 "Contractual Services, Engineering," which is Account  
15 631.1-6. And out to the right, I see the number "573."  
16 Total O&M per books ended 12-31-91. Now, should not  
17 that match the 12,157 -- I'm sorry, the 573.15?

18 COMMISSIONER EASLEY: Match it.

19 Q (By Mr. McLean) Okay. Now -- (Pause) Okay,  
20 now, if you would, sir, please turn to Page --

21 A Excuse me.

22 Q I'm sorry.

23 A What was your last question?

24 Q I'm not sure.

25 The total water engineering 573 should match

1 with the total water engineering which appears to be  
2 573 and does match in the MFRs, correct?

3 A Well, the total engineering for SSU is  
4 12,781, which is the combination of water, sewer and  
5 gas.

6 Q Okay. Well, let's look to total water  
7 engineering on Page 1, to which we've already referred,  
8 573.15. And we should be able to look to the MFRs and  
9 find that number, shouldn't we? (Pause)

10 A Turn to Page 317?

11 Q Yes, sir. I have where it matches. It's in  
12 the column "Total O&M Per-books Ended 12-31-91."  
13 Correct? And it matches?

14 A Yes. If you turn to Page 317 MFRs, Column A,  
15 "Contractual Services, Engineering," under "Water .1  
16 through .6," there's \$573.

17 Q Yes, sir. (Pause)

18 COMMISSIONER EASLEY: Moving right along.

19 Q (By Mr. McLean) Moving right along, let's  
20 move to the sewer side of that problem: Total sewer  
21 engineering. Take me to the similar page, which looks  
22 to me to be Page 321, under Column H, the number  
23 appears to be 20,362. (Pause)

24 COMMISSIONER EASLEY: And your question is?

25 Q (By Mr. McLean) Is how come it ain't the

1 same? (Pause)

2 A I can't answer that right now.

3 Q Now, the first number, the 11,584, that's the  
4 one offered to OPC in Interrogatory No. 85, correct?

5 A That's correct.

6 Q And the second number is the one that you  
7 filed with the Commission?

8 A That's correct.

9 Q Okay. And the difference between those would  
10 presumably represent the engineering contractual  
11 services that 85 doesn't address?

12 COMMISSIONER EASLEY: That what? I'm sorry,  
13 I didn't hear you.

14 MR. McLEAN: Interrogatory No. 85 doesn't  
15 address.

16 COMMISSIONER EASLEY: Thank you.

17 Q (By Mr. McLean) Let me ask the question  
18 differently, Mr. Ludsen.

19 Can you tell us what the services were  
20 rendered for the difference, which is, subject to  
21 check, \$8700?

22 A Not off the top of my head. I guess, you  
23 know, we've provided numerous interrogatories with  
24 respect to these numbers, and I don't know what the  
25 answer is right at this moment, no.

1 Q All right, sir. Refer, if you will, to Pages  
2 4 through 16 of the exhibit --

3 COMMISSIONER CLARK: Let me ask a question.

4 MR. McLEAN: Sure.

5 COMMISSIONER CLARK: So what number do we  
6 use?

7 WITNESS LUDSEN: We used the 12,208 number.  
8 And for engineering, for sewer, we use, for direct,  
9 12,208, which were numbers from the SSU general ledger,  
10 and 8,154 from the Deltona Utilities general ledger.

11 COMMISSIONER CLARK: Okay. (Pause)

12 Go ahead.

13 MR. McLEAN: Okay.

14 Q (By Mr. McLean) Well, then, there's a  
15 problem. We asked you for the outside services in  
16 general and you either amended to tell us about them or  
17 there were none. Which is the explanation, can you  
18 say?

19 A Well, I'd just like to say that, as  
20 throughout this whole proceeding, we've been very  
21 cooperative and forthright with information provided to  
22 the OPC and Staff. The Company has not intentionally  
23 tried to hide anything and --

24 COMMISSIONER CLARK: Mr. Ludsen, I don't  
25 think that's really what he's asking.



1 MR. McLEAN: No.

2 COMMISSIONER CLARK: I think what he wants to  
3 do is find the number that's appropriate.

4 WITNESS LUDSEN: Yes.

5 COMMISSIONER CLARK: And it's got to come  
6 from you.

7 WITNESS LUDSEN: Well, to the best of my  
8 knowledge, the number that we have in the MFRs is the  
9 appropriate number. There may have been -- I'd have to  
10 review this interrogatory further, but there may have  
11 been a number missed on the interrogatory.

12 COMMISSIONER CLARK: Well, let me tell you my  
13 position.

14 I'm ready to take the lower number. So  
15 you're going to need to justify it in order for us to  
16 take that number in the MFR.

17 WITNESS LUDSEN: Well, I can understand that.

18 COMMISSIONER CLARK: Okay.

19 CHAIRMAN BEARD: Good.

20 COMMISSIONER CLARK: So at some point you  
21 need to find out what the discrepancy is.

22 WITNESS LUDSEN: Yes.

23 Q (By Mr. McLean) Mr. Ludsen, Pages 4 through  
24 16 show direct charges to "Contractual Services,  
25 Other," is that correct? (Pause)

1 A Yes.

2 Q And the total as reflected on Page 16 of 29  
3 is 123,971? (Pause)

4 A That's correct.

5 Q Okay. Now, if you will, please, turn to Page  
6 317 of the MFRs that we mentioned earlier and refer to  
7 "Contractual Services, Other," which is about halfway  
8 down the page. And in Column H, the number 190,148  
9 appears. My question is, first of all, should the two  
10 reference numbers not match? (Pause)

11 A I would expect that they should match.

12 Q Okay. But it's obvious that they don't?

13 A Yes.

14 Q Okay. And I take it you understand from  
15 Commissioner Clark's observation that it is your burden  
16 to justify why they don't?

17 A Yes.

18 Q All right, sir.

19 COMMISSIONER CLARK: I'm sure there will be a  
20 break at some point and you need to try and verify what  
21 the discrepancy is. And I don't think there's any  
22 doubt that we understand you tried to answer these  
23 correctly, we just need to find out why there might be  
24 a discrepancy. I know there's volumes of material.

25 WITNESS LUDSEN: Right.

1           COMMISSIONER EASLEY: And if -- in fact, I  
2 was getting ready to make that suggestion. That if it  
3 would not be the kind of thing that you can go through  
4 at a break, it may be easier to have a late-filed to  
5 explain those differences and identify -- in fact, it  
6 might not be a bad idea at all to have a late-filed  
7 explain them -- and then identify all the ones Mr.  
8 McLean wants to get into, because I'd kind of like to  
9 see them myself.

10           MR. McLEAN: Let me give you the best  
11 argument against that I can think of, and it is that we  
12 concede it is a very vast filing, no doubt about it.  
13 But the numbers they give us in their discovery are the  
14 numbers upon which we rely to criticize their case.

15           COMMISSIONER EASLEY: I understand that, Mr.  
16 McLean, but --

17           MR. McLEAN: And if they get to rehabilitate  
18 it later, where is our opportunity to see if they did  
19 it correctly?

20           COMMISSIONER EASLEY: Well, I think  
21 Commissioner Clark gave a pretty good indication of  
22 what might happen if the numbers were incorrect.

23           MR. McLEAN: We might have some criticism to  
24 offer for the justification as well, but we won't get  
25 the chance to do that except by some other cold

1 response to it.

2 COMMISSIONER CLARK: Well, I think his point  
3 is well-taken with respect to late-fileds. There's no  
4 opportunity to cross examine the witness later on to  
5 explore the validity of the explanation for the  
6 discrepancy; and to that extent, I think it has to be  
7 done in the course of this proceeding, this hearing.

8 CHAIRMAN BEARD: Well, I agree. And in  
9 addition to that, the filing is, in fact, the Company's  
10 filing. Yes, it's massive, but that was the  
11 determination made by the Company in the way in which  
12 they chose to file the case.

13 Now, I know that's been one of Public  
14 Counsel's criticisms; but, nonetheless, the case is  
15 today, it's in the hearing room, you can either justify  
16 the number or you can't.

17 COMMISSIONER EASLEY: We've done this. We've  
18 identified late-fileds that have come in prior to the  
19 end of the hearing. What I'm really saying is that it  
20 may not be available today, but I suspect Mr. Ludsen  
21 would have to come back if something is available by  
22 the end of the week. But I would like to have the  
23 right numbers. And I don't care how we get them or  
24 when we get them as far as -- yes, I care when we get  
25 them, but not necessarily today is what I'm saying.

1 Mr. Ludsen may have to stick around awhile.

2 WITNESS LUDSEN: That's fine.

3 CHAIRMAN BEARD: Well, I think the Company  
4 can have the chance to attempt to rehabilitate some of  
5 these questions if they choose.

6 COMMISSIONER EASLEY: I understand.

7 CHAIRMAN BEARD: Go ahead, Mr. McLean.

8 Q (By Mr. McLean) Turn to Page 317 of the  
9 allocation schedules, if you will, sir.

10 A Yes.

11 Q The amount shown "Contractual Services,  
12 Other," for water operations -- pardon me, I already  
13 did that one. I apologize. I'm on the wrong page  
14 here.

15 Okay. Turn to Page to 321, if you will. I  
16 apologize, Page 321, if you will, sir.

17 The amount for "Contractual Services, Other"  
18 for the sewer operation is 229,411. Correct?

19 A Yes, 229,411.

20 Q Okay. Now, the amount that you showed in  
21 your response to our interrogatory is reflected on Page  
22 22, which is \$148,780. Do you agree? And that's Page  
23 22 of 29. (Pause)

24 COMMISSIONER CLARK: I'm sorry. Which number  
25 on Page 22 are you saying it should compare to?

1 MR. McLEAN: Page 22, the number 148 --

2 COMMISSIONER CLARK: Okay. (Pause)

3 MR. McLEAN: Okay.

4 CHAIRMAN BEARD: Let's take about a

5 ten-minute break.

6 (Brief recess.)

7 - - - - -

8 CHAIRMAN BEARD: Okay.

9 Q (By Mr. McLean) Mr. Ludsen, can you shed any  
10 more light on those discrepancies, those alleged  
11 discrepancies?

12 A Yes, I can.

13 Q Thank you, sir.

14 A If you'd turn to Volume 1, Book 3 of 4.

15 COMMISSIONER CLARK: Say that again.

16 WITNESS LUDSEN: If you'd refer to Volume 1,  
17 Book 3 of 4, it shows total Company amounts and the  
18 amounts applicable to the filed systems. (Pause) Page  
19 17 of Book 3.

20 COMMISSIONER CLARK: All right. Okay.

21 WITNESS LUDSEN: That page refers to direct  
22 O&M expenses for total systems and the amounts charged  
23 to the filed systems. Refer to Line No. 12.

24 COMMISSIONER CLARK: Yeah.

25 WITNESS LUDSEN: There's a total amount there

1 of 20,935, which agrees with the amount shown in Volume  
2 1, Book 2, which we referred to previously, for the  
3 total Company, of 20,935.

4 COMMISSIONER CLARK: Give me the page in Book  
5 2.

6 WITNESS LUDSEN: That was Page 313, Line -- I  
7 guess there isn't -- it's under "Contractual Services,  
8 Engineering."

9 COMMISSIONER CLARK: Okay.

10 WITNESS LUDSEN: Okay. The last column says  
11 20,935.

12 If you go back to Book 3, the 20 -- it starts  
13 off with 20,935 and breaks it out between water and  
14 sewer and by the total filed systems.

15 COMMISSIONER CLARK: Uh-huh.

16 WITNESS LUDSEN: And if you look at the total  
17 filed systems under "water," the first number is 573.

18 COMMISSIONER CLARK: Where am I?

19 WITNESS LUDSEN: That's in Column 7.

20 COMMISSIONER CLARK: Yes.

21 WITNESS LUDSEN: That number agrees with the  
22 amount that's in the interrogatory on Page 1 of 29.

23 COMMISSIONER CLARK: Okay.

24 WITNESS LUDSEN: And if you move across to  
25 Column 10, there's a number of 11,584.

1 COMMISSIONER CLARK: Yes.

2 WITNESS LUDSEN: And that number agrees with  
3 the sewer amount shown on the interrogatory on Page 1  
4 of 29.

5 So basically, the difference between the  
6 schedules was that the schedules shown in the Book 2  
7 were total Company numbers, and we've broken those off  
8 between what was specifically charged to the file  
9 system. So the amount shown in the interrogatories are  
10 those amounts directly charged to the filed systems in  
11 this case.

12 COMMISSIONER CLARK: All right. Those are  
13 the numbers we should use?

14 WITNESS LUDSEN: Yes.

15 Q (By Mr. McLean) Mr. Ludsen, referring to  
16 Exhibit No. -- 46, I believe, 46. Refer to, if you  
17 will, Page 26 of 29. (Pause)

18 Now, it appears that this is "Contractual  
19 Services, Legal," and there is a -- an association of  
20 the legal bill to the system here, as I understand.  
21 Let me ask you, on the last column, "Plant Charged,"  
22 all those numbers there are numbers which refer to a  
23 specific system, correct?

24 A That's correct.

25 Q Okay, now, and then in the other columns



1 refer to specific charges which are associated with  
2 those systems. But these -- all these expenses in  
3 their aggregate are allocated to the entire family --  
4 Southern States family of companies, isn't that  
5 correct?

6 A That's correct. We've rolled all these  
7 administrative and general expenses together in a pool  
8 and allocated the amounts out to systems based on  
9 number of customers.

10 We consider A&G expenses basically A&G  
11 expenses. And if you accept the methodology of  
12 allocation of A&G, then these would be pooled and  
13 allocated out, and this is very typical -- it's more  
14 than typical, it's standard practice in electric  
15 industry and telephone industry, and so on.

16 Q All right, now. By your own testimony, I  
17 think, any form of allocation is considerably less than  
18 perfect, is that right?

19 A That's correct.

20 Q Well, given that imperfection, then, why  
21 shouldn't you directly associate the cost, when you  
22 can, as opposed to allocate costs when you can't?

23 A Well, basically, I think, you know, what  
24 we're striving for is to create some simplicity to this  
25 whole process and some fairness to customers.

1           At various times throughout the life of a  
2 system, these systems are all going to incur similar  
3 costs throughout the life. By allocating these costs  
4 based on -- pooling these costs and allocating these  
5 costs based on number of customers, first of all, you  
6 achieve simplicity, which I think is very important.

7           Number two, is that certainly when you go  
8 through the regulatory process like this, all  
9 participants can see exactly how costs are allocated  
10 and assigned.

11           Number three, you're not going to have spikes  
12 in the costs charged to individual systems because one  
13 year they happen to have some legal costs or  
14 engineering costs and then the next year they don't.  
15 So what you're going to have is a sharing of these  
16 costs and you're going to have fairly level A&G costs  
17 assigned to each of these systems over the years,  
18 which, obviously, the goal of ratemaking is to  
19 establish a fairly consistent rate methodology.

20           I think we have a situation in our Company  
21 where we have a lot of very small systems. And one  
22 charge, for legal expenses or engineering or whatever,  
23 could significantly influence the costs or the rates of  
24 that system, if you happen to file for a rate case in  
25 that particular year.

1           So we feel that by rolling these costs  
2 together -- and they all are classified as  
3 administrative costs. I mean, that's -- they're  
4 administrative in nature. And roll these costs  
5 together and spreads them out to all the system so  
6 everybody gets their fair share of these costs over  
7 time.

8           Q     In order to assume that fair share, don't you  
9 have to assume then that an expense suffered by any one  
10 system has to be pretty much similar to the others,  
11 would suggest that the others will suffer theirs in  
12 their turn, correct?

13          A     Yes. I think everybody is going to  
14 participate in the sharing of these expenses, as time  
15 goes on.

16                We are, you know, basically one company, and  
17 we have certain administrative costs and customer  
18 service costs, which are required to operate the total  
19 company.

20          Q     Okay, well let's look at some of those then.  
21 Let's look down in the third column to SSU versus  
22 Shadowbrook Condominium Owners Association.

23                Was there some sort of dispute there between  
24 SSU and Shadowbrook?

25          A     I think that was -- to the best of my

1 recollection, is that we had purchased the utility, or  
2 in the process -- purchased the utility, and I believe  
3 the end result was that the homeowners wanted it back,  
4 and we turned it back to the home owners. So the legal  
5 costs were incurred relative to the dispute with  
6 respect to ownership of that system.

7 Q But now you couldn't say to the Sunny Hill  
8 customers, "Don't mind paying for that because your  
9 turn will come some time in the future," could you?

10 A Well, I think, again, you have to accept the  
11 basic philosophy that it's one company, it's a family  
12 of companies, there's a sharing of expenses, and that  
13 at no particular year, under our methodology, no  
14 customer is going to pay any more than any other  
15 customers through their rates. And again, it's a  
16 methodology. There is nothing that's perfect in  
17 ratemaking.

18 I mean, we could go to the extreme and design  
19 rates for each house and say that's technically  
20 correct, but it's impractical. It's not realistic. We  
21 use one cap structure for the whole Company, even  
22 though the costs technically may be able to be broken  
23 out for some of the systems and identified by systems.  
24 We've gone through that process. And the Commission  
25 has decided to use one cap structure for all systems.

1           If you use one standard depreciation rate for  
2 all systems, even though there may be variants in the  
3 lives of these -- or unique situations by system for  
4 the individual plant.

5           We use beginning-ending average balance for  
6 plant, even though plant comes in in different months  
7 during the year. So I think there's a lot of  
8 compromises you make in the ratemaking process, but you  
9 make these compromises because, over time, I believe  
10 that, you know, it's fair to all customers. You try to  
11 simplify the process as much possible.

12           Your end result is that you want to come up  
13 with two numbers: Basically, you want to come up with  
14 a base facility charge and a gallonage charge. And I  
15 believe that under our methodology, that when you  
16 condense all this information together, I think we're  
17 ending up with a fairly fair rate to everybody.

18           Q     Okay, and the compromises you make ought to  
19 be based on some rational basis, don't you think?

20           A     Yes.

21           Q     I think what you said before, the rational  
22 basis that you look for is the recurring nature, i.e.,  
23 that what will occur in one system will sometime occur  
24 in the other system.

25           A     Well, I think, if you want to refer to legal

1 expenses, for instance, I think you could say that,  
2 basically, probably legal expenses are nonrecurring in  
3 nature. I mean, you have a legal situation and it's  
4 over. But replaced by that is another legal situation.  
5 And from year to year you're going to have a certain  
6 level of legal costs. And within each of those years  
7 you're going to have different legal disputes or  
8 whatever may have caused those situations. But over  
9 time you're going to have a certain level of legal  
10 costs.

11 Q Are you telling the Commission, then, that  
12 there is any likelihood whatsoever that customers of  
13 other systems will be involved in the same sort of  
14 dispute that SSU got in with Shadowbrook? Are you  
15 saying that they'll just be involved in some other kind  
16 of dispute?

17 A All I'm saying is you're going to have a  
18 certain level of legal costs from year to year, and  
19 they may be of a different nature than this, but there  
20 will be a certain level. And at some point, you know,  
21 all customers share in legal costs.

22 Q So you don't have any problem with the  
23 customers of Sunny Hills paying for the dispute you got  
24 into with Shadowbrook?

25 A No, I don't.

1 Q And it is true that this filing does ask for  
2 that very thing, doesn't it?

3 A Yes, the costs -- again, the costs have been  
4 pooled and spread to all customers.

5 Q Okay. The dispute you're in with Citrus Sun  
6 Club Association -- I'm assuming dispute, tell me if  
7 that's not true. Citrus Sun Club Association, two  
8 charges of \$1200. What was the nature of that legal  
9 expense? (Pause)

10 Mr. Ludsen, isn't it true that was associated  
11 with a \$20,000 bad debt?

12 A I believe so.

13 COMMISSIONER CLARK: Just so I'm clear, how  
14 much in total legal expenses have you asked for during  
15 the test year? (Pause) Not associated with rate case  
16 expense.

17 WITNESS LUDSEN: For the filed systems, we  
18 asked for 71,407.

19 COMMISSIONER CLARK: So that would be a  
20 per-year expense you would -- you have asked for to be  
21 recovered in rates?

22 WITNESS LUDSEN: That's correct.

23 COMMISSIONER CLARK: These are all outside  
24 legal help?

25 WITNESS LUDSEN: Yes.

1 COMMISSIONER CLARK: None of which could be  
2 handled -- let me back up.

3 When did you hire in-house counsel?

4 WITNESS LUDSEN: We've had one person since  
5 1989, I believe. And we hired an additional person in  
6 1991. And many of these costs we do handle internally.

7 The last person we hired was Mr. Armstrong,  
8 and he has been primarily dedicated to regulatory  
9 matters of the rate case since he's come on board.

10 COMMISSIONER CLARK: Okay.

11 Q (By Mr. McLean) So, Mr. Ludsen, look to the  
12 bottom of that same page, if you would, please. I  
13 believe it's 26 of 29. I see "condemnation" mentioned  
14 there. Do you know what system that might have been?  
15 Is that University Shores by chance?

16 COMMISSIONER CLARK: Where are you?

17 MR. McLEAN: Bottom of the page,  
18 Commissioner, Page 26 of 29.

19 COMMISSIONER CLARK: I'm there.

20 Q (By Mr. McLean) It says "Condemnation Parcel  
21 137." There's a \$23,000 expense associated with it.

22 COMMISSIONER CLARK: It's a 23,000?

23 MR. McLEAN: Yes, ma'am. It appears to be  
24 the amount of contractual services, legal, associated  
25 with condemnation.



1           WITNESS LUDSEN: That's -- I'm not certain  
2 what that involves. It's one out of many items listed  
3 under that category.

4           Q     (By Mr. McLean) Correct.

5                     Were the condemnation expense associated with  
6 University Shores, that, too, was allocated to the  
7 other customers, to the other systems?

8           A     I'm not sure what that condemnation was for.  
9 But the cost -- the portion of that cost that's  
10 included in these numbers has been included in the  
11 filing and allocated out.

12                    COMMISSIONER EASLEY: Where is the detail of  
13 this figure located?

14                    WITNESS LUDSEN: We would have to develop  
15 that information.

16                    COMMISSIONER EASLEY: I'd like to see that.

17                    Mr. Chairman, could I have a --

18                    MR. McLEAN: We'll ask for it as a late-filed  
19 exhibit, Commissioner.

20                    COMMISSIONER EASLEY: Thank you so much.

21                    COMMISSIONER CLARK: While you're doing that,  
22 would you explain to me how this would square with Mr.  
23 Sandbulte's comments that the -- in a condemnation  
24 proceeding any gains or losses should go to the  
25 shareholders. And included in whether or not you had a

1 gain, you would subtract -- well, included in figuring  
2 the cost, you would include legal expenses.

3 WITNESS LUDSEN: Yes, that's correct.

4 COMMISSIONER CLARK: Do you know -- I have  
5 some concern about including legal expenses related to  
6 condemnation, given that viewpoint.

7 WITNESS LUDSEN: If an actual condemnation  
8 has been filed, then the legal expenses should go --  
9 should not be included in the rate case. It should be  
10 included as part of their condemnation, so below the  
11 line

12 COMMISSIONER CLARK: Well, what explanation  
13 would you have for including something titled  
14 "Condemnation" in the rate case?

15 WITNESS LUDSEN: I would have to look at the  
16 detail of what that involved and provide you the  
17 information on that.

18 COMMISSIONER CLARK: All right. You're going  
19 to need to do that, in my opinion, before the week of  
20 hearing is over.

21 WITNESS LUDSEN: Okay.

22 CHAIRMAN BEARD: It will be Exhibit 47, short  
23 title?

24 COMMISSIONER EASLEY: "Explanation of \$23,000  
25 A&G Charges."

1 (Late-Filed Exhibit No. 47 identified.)

2 Q (By Mr. McLean) Mr. Ludsen, do you have  
3 access to Citizens' Interrogatory 113-R?

4 COMMISSIONER CLARK: Do we have access to  
5 that?

6 WITNESS LUDSEN: I don't have it with me  
7 here. Perhaps counsel has it.

8 Q (By Mr. McLean) Okay. I want to ask you a  
9 follow-up question. Let's just strike that and we'll  
10 deal with it when the time comes.

11 I want to ask you a follow-up to what  
12 Commissioner Clark said. I think the gist of what you  
13 said is that once it actually becomes a filed  
14 condemnation action, then you believe that the expenses  
15 associated with the defense -- if it be a defense --  
16 should be below the line, correct?

17 A That's correct.

18 Q What's the distinction; what's the rationale  
19 behind that distinction you make?

20 And let me observe and ask you to respond to  
21 it. I think Southern States has incurred advertising  
22 expenses in resisting or defending against condemnation  
23 before it was actually filed. Why is that too -- why  
24 should that not be below the line as well?

25 A Because I think there's a benefit to the

1 other ratepayers by us fighting -- well, by us fighting  
2 potential condemnations. If you do lose that customer  
3 base, it's to the -- to some extent, to the detriment  
4 of the other customers.

5 Q But, now, isn't it also true that the whole  
6 question in condemnation is for you to receive just  
7 compensation for whatever it is that the Government  
8 takes from you?

9 A Well, I think we have to distinguish what --  
10 between a final condemnation proceeding and a proposed  
11 condemnation where we're trying to deter a potential  
12 condemnation.

13 Q Of course. Let me tell you my notion and ask  
14 you to criticize it: That every effort that you take  
15 from start to finish in condemnation is designed, on  
16 the one hand, to either discourage condemnation or, on  
17 the other hand, to obtain just compensation should the  
18 condemnation take place, isn't that true?

19 A Well, once the condemnation takes place, I  
20 mean, there is a certain -- I'm not an expert on  
21 condemnations, but it's my understanding that there's a  
22 certain process that follows. On the other hand, if  
23 you're trying to deter condemnation, you're trying to  
24 defend your rights. You have an assigned customer  
25 service area and you're trying to defend your rights

1 and keep your customer base under the -- that you have  
2 been assigned under the service territory.

3 COMMISSIONER CLARK: Isn't the answer to his  
4 question yes. You're either trying to prevent the  
5 condemnation, or failing that, to make sure you get a  
6 fair price for the property?

7 WITNESS LUDSEN: Right. On the one hand,  
8 you're trying to defend or prevent the condemnation  
9 from taking place. Once the condemnation takes place,  
10 then you're trying to establish -- make sure that you  
11 get --

12 COMMISSIONER CLARK: Fair value.

13 WITNESS LUDSEN: -- fair value for that  
14 property, and it's our opinion that, you know, the  
15 costs associated with the -- once the condemnation has  
16 been filed, the costs associated with that condemnation  
17 should not be charged to the ratepayer.

18 Q (By Mr. McLean) It is, then, the filing of  
19 the petition that takes place at the Courthouse,  
20 presumably, the point of demarcation between when the  
21 expenses go above the line and below the line?

22 A That's how we define it, yes.

23 COMMISSIONER CLARK: Let me ask a follow-up  
24 question. Why should -- if you engage in a process to  
25 discourage the actual condemnation and you fail in that

1 attempt, why shouldn't that be either -- why shouldn't  
2 that be netted out against the money you are paid for  
3 the property that's ultimately taken?

4 WITNESS LUDSEN: If we failed in the attempt  
5 and a petition for filed to condemnation. So its cost  
6 would be recorded below the line as part of the  
7 condemnation cost then.

8 COMMISSIONER CLARK: Okay.

9 WITNESS LUDSEN: The only time they wouldn't  
10 be is if, you know, you were just defending --

11 COMMISSIONER CLARK: If you are successful  
12 and they don't condemn.

13 WITNESS LUDSEN: Right.

14 COMMISSIONER CLARK: Okay.

15 Q (By Mr. McLean) Just one more question on  
16 condemnations.

17 Do you know whether a condemning authority  
18 takes into account contributions in aid of construction  
19 as a consideration on the way to just compensation?

20 MR. HOFFMAN: Mr. Chairman, I'm going to  
21 impose an objection because I think that's a legal  
22 question. As a matter of fact, I know there is at  
23 least one appeal going on at this time which centers on  
24 that very question.

25 CHAIRMAN BEARD: I guess the way he asked the

1 question, he said, "do you know".

2 MR. McLEAN: I'm just curious about whether  
3 condemning authorities ever recognize that CIAC has  
4 already been paid by the customer.

5 CHAIRMAN BEARD: If he doesn't know the  
6 answer to the question, say so.

7 WITNESS LUDSEN: I don't know.

8 CHAIRMAN BEARD: Okay.

9 MR. McLEAN: Thank you, sir.

10 Q (By Mr. McLean) Let's go to Page 28 of the  
11 exhibit. There's an entry halfway down the page for  
12 AUS software. Can you tell us something about that  
13 software? (Pause)

14 A Yes. That's the software that was  
15 specifically designed for us to develop the MFR filings  
16 in this case, the revenue requirement filings in this  
17 case, and was geared towards developing schedules  
18 consistent with the MFR requirements.

19 Q All right, sir. I've arranged for you to be  
20 handed an exhibit. Do you have it?

21 MR. McLEAN: Can we have it marked,  
22 Mr. Chairman?

23 CHAIRMAN BEARD: It will be Exhibit No. 48.

24 Q (By Mr. McLean) Do you have the exhibit,  
25 Mr. Hudson?

1 A Yes.

2 CHAIRMAN BEARD: The short title would be  
3 "Document Request 173."

4 MR. McLEAN: Yes, sir. OPC Document Request 173.

5 WITNESS LUDSEN: Yes.

6 (Exhibit No. 48 marked for identification.)

7 Q (By Mr. McLean) The Citizens asked you to  
8 provide a copy of the Company's discovery tracking  
9 index system. The focus was on how you handled  
10 discovery, I think.

11 And your answer is well -- your answer is if  
12 you want to go buy it, essentially. But the focus of  
13 this question is to determine whether the AUS  
14 identified in this interrogatory is the same AUS  
15 identified in that earlier exhibit.

16 A Yes, it is.

17 Q The same software. It is the same; is that  
18 correct?

19 A Yes.

20 Q All right. Now, would you agree that the  
21 question asks for a copy as opposed to the program  
22 itself?

23 In other words, Mr. Ludsen, to make it clear,  
24 we didn't ask for the software; we asked for a hard  
25 copy, I think, and never got it. Is that correct?



1           A     I think we provided -- the hard copy was the  
2 output of the program. You received hard copies to all  
3 the interrogatory responses. All this software does is  
4 coordinate the interrogatory response. This form is  
5 off that system. That's what this produces and you  
6 receive the hard copies.

7           Q     Okay. Pardon me just a second.

8                     Mr. Ludsen, assume it is of interest to the  
9 Citizens to see how discovery is processed through the  
10 Company, and who is responsible for what, and who gets  
11 a look at it and who doesn't. You may assume that for  
12 purposes of the question. How would we know the answer  
13 to those questions with the information that you  
14 provided here?

15                    MR. HOFFMAN: Mr. Chairman, I'm going to  
16 object because I don't think that these questions go  
17 toward any of the numbered issues in this case, and I  
18 think we're back into discovery.

19                    MR. McLEAN: Actually, we have -- if I may  
20 respond, we have a request for money for software. The  
21 Citizens have asked the question designed to determine  
22 what that software did, and we have the terse response  
23 that if we want to know we can go buy it.

24                    COMMISSIONER EASLEY: Well, the trouble,  
25 Mr. McLean, is that your document request asks for a

1 copy of the tracking system. It doesn't really say --  
2 explain how you track or who gets it. I think you're  
3 really asking two different questions, is my point.

4 MR. McLEAN: It could be. But we didn't ask  
5 for software.

6 COMMISSIONER EASLEY: I understand that.

7 MR. McLEAN: They said, "If you want  
8 software, go buy it."

9 COMMISSIONER EASLEY: But the question you're  
10 asking him now is different -- even if you're asking  
11 for hard copy, the question is different from that  
12 posed in the document request.

13 CHAIRMAN BEARD: This is the witness on this  
14 document. The response -- my reaction to the response  
15 is it certainly is terse, and is not geared to finding  
16 a solution to what information is really there.  
17 Conversely, I'm sure there were a lot of these requests  
18 and a lot of responses.

19 The objective is to get the information, not  
20 gamesmanship. Now, I don't know what the proper  
21 question is to ask and I don't know what the proper  
22 question is, but I think it can be done differently  
23 than what we have got here.

24 MR. McLEAN: Well, perhaps we can have as a  
25 late-filed exhibit just a flow chart of how discovery

1 flowed through the Company. We'd been much happier  
2 with that at the start, but we can accept it now, I  
3 think.

4 CHAIRMAN BEARD: Is that a problem for you to  
5 provide?

6 WITNESS LUDSEN: No, that's fine.

7 CHAIRMAN BEARD: Okay. Good.

8 MR. McLEAN: And, you know, the flow chart  
9 should be consistent and driven by whatever this  
10 software says, I think. And perhaps we can reflect  
11 that in the title?

12 CHAIRMAN BEARD: Late-filed 49 will be  
13 "Discovery/Indexing Flow Chart."

14 (Late-Filed Exhibit No. 49 identified.)

15 COMMISSIONER CLARK: Do we need this?

16 COMMISSIONER EASLEY: Are you leaving Exhibit  
17 46, Mr. McLean?

18 MR. McLEAN: Yes, ma'am, I am.

19 COMMISSIONER EASLEY: Let me ask a couple of  
20 questions before we get going on this.

21 When you're through with the late-filed,  
22 Mr. Ludsen.

23 Still on Page 28 of 29 in Exhibit 46, there  
24 are two entries that I'm interested in. One is in the  
25 middle of the page, "Product Marketing Group Design and

1 Manufacture of Show Style Display Boards for \$2,500."

2 What is that?

3 WITNESS LUDSEN: That is a -- I believe,  
4 subject to check, but I believe that's a large board  
5 that we use that we bring to various trade shows or  
6 presentations which shows how the aquifer and the RO  
7 and the water system in the state of Florida work.

8 COMMISSIONER EASLEY: Is this designed for  
9 outside the state of Florida?

10 WITNESS LUDSEN: Within the state of Florida.  
11 It shows how -- it's a large board, a model board, with  
12 -- educational board which presents the water system in  
13 the state of Florida, the RO system and how water comes  
14 from the ground and goes through the plant. It's an  
15 educational type.

16 COMMISSIONER EASLEY: Okay. Down a little  
17 further, "MJ Solutions Training, Preparation for Rate  
18 Case Hearings." What is that?

19 WITNESS LUDSEN: That was a training seminar  
20 that was put on in 1990, that trained individuals in  
21 testifying and that type of thing.

22 COMMISSIONER EASLEY: 1990?

23 WITNESS LUDSEN: End of 1990, yes.

24 COMMISSIONER EASLEY: It wasn't in  
25 relationship to the other rate case, was it?

1           WITNESS LUDSEN: It was prior to the hearings  
2 in the last rate case.

3           COMMISSIONER EASLEY: Did you ask for this in  
4 the other rate case?

5           WITNESS LUDSEN: I believe we did, yes.

6           COMMISSIONER BEARD: What's the test year?

7           WITNESS LUDSEN: I mean, I'd have to check on  
8 that to make sure but --

9           CHAIRMAN BEARD: What's the test year for  
10 this case?

11          WITNESS LUDSEN: 1991.

12          COMMISSIONER EASLEY: Would you agree with me  
13 that anything that was included in the expenses for the  
14 other rate case is not in this test year, in all  
15 likelihood?

16          WITNESS LUDSEN: Well, I would say that this  
17 probably was not included in the test year of the other  
18 case because it's A&G --

19          COMMISSIONER EASLEY: Now, wait a minute.  
20 You just told me it was requested in the other rate  
21 case.

22          WITNESS LUDSEN: I'm not certain of that, but  
23 looking at it now I see it's charged to an A&G account.

24          COMMISSIONER EASLEY: Sometime before you get  
25 off the stand today, I'd like to know the answer to

1 that question.

2 WITNESS LUDSEN: If it was included in the  
3 last rate case?

4 COMMISSIONER EASLEY: Yeah. And for sure was  
5 it in 1990, is it outside the test year? At some point  
6 -- whenever we can get it.

7 That's all I have, Mr. McLean. Thank you.

8 CHAIRMAN BEARD: While we're kind of at an  
9 intermediate point, it would be my intention, as you  
10 all are well aware, I said we would work late this  
11 evening. We will break for supper this evening. We  
12 will take a reasonable break. We will work through  
13 lunch, as we did on Friday. We will take probably  
14 about 15 or 20 minutes for people to order sandwiches.

15 For those of you, I understand, from Pine  
16 Ridge welcome to Tallahassee. At some point in time,  
17 my understanding is there are four people who wish to  
18 speak today that had not had an opportunity to speak at  
19 any of the other service hearings, and we will try to  
20 find a convenient breaking point to do that.

21 We will, because of the schedule, I'm trying  
22 to get all the testimony in, and we had some people  
23 come up on Friday, we will essentially work through  
24 lunch. We will take a 15- or 20-minute break.

25 For your information, there is a cafeteria

1 downstairs. There's also a little sandwich shop about  
2 two blocks south of here. Please feel free to bring a  
3 sandwich or cold drink back in here. This is a fairly  
4 normal procedure for us when we have a long work  
5 schedule.

6 But we will find a convenient breaking point  
7 somewhere here in the near term, either right after  
8 lunch or depending on where we get with this witness,  
9 to take a break and hear from the public witnesses that  
10 have come up here.

11 And with that, Mr. McLean, do you have any  
12 kind of rough idea about how long you might have for  
13 this witness?

14 MR. McLEAN: No, sir, I don't.

15 CHAIRMAN BEARD: A while.

16 MR. McLEAN: A couple of hours I should  
17 think.

18 CHAIRMAN BEARD: Okay.

19 MR. McLEAN: It's a possibility, if you want  
20 to take the customers out of turn, we certainly don't  
21 object, but it's not our witness.

22 CHAIRMAN BEARD: If you have got that -- we  
23 will do that probably -- maybe about 20 minutes to 12  
24 or so we'll try to take a break and people can get a  
25 sandwich, or whatever they want to do, and when we come

1 back from that, perhaps that would be a convenient time  
2 to hear from the public or -- and then we'll resume  
3 with this witness after that. Okay. Go ahead.

4 Q (By Mr. McLean) Mr. Ludsen, in response to  
5 an interrogatory, which you sponsored, the  
6 Interrogatory is No. 170, let me read you a brief  
7 sentence you may not need to refer to it.

8 I just want to establish it. "On the other  
9 hand, the Company is not aware of any other water or  
10 wastewater utilities which allocates common costs using  
11 a methodology other than customers." Do you remember  
12 that or do you want to refer to it?

13 A I'd like to refer to it.

14 Q Okay. Wait one moment and we'll pass it out.

15 COMMISSIONER CLARK: Mr. McLean, is this an  
16 exhibit, the Interrogatory 173?

17 MR. McLEAN: It was intended to be so, yes,  
18 ma'am.

19 CHAIRMAN BEARD: 48.

20 MR. McLEAN: Yes, sir. There was a  
21 late-filed 49 --

22 CHAIRMAN BEARD: Correct.

23 MR. McLEAN: -- and I believe the current one  
24 is 50.

25 CHAIRMAN BEARD: This will be Exhibit No. 50.



1 Short title.

2 MR. McLEAN: "OPC Interrogatory 170."

3 (Exhibit No. 50 marked for identification.)

4 Q (By Mr. McLean) Refer to the third sentence,

5 Mr. Ludsen.

6 Mr. Ludsen, did you all mean that to be a  
7 representation that there was no such -- let me strike  
8 that.

9 And look at the literal wording. It says "On  
10 the other hand, the Company is not aware of any other  
11 water or wastewater utility which allocates common  
12 costs using a methodology other than customers."

13 But as I understand it, Southern States itself,  
14 at least for the purposes of internal accounting, uses  
15 direct labor in some instances, don't they?

16 A It did -- Southern States did allocate on  
17 labor during 1991, but it's allocating on number of  
18 customers --

19 Q Okay.

20 A -- in 1992.

21 Q I have the impression that what you mean to  
22 say here is that, and correct me if I'm wrong, that  
23 there is no utility which has successfully come under  
24 Commission scrutiny, which has allocated other than  
25 customers. Is that right?

1           A     What we're saying is that, you know, what I'm  
2 saying is that I'm not aware of any other water or  
3 wastewater utility which allocates common costs using a  
4 methodology other than customers.

5           Q     Okay. Rather than pass out this exhibit,  
6 which is a Commission order, I want to give you a copy  
7 and then ask you a question or two about it. Then I'll  
8 ask the Commission to take official notice, unless  
9 you'd like to have your own copy.

10           CHAIRMAN BEARD: Let's proceed with the  
11 questions, and we'll decide whether we need to have our  
12 own personalized copy.

13           MR. McLEAN: Right.

14           Q     (By Mr. McLean) Mr. Ludsen, I've arranged  
15 for you to be passed a copy of order No. 18551, which  
16 is St. John Service Company. Refer, if you will, to  
17 the third page of that order. My impression from  
18 reading that is the Commission approved an allocation  
19 treatment of general office equipment using active  
20 meters, is that correct? (Pause)

21           A     It says "Upon consideration of the record  
22 before us, we find the Utility's proposed allocation  
23 treatment of general office equipment using active  
24 meters to be reasonable, and it is, therefore, accepted  
25 that equipment is used by employees performing

1 accounting, billing and overall management duties."

2 Q Okay. Well, let me ask the question this  
3 way: From your limited review of this order, don't you  
4 infer that the Commission, when shown to be reasonable,  
5 approves allocation treatments other than numbers of  
6 customers?

7 A I see this as being a very limited allocation  
8 of one item out of many accounts included in general or  
9 A&G expenses. So I see this as they definitely did  
10 order a different allocation methodology, but it's only  
11 for one account.

12 Q So you seem to be accepting the notion that  
13 they might allocate by one means with respect to some  
14 common expenses and by one means with respect to  
15 others?

16 A I'm just saying that this is a situation  
17 where they are allocating just one item out of general  
18 plant on meters, and not all of general plant that I  
19 can see.

20 Q Okay. Then the awareness to which you  
21 referred in OPC Interrogatory No. 170 would apparently  
22 include instances such as this, is that right? (Pause)

23 A This would be an exception.

24 Q Okay. And there's another exception on Page  
25 6, isn't there? And that's the office rent? (Pause)

1           A     I would say going back to the first item that  
2 when you're talking about active meters, basically,  
3 you're saying that they're allocated on number of  
4 customers. It's basically the same thing.

5                     In the second example, second part of this  
6 order, they did recommend a different methodology.

7           Q     Did you say they did not or did?

8           A     They did.

9           Q     Okay. Now, are respect to the first  
10 situation, number of customers versus active meters,  
11 can you tell the Commission with certainly that the  
12 number of customers always equals the number of active  
13 meters? What if a customer has more than one meter?

14          A     Basically, we consider a customer a meter

15                     MR. McLEAN: Commissioners, I'd like -- I'm  
16 sorry, go ahead.

17                     COMMISSIONER CLARK: So you're saying the  
18 number of meters is equivalent to your number of  
19 customers.

20                     WITNESS LUDSEN: Right.

21                     COMMISSIONER CLARK: It's the same thing.

22                     MR. McLEAN: Okay. Commissioner, we'd like  
23 the Commission to take official notice of Order No.  
24 18551, which is the application of St. Johns Service  
25 Company for increased water and sewer rates in St.

1 Johns County, Florida.

2 CHAIRMAN BEARD: Okay. No problem.

3 What was the date on that? I was just  
4 curious, I had so many fond memories of St. Johns  
5 cases, I've lost track of them all.

6 MR. McLEAN: 12-87, Commissioners Herndon and  
7 Wilson.

8 CHAIRMAN BEARD: Okay.

9 Q (By Mr. McLean) Mr. Ludsen, do you have an  
10 exhibit which I've just arranged to be placed before  
11 you? There you go, that's the right one.

12 MR. McLEAN: Mr. Chairman, may I have the  
13 most recent exhibit marked for identification?

14 CHAIRMAN BEARD: That will be Exhibit No. 51.  
15 Short title, I guess, is, what?

16 MR. McLEAN: "Audit Work Papers - Advertising  
17 Expenses."

18 CHAIRMAN BEARD: Okay.

19 (Exhibit No. 51 marked for identification.)

20 Q (By Mr. McLean) Do you have the exhibit,  
21 sir?

22 A Yes, I do.

23 MR. McLEAN: Did I have a number for it,  
24 Mr. Chairman?

25 CHAIRMAN BEARD: 51.

1 MR. McLEAN: Thank you, sir.

2 Q (By Mr. McLean) Mr. Ludsen, there are a  
3 number of promotional -- the entry in one of the  
4 columns there is "promotional" a good bit. Can you  
5 tell the Commissioners what it is that you're  
6 promoting, where the term "promotional" is listed?  
7 (Pause) Would you like an example, sir?

8 A I'm just --

9 Q Okay, fine.

10 A Are you looking for -- could you repeat the  
11 question? Are you looking an explanation of --

12 Q Yeah. I'm looking to see whether the  
13 customers of Southern States are being asked to finance  
14 the promotional activities associated with use of LP gas.

15 A It's the customers' position -- or the  
16 Company's position that the customers should not be  
17 required to pay for promotional advertising.

18 Q And that's promotional advertising in  
19 general, correct?

20 A Yes.

21 Q Whether it be LP gas or otherwise?

22 A Yes.

23 Q Okay. (Pause) So, to the extent that LP --  
24 promotion of any service which Southern States offers  
25 is reflected in this document, those attendant expenses

1 should be removed from the test year, shouldn't they?

2 (Pause)

3 A Yes.

4 Q Okay. Now, about three-quarters of the way  
5 down the page, there's one, "Image Marketing Associates  
6 informational public relations services re: Marco  
7 Island possible takeover." That's the nature of the  
8 expenses that we were discussing earlier -- that's an  
9 example of one of the expenses we were discussing  
10 earlier in our discussion about condemnations, isn't  
11 it?

12 A Yes.

13 Q And there's one below that, it says, "Ad re:  
14 Collier County possible purchasing Marco Island"?

15 A Yes, there is.

16 Q Let me ask you this, now. There is no  
17 mistake -- I'm not mistaken, am I, that you're asking  
18 customers to pay for that ad, is that correct, based on  
19 the rationale that you offered earlier?

20 A That's correct.

21 Q What is it that you are trying to accomplish  
22 in the ad?

23 A I have not seen the ad.

24 Q Well, was it supporting the purchase or  
25 opposing it, do you know that much? (Pause)

1 A I don't know.

2 Q Do you know whether any of the customers who  
3 are being asked to pay for this had a position on the  
4 issue?

5 A No.

6 Q And it is also true, is it not, that,  
7 whatever expenses there are associated with that ad and  
8 with similar ads, if there be any, are to be borne by  
9 all the customers of Southern States, not just those at  
10 Marco Island, correct?

11 A Yes.

12 Q Okay. (Pause)

13 About the middle of the page, Mr. Ludsen, the  
14 easiest way to find it is about half the way down the  
15 page there's a couple of 999s over there on the  
16 left-hand side. And on the extreme right-hand side,  
17 there's, "Gas grill purchased for company cookout."

18 A Yes.

19 Q Okay. What's storing that gas grill? Where  
20 is it right now, for example?

21 A It's located at the Apopka office.

22 Q And do you all use it for company cookouts?

23 A Yes, we do.

24 Q And the customer is being asked to pay for  
25 that, right?



1           A     Yes.

2                   COMMISSIONER CLARK:  This is included in  
3 advertising expenses?

4                   WITNESS LUDSEN:  I question whether it should  
5 be included in advertising expenses.  Probably a  
6 miscellaneous expense; it's a small cost item, so it  
7 probably would not be capitalized but it would be  
8 expensed.  And I would say it would be included in  
9 miscellaneous, should be included in miscellaneous  
10 expenses.

11                   COMMISSIONER EASLEY:  Why are items for the  
12 LP gas promotion included in a water and sewer rate  
13 case?  (Pause)

14                   WITNESS LUDSEN:  Those should -- you know,  
15 our position is that they should not be included in the  
16 rate case.

17                   COMMISSIONER EASLEY:  Well --

18                   COMMISSIONER CLARK:  This sheet does not show  
19 -- cannot be taken as evidence that everything listed  
20 here is something you've requested to be recovered  
21 through rates, is it?

22                   WITNESS LUDSEN:  I'm not familiar with the  
23 document.  I believe it was -- it was not -- I don't  
24 believe it was prepared by us.

25                   COMMISSIONER EASLEY:  Well, the difficulty

1 is, I look up at the very top of the page -- it was not  
2 prepared by you?

3 WITNESS LUDSEN: I'm not certain. I've never  
4 seen the document before, so I'd have to check to see  
5 who it was prepared by.

6 MR. McLEAN: Commissioner, it's a Staff audit  
7 work paper, I believe.

8 COMMISSIONER EASLEY: It is a Staff audit  
9 work paper. And if I look at this it says, "1991 rate  
10 case filing," but the information request was  
11 apparently for the summary of all 1991 advertising  
12 expenses. So I gather from that -- and tell me if I'm  
13 correct, Mr. Ludsen -- that "all advertising" would  
14 include everything, even though that rate case filing  
15 line is up there.

16 If you had received this request for  
17 information, would you have put everything in or only  
18 that requested in the rate case?

19 WITNESS LUDSEN: In filing our rate case, we  
20 did not make any adjustments to advertising expenses,  
21 so it's my understanding that we have all items  
22 included in the rate --

23 COMMISSIONER EASLEY: In filing the rate case  
24 you didn't make any adjustments. Does that mean you  
25 have asked for these expenses to be recovered?

1 WITNESS LUDSEN: Yes.

2 COMMISSIONER EASLEY: But your testimony  
3 today is that it should not be related to LP gas  
4 promotion?

5 WITNESS LUDSEN: It should have been removed.

6 COMMISSIONER EASLEY: All right. Thank you.

7 COMMISSIONER CLARK: Let me back up and ask  
8 that again, because it's incredulous to me.

9 COMMISSIONER EASLEY: I know.

10 COMMISSIONER CLARK: That you have -- for  
11 purposes of rate, advertising expense that you included  
12 in the rate case. Your total advertising expenses, you  
13 threw into the rate case; you made no adjustment for  
14 those advertising that you even felt was inappropriate  
15 to be recovered from the rates? Have I misunderstood  
16 you?

17 WITNESS LUDSEN: No. I think -- I'm not  
18 aware that this has ever been an issue in our case,  
19 prior to this time.

20 COMMISSIONER CLARK: Well, but when you file  
21 a case, it would seem to me you ask for a recovery of  
22 expenses you legitimately believe are recoverable from  
23 the ratepayers. And by your own statement, you don't  
24 believe promotional advertising for LP gas should be  
25 recoverable from these ratepayers, yet, it's in your

1 filing.

2 WITNESS LUDSEN: That's correct. We've --

3 COMMISSIONER CLARK: Well, let me ask you:  
4 If you had to do it over again, wouldn't you exclude  
5 them?

6 WITNESS LUDSEN: Yes, we would, that's what  
7 I'm saying --

8 COMMISSIONER EASLEY: Well, let me ask the  
9 next question from there: What else is included in  
10 here besides advertising expenses that don't have  
11 anything to do with this rate case? And how in the  
12 world are we going to find them?

13 WITNESS LUDSEN: Well, I think, you know, the  
14 auditors have spent five months --

15 COMMISSIONER EASLEY: No, Mr. Ludsen, I'm not  
16 asking about the auditors, because you just got through  
17 telling me that this is in the rate case, this is the  
18 way it got filed. I'm asking you how else or where  
19 else am I going to find the same kind of thing going  
20 on? Don't tell me about the auditors now, because they  
21 didn't file the case, you did. (Pause)

22 WITNESS LUDSEN: We make our best attempt  
23 when we file a case to put in what we consider to be  
24 recoverable costs. The auditors come in and review the  
25 case to determine if what we have included in the rate

1 case are, or should be, allowed in the rate case. And  
2 as a result of the audits, we have reports like this,  
3 which are provided to the Commission as proposed  
4 adjustments by either Staff or OPC. That's pretty much  
5 a normal process within the case. I mean --

6 COMMISSIONER EASLEY: Mr. Chairman, could I  
7 ask that --

8 WITNESS LUDSEN: -- it's not intentional on  
9 the Company's part to include nonprudent costs. In the  
10 case of advertising, I think the history of the Company  
11 is there probably hasn't been any advertisement in the  
12 past. I think the Company has just recently started  
13 including or having significant amounts of advertising  
14 in the rate case.

15 COMMISSIONER EASLEY: Mr. Ludsen, I'm not  
16 just asking about advertising. Hold on a minute. Can  
17 I ask Staff attorney a question?

18 CHAIRMAN BEARD: Sure.

19 COMMISSIONER EASLEY: Do we have copies of  
20 the various audit reports? Do we have any further  
21 information on items like this, not limited to  
22 advertising, that you plan to bring in?

23 MR. FEIL: Ma'am, I can tell you that as part  
24 of the audit report, there was an audit exception No.  
25 7, regarding contributions, and the auditor recommended

1 removing some \$8,875. I don't know whether or not that  
2 audit exception is going to tie in with this schedule  
3 or not.

4 COMMISSIONER EASLEY: Let me tell you what my  
5 bottom line concern is. And I don't know how to get  
6 there from here; and I don't know whether Mr. Ludsen  
7 can help me, or, maybe we can do it over the lunch  
8 break and find out the answer to my question.

9 I am suddenly very concerned that we may have  
10 many items similar to advertising, similar to some of  
11 these other O&Ms, maybe even an A&G, that may or may  
12 not be appropriate for this rate case. And I want to  
13 know if somebody's looked at it? Is it findable, if  
14 somebody hasn't looked at it? If it has been  
15 identified? Is it coming in to the record, and if not,  
16 why not?

17 I don't even know quite how to ask the  
18 question, but if I pick up Exhibit 51, and I look at  
19 this, and it's got "meals for LP gas promotion, tent  
20 rental for LP gas promotion, ad in the paper for LP gas  
21 --" individually, very small amounts. But, you know, a  
22 million here, a million there, pretty soon you're  
23 talking about real money.

24 I don't whether I'm talking about real money.  
25 I don't know if I'm talking about a total of \$1,000, a

1 \$100, or \$500,000. I would like some reassurance that  
2 somebody does know.

3 MR. FEIL: Well, Commissioner, I would think  
4 that if anybody does know, either the Company person  
5 who prepared the A Schedules and the B Schedules would  
6 know, or that the auditor would know; and the auditor  
7 is scheduled to testify.

8 COMMISSIONER EASLEY: Okay, good.

9 CHAIRMAN BEARD: Well, I've sit here this  
10 morning and I've seen discovery numbers that don't  
11 match MFRs, and I see advertising expenses that have no  
12 relationship. And what I thought I heard you saying  
13 was, we put it in the rate case and the auditors can  
14 find it. And it may not be what you said, but that is  
15 certainly what shows up here.

16 I'm going to listen a little longer, but this  
17 Company has been through this once before, so they have  
18 an understanding how the Commission starts to react  
19 when they get data like this. And my patience will  
20 wane.

21 We're going to take about 20 minutes right  
22 now so people can make preparations for lunch.

23 (Thereupon, lunch recess taken at 11:40 a.m.)

24 (Transcript follows in sequence in Volume V.)

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