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EXHIBITS - VOLUME XI

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4	Interrogatory No. 231 - Margin		
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5	106 (Hartman) Water and wastewater		
6	connections for Sugar Mills,		
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7	107 (Hartman) Excess Infiltration		
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15	111 (Composite) (Morse) GSM-1:		
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11	121 (Late-Filed) (Lewis) Reconciliation Appendix 70-B to MFRs	1708	
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P R O C E E D I N G S

(Transcript follows in sequence from Volume X.)

(Hearing reconvened at 12:45 p.m.)

GERALD C. HARTMAN

resumed the stand as a witness on behalf of Southern States Utilities, Inc., and testified as follows:

CONTINUED CROSS EXAMINATION

BY MS. ASHER-COHEN:

Q Mr. Hartman, in your rebuttal testimony you stated that Docket No. 990329-WS, the Staff recommended 100% used and useful levels on numerous Southern States water distribution and wastewater collection systems that still had lots that were vacant. That's on Page 45 of your rebuttal.

Isn't it true that in the previous docket that you mentioned, those systems were virtually built-out systems, and none of them was lower than 85% used and useful?

A Subject to check, yes.

Q Isn't it also true that most of the systems that you claim to be 100% used and useful in this case are actually lower than 85% used and useful, if you take out your fill-in lots adjustment?

A No.

Q Would you agree, subject to check, that Sugar

1 Mill, for an example, is as low as 42% without the
2 fill-in lot adjustment?

3 A No. It isn't. The facts are not that.

4 Q You discussed economies of scale and you
5 stated in your rebuttal that Southern States
6 capitalizes on economies of scale. Isn't it true
7 that Southern States purchased rather than designed
8 most of the systems in this case?

9 A I don't know how they came to acquire all of
10 them, but there's a good portion of them that they did
11 purchase. I know that. But, in operating them, you
12 consider the economy of scale in future expansions, and
13 I know there's been a lot of capital investment in
14 these systems that would be in the consideration of
15 economy of scales.

16 Q Also in your rebuttal on Page 41, you stated
17 that you're not sure that the Commission has a standard
18 practice for used and useful adjustments. Wouldn't you
19 agree that the engineering MFRs that address used and
20 useful are incorporates into the rate filings as a
21 standard format?

22 A I would agree that in the F Schedules,
23 there's data requested that is provided, yes.

24 Q In your rebuttal, on Page 10, you discussed
25 Mr. Chapdelaine, and you said that he testified in a

1 previous case called the Miles Grant case. Did you
2 personally read his testimony in that case?

3 A I have it right here. Yes. I read it. I
4 don't recall all of it, but I have it.

5 Q I just want to be clear. I'm talking about
6 Mr. Chapdelaine's testimony in the Miles Grant case, as
7 opposed to his prefiled testimony in this case.

8 A Yes. I believe it's -- here it is right
9 here. First evening, Volume 2, Pages 78 through 369,
10 Miles Grant Country Club, June 22, 1988. It says
11 "Direct Examination." I have it here. I read it.

12 Q Okay, thank you. Turning to the subject of
13 excessive filtration, can you explain why it was
14 justified for the system, Jungle Den, to spend over
15 \$15,000 in 1991 to take care of its infiltration
16 problem, but it would not be cost-effective for the
17 system, Leilani Heights, to repair its infiltration
18 system?

19 A Okay. I think there's a little bit of a
20 misunderstanding of the situation.

21 Why it's cost effective at Jungle Den to
22 correct a manhole failure and the collapsing of a few
23 lines, and then to continue on and look at a portion of
24 the system where you have massive infiltration in that
25 situation, yes, it's something you have to do. Renewal

1 replacements like that are necessary.

2 To my knowledge, a complete systemwide I&I
3 report for the entire system has not been done, to my
4 knowledge. A portion of the system has been looked at.
5 When that portion collapsed and failed, a portion
6 upstream was looked at, as a part of any R&R, prudent
7 R&R correction --

8 COMMISSIONER EASLEY: Which system are you
9 talking about?

10 WITNESS HARTMAN: Jungle Den.

11 A part of any prudent correction. Because
12 you want to see that you are correcting the entire
13 problem when you're in there at one time. Leilani
14 Heights, you're talking about a study. It's a
15 different situation there hasn't been a collapse.

16 Q Thank you. In your opinion, as a
17 professional engineer, under normal conditions, for how
18 long should the repairs at Jungle Den last?

19 A The repairs? First, I would have to know the
20 repairs, which I don't know each portion of the
21 repairs. So I can't answer that question. I think
22 this is one I talked about. I can't answer the
23 question because I have to know what the repairs are.
24 If it's grouting, that aspect might have a three-year
25 life; if it's capital improvement it might have a

1 longer life. Other persons may have, you know, the
2 average service life of a new facility if it's
3 replaced.

4 Q I'm sorry.

5 A If it's replaced. I just don't know the
6 repairs. I can't answer.

7 Q When you're evaluating an infiltration
8 problem, isn't it true that normally you assume that
9 80% of the water sold to residential customers returns
10 through the sewer system?

11 A Normally you just assume that? No, that's
12 solely a guideline. The answer to your question is no;
13 solely a guideline to look at. You don't assume that
14 at all. It would be improper to.

15 Q In your rebuttal you discussed AFPI. Are you
16 saying in that testimony that a cap is placed on AFPI
17 charges after five years?

18 A Excuse me, could you refer me to where you
19 are referring to?

20 Q Just a minute. Let me go on to something
21 else. I just want to clear up one thing that you
22 talked about this morning.

23 In Sugar Mill Woods you were talking about
24 three new wells; is that right?

25 A That's correct.

1 Q You said that they went on line for Sugar
2 Mill Woods in April of '92.

3 A I said in 1992, yes.

4 Q Okay. Are those included in the used and
5 useful calculations that you prepared for the Company?

6 A Yes, they are, because they were constructed
7 and they were available for service in the test year,
8 and the effect of it is to reduce the used and useful
9 overall.

10 Q So they did come on line during the test
11 year?

12 A No, the during the test year they were
13 constructed. There's a difference between
14 bacteriological clearance and completion of all the
15 construction.

16 All the construction was complete in the test
17 year. Now, they had some problems with bacteriological
18 problems in the well themselves. And over a period of
19 time it took a while to clear the wells, and get the
20 proper bacteriological clearance. That's a different
21 situation.

22 Q Going back to the earlier question about
23 AFPI, I would refer you to Pages 48 and 49 of your
24 rebuttal.

25 A Okay. 48 and 49.

1 Q Yes. Do you see that?

2 A About what?

3 Q Are you saying in that testimony that a cap
4 is placed on AFPI charges after five years?

5 A Well, the question is: Do I have any
6 comments regarding it?

7 Q On Page 49, I just want to direct you -- the
8 sentence starts on Line 5.

9 A Okay.

10 Q You see where you discuss the five-year
11 period?

12 A Yeah. The statement is "However, it should
13 be noted that the AFPI charges do not accrue to the
14 Company's benefit until, and if, they are actually
15 collected, and these charges are only accrued up to a
16 five-year period."

17 Q My question is: Are you saying that a cap is
18 placed on AFPI charge after five years?

19 A No. I'm not saying that.

20 Q Okay. Mr. Hartman, you were handed a group
21 of six exhibits. Do you have those?

22 A There are some papers in front of me that
23 were laid on the desk.

24 Q Six Staff exhibits?

25 A All I know is that there's some papers in

1 front of me that say "Exhibit No., Witness Hartman,"
2 with a paper clip. That just got put over here. Is this
3 it?

4 Q Yes. Thank you.

5 A Okay.

6 MS. ASHER-COHEN: May I have the exhibits
7 marked, please?

8 CHAIRMAN BEARD: Yes, ma'am.

9 COMMISSIONER CLARK: What's the title of it?

10 MS. ASHER-COHEN: Okay, the first one, the
11 description is margin reserve at Salt Springs. It also
12 says "Response to Staff interrogatory 231."

13 CHAIRMAN BEARD: Well, let's try it a
14 different way. A short title. Be Exhibit No. 105.
15 Have you got a short title?

16 MS. ASHER-COHEN: "Margin Reserve at Salt
17 Springs."

18 CHAIRMAN BEARD: That's all that's in here?

19 COMMISSIONER EASLEY: No. There are six
20 document numbers.

21 MS. ASHER-COHEN: No. There are six
22 exhibits. However the Commission would like.
23 Yesterday when a composite exhibit was done, it seemed
24 to be confusing so I thought I would break the six down
25 and do each one.

1 COMMISSIONER EASLEY: Do you remember your
2 comment from yesterday?

3 MS. ASHER-COHEN: The next --

4 COMMISSIONER EASLEY: This is your own petard
5 you got hoisted on again. (Laughter)

6 MS. ASHER-COHEN: The next exhibit is "Water
7 and Wastewater Connections for Sugar Mill, Fox Run and
8 Jungle Den."

9 CHAIRMAN BEARD: It will be 106.

10 MS. ASHER-COHEN: The third is "Excess
11 Infiltration of Jungle Den Wastewater System."

12 CHAIRMAN BEARD: 107.

13 MS. ASHER-COHEN: "Total Capacities in ERCs
14 of Sugar Mill."

15 CHAIRMAN BEARD: 108.

16 MS. ASHER-COHEN: Supply well used and useful
17 of Sugar Mill.

18 CHAIRMAN BEARD: 109.

19 MS. ASHER-COHEN: And "Fill-in Lots in Water
20 and Wastewater Systems."

21 CHAIRMAN BEARD: 110.

22 MS. ASHER-COHEN: Thank you.

23 (Exhibits Nos. 105 through 110 marked for
24 identification.)

25 Q (By Ms. Asher-Cohen) Mr. Hartman, have you

1 had a chance to review these six exhibits?

2 A I haven't had a chance to read them
3 completely, no. But go ahead.

4 Q Okay. Let's go through them. The first one,
5 which has been numbered 105, is the Response to Staff
6 Interrogatory No. 231. Did you prepare this response?

7 A It's a joint preparation between Gary Morse
8 and myself.

9 Q Is this answer still substantially correct?

10 A I believe so, yes.

11 Q Okay. Turning to the next exhibit, what has
12 been numbered --

13 A At the --

14 Q I'm sorry?

15 A Go ahead.

16 Q Turning to No. 106, the description is,
17 "Water and Wastewater Connections for Sugar Mill, Fox
18 Run and Jungle Den." I believe this was a late-filed
19 exhibit that you gave after your deposition. Is this
20 still correct today?

21 A This is prepared by Gary Morse, and I believe
22 it to be correct.

23 Q Mr. Hartman, if you would look at the
24 remaining four exhibits, if you would tell us for each
25 one if you prepared the response and if it is still

1 correct today.

2 A The third one says "Total Capacities ERCs for
3 Sugar Mill Water and Wastewater Systems," prepared by
4 me. It is correct, 767, as I started with.

5 The fourth one is the "Well Used and Useful
6 Analysis." And that's a joint preparation, Gary called
7 me on this and we talked about that. And it's correct.

8 The next one is "Excess Infiltration of Jungle
9 Den Wastewater System." There's two, appears to be two
10 interrogatories. Both are correct. One interrogatory
11 talks about is there influent infiltration to Jungle Den?
12 Gary Morse responded to that, saying yes there is.

13 The second is: What is the design allowance?
14 Not whether, in my opinion, there is I&I in Jungle Den
15 nor not, but what is the allowance for Jungle Den in
16 gallons per day? So if the I&I is within the design
17 allowance or not. And if that allowance is correct or
18 not is the data question.

19 Q And the last one?

20 A Fill-in lots prepared by me relative to
21 Deltona Lakes. That's correct except for the question
22 on the top, and this is what I mentioned before. I
23 don't think we're talking about 200% used and useful,
24 we're talking about 100%. That was in your question to
25 us, it would be 100%.

1 MS. ASHER-COHEN: Mr. Chairman, at this time
2 Staff would move Exhibits Nos. 105 through 110 into the
3 record.

4 CHAIRMAN BEARD: Are you finished with the
5 cross examination?

6 MS. ASHER-COHEN: Excuse me, I'm sorry?

7 CHAIRMAN BEARD: Are you finished with your
8 cross examination?

9 MS. ASHER-COHEN: I've just got one question.

10 CHAIRMAN BEARD: Okay. We're going to hold
11 moving exhibits until after we've done all cross, all
12 redirect.

13 MS. ASHER-COHEN: Okay.

14 Q (By Ms. Asher-Cohen) Mr. Hartman, going back
15 to Mr. Chapdelaine's testimony in the Miles Grant case,
16 isn't it true that Mr. Chapdelaine recommended treating
17 the system as 100% used and useful if CIAC end flows
18 were imputed?

19 A I've discussed this with Chuck, who is the
20 engineer on that, Chuck Bliss. He said that the
21 engineering used and useful came in at 100% and then
22 this is another issue of imputing CIAC.

23 COMMISSIONER EASLEY: Well, is that -- I'm
24 sorry, but is that different from what he testified to
25 in that case?

1 WITNESS HARTMAN: No. His testimony stands
2 exactly what he testified to.

3 COMMISSIONER EASLEY: Okay. That was what
4 the question was.

5 WITNESS HARTMAN: Well, sure, that's what it
6 is. I'm just clarifying that the engineering
7 determination of 100% used and useful --

8 COMMISSIONER EASLEY: The trouble is,
9 Mr. Hartman, you get me confused -- see, I'm, in a
10 blatant attempt to get sympathy, let me tell you that
11 I'm married to a man who is both an attorney and an
12 engineer.

13 WITNESS HARTMAN: Oh, no.

14 COMMISSIONER EASLEY: But it confuses me when
15 you give an engineer's answer to a legal question.

16 WITNESS HARTMAN: Okay.

17 CHAIRMAN BEARD: You get no sympathy. You
18 married him and you stayed married all these zillions
19 of years.

20 COMMISSIONER EASLEY: Well, then, maybe in a
21 blatant attempt to get understanding. I don't know.

22 (Laughter)

23 Q (By Ms. Asher-Cohen) Mr. Hartman, just to
24 clarify, was that a yes or a no to the question?

25 A I believe it's yes. I think his testimony

1 says here, "What is your position regarding this
2 testimony?"

3 "I'm proposing that it is appropriate and
4 proper to include a utility that is physically limited
5 in its ability to expand beyond its current service
6 area. Therefore, since the condominiums will grow 121
7 units over the next few years -- "

8 COMMISSIONER EASLEY: Don't forget you have
9 somebody trying to keep up with you.

10 WITNESS HARTMAN: Okay. "Therefore, since
11 the Hansen Landings condominiums will grow by 121 units
12 over the next few years and will render the Utility at
13 capacity, the final growth should be recognized by
14 imputing CIAC in flows in terms of billed consumption.
15 It is my recommendation --"

16 COMMISSIONER EASLEY: Mr. Hartman, let me
17 tell you something. It's not only for the court
18 reporter's benefit that I'm asking you to slow down.
19 But if you're expecting me to understand any of that,
20 then I suggest you slow down.

21 WITNESS HARTMAN: Yes, ma'am. "Therefore, --"

22 CHAIRMAN BEARD: Is there a reason that after
23 the yes we're getting this lengthy reading?

24 WITNESS HARTMAN: I just want to say what it
25 says. There's reasons that he had for imputing it.

1 The record would show that.

2 CHAIRMAN BEARD: Good.

3 MS. ASHER-COHEN: So that's a yes?

4 WITNESS HARTMAN: Yes.

5 MS. ASHER-COHEN: Thank you. Staff has no
6 further questions.

7 CHAIRMAN BEARD: Commissioners? Redirect?

8 MR. HOFFMAN: Thank you, Chairman, just a few.

9 CHAIRMAN BEARD: Good.

10 REDIRECT EXAMINATION

11 BY MR. HOFFMAN:

12 Q Mr. Hartman, do you know if the Company's
13 investment in the three new wells at Sugar Mill Woods
14 are included in the MFRs?

15 A I do not know that they are.

16 Q I'm sorry, I didn't hear your answer?

17 A I don't know.

18 Q Okay. Let me ask you a question about
19 fill-in lots. If a customer owns three adjoining lots,
20 and he wants to maintain his privacy by not developing
21 all three of those lots, and the fill-in lots are not
22 considered to be used and useful by the Commission,
23 isn't the Company foreclosed from recovering its
24 investment in distribution and collection facilities
25 required to serve that customer due to the customer's

1 decision?

2 A Yes.

3 Q And do you know if Southern States has any
4 control over those types of decisions by their customers?

5 A I don't think they have any control over
6 those decisions, no.

7 Q Let me ask you one more question, going back
8 to the Sugar Mill Woods. I understand your testimony
9 is you do not know whether or not that investment was
10 included in the Company's MFRs. Do you know the amount
11 of the investment in those three wells?

12 A I think it's -- I would have to guess at it.
13 I don't know off the top of my head.

14 Q Okay. One last question. Whatever that level
15 of investment is, in your opinion, should that investment
16 be recovered by the Utility in this rate case?

17 A I would think it should because it was built
18 in the test year and it was available for service. All
19 they had to have is the 15-minute contact time
20 requirement for chlorination to use them. It wasn't
21 cleared, but that was a bacteriological problem. So I
22 would think you would include it.

23 MR. HOFFMAN: No further questions.

24 CHAIRMAN BEARD: The witness is excused.

25 Thank you, Mr. Chairman.

1 MR. McLEAN: Chairman Beard, the witness
2 deferred an answer on one of my questions dealing with
3 the selection made by Ms. Dismukes. And the question
4 was whether it wasn't true that Ms. Dismukes selected
5 the same systems to criticize the margin reserve that
6 the Company chose to select or to ask for margin
7 reserve. He deferred his answer on that question, as I
8 recall.

9 CHAIRMAN BEARD: Deferred it to?

10 MR. McLEAN: A later time.

11 COMMISSIONER EASLEY: You're asking if he now
12 has it?

13 MR. McLEAN: Yeah. May I pose the question?

14 RECROSS EXAMINATION

15 BY MR. McLEAN:

16 A In the meantime, since the question, we have
17 gone back and looked through these. There is one
18 difference between the margin of reserve selection,
19 it's on Zephyr Shores. Other than that, all the rest
20 of them are the same.

21 Q About the same selection, wouldn't you say?

22 A Yes.

23 MR. McLEAN: Okay. Thanks.

24 CHAIRMAN BEARD: The witness is now excused.

25 Exhibits?

1 MR. HOFFMAN: Southern States would move
2 Exhibits 100 and 101.

3 CHAIRMAN BEARD: Without objection? 102 and
4 103, Mr. Jones?

5 MR. JONES: No objection.

6 CHAIRMAN BEARD: They're your exhibits, do
7 you want them moved?

8 MR. JONES: I'm sorry, yes. Thank you.

9 CHAIRMAN BEARD: I'm just trying to help.
10 Any objection? 102 and 103 are in.

11 MR. McLEAN: 104 moved.

12 CHAIRMAN BEARD: Without objection.

13 MS. ASHER-COHEN: Staff moves 105 through 110.

14 CHAIRMAN BEARD: Without objection.

15 (Exhibit Nos. 100 through 110 received in
16 evidence.)

17 (Witness Hartman excused.)

18 - - - - -

19 CHAIRMAN BEARD: Next witness?

20 MR. HOFFMAN: Mr. Gary Morse. Mr. Morse,
21 have you been sworn?

22 WITNESS MORSE: No, sir.

23 (Witness sworn.)

24

25

1 GARY S. MORSE

2 was called as a witness on behalf of Southern States
3 Utilities, Inc., and, having been duly sworn, testified
4 as follows:

5 DIRECT EXAMINATION

6 BY MR. HOFFMAN:

7 Q Please state your name and your business
8 address.

9 A Gary S. Morse, 1000 Color Place, Apopka,
10 Florida.

11 Q And, Mr. Morse, did you prepare and cause to
12 be filed prefiled direct testimony on behalf of
13 Southern States Utilities in this proceeding?

14 A Yes, I did.

15 Q Mr. Morse, do you have any changes or
16 revisions to your prefiled direct testimony?

17 A Yes, just one. On Page 4, Line 17, where it
18 starts the sentence, "I am sponsoring." I would like
19 to revise the testimony for that sentence such that it
20 reads, "I'm sponsoring the development of the remaining
21 ERCs which are necessary for the development of the
22 AFPI charges."

23 Q Could you read that again slower.

24 A "I am sponsoring the development of the
25 remaining ERCs which are necessary for the development

1 of the AFPI charges."

2 COMMISSIONER EASLEY: And you're striking the
3 language that is currently there?

4 WITNESS MORSE: Yes, ma'am.

5 Q (By Mr. Hoffman) Mr. Morse, with that
6 revision, if I asked you the same questions contained
7 in your prefiled direct testimony today, would your
8 answers be the same?

9 A Yes, they would.

10 MR. HOFFMAN: Mr. Chairman, I would ask that
11 Mr. Morse's prefiled direct testimony be inserted in
12 the record as though read.

13 CHAIRMAN BEARD: It will be so inserted.

14 Q (By Mr. Hoffman) Mr. Morse have you prepared
15 or attached any exhibits to your prefiled direct
16 testimony?

17 A Yes, I did.

18 Q Those would be your Exhibits 1 through 3?

19 A Yes.

20 Q That's GSM-1 through GSM-3, is that correct?

21 A That's correct.

22 MR. HOFFMAN: Mr. Chairman, could I have
23 those marked for identification?

24 CHAIRMAN BEARD: It will be Exhibit No. 111.

25 (Exhibit No. 111 marked for identification.)

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Gary S. Morse. My business address
3 is Southern States Utilities, Inc., 1000 Color
4 Place, Apopka, Florida 32703.

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

7 A. I serve as Senior Rate Engineer under the
8 Director of Rates and Rate Engineering for
9 Southern States Utilities, Inc.

10 Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

11 A. I received an Associate's Degree in Civil
12 Technology from Delhi College in 1972. In 1974,
13 I received a Bachelors Degree from the University
14 of Central Florida in the field of Engineering.
15 In addition, I have attended a number of schools,
16 seminars, conferences, workshops and short
17 courses on utility rate making, cost of service,
18 rate design, and treatment system operation and
19 design sponsored by various professional
20 associations, universities, and accounting firms.

21 Q. HOW LONG HAVE YOU BEEN EMPLOYED IN THE UTILITY
22 INDUSTRY AND WHAT POSITIONS HAVE YOU HELD?

23 A. Prior to my employment as Senior Rate Engineer
24 at Southern States Utilities, Inc., I've held
25 various positions within the rates and revenue

1 requirements areas. Upon graduating in 1974, I
2 was employed as an engineer for the water and
3 sewer section of the Florida Public Service
4 Commission ("Commission"). In 1979 I left the
5 Commission for a position as a Utility Consultant
6 with Plantec Corporation which was a subsidiary
7 of Reynolds, Smith, and Hill Consulting
8 Engineers. In 1981, I took a position with R.W.
9 Beck and Associates as a Rate Analyst in the rate
10 department. In 1985, I was one of several
11 employees that left R.W. Beck and Associates to
12 form the consulting firm of Saffer Utility
13 Consultants, Inc.. The firm provided rate and
14 regulatory services to municipal/governmental
15 entities involved in supplying water, sewer,
16 electric and gas service. In 1990 I left the
17 firm to join the consulting engineering firm of
18 Dyer, Riddle, Mills, and Precourt, Inc. as a rate
19 engineer. In August of 1990, I became employed
20 by Southern States Utilities, Inc. as a Senior
21 Rate Engineer.

22 **Q. TO WHAT TRADE AND/OR PROFESSIONAL ORGANIZATIONS**
23 **DO YOU BELONG?**

24 **A. I am a member of the American Water Works**
25 **Association and the Florida Chapter of the**

1 National Association of Water Companies.

2 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA
3 PUBLIC SERVICE COMMISSION?

4 A. Yes. During my five years as an engineer with the
5 Commission, I testified in numerous water and
6 sewer rate proceedings.

7 Q. WHAT ARE YOUR RESPONSIBILITIES AS SENIOR RATE
8 ENGINEER?

9 A. As Senior Rate Engineer, I am responsible for
10 activities related to water and wastewater rate
11 case preparation. This includes the preparation
12 of Minimum Filing Requirement Schedules which
13 contain the engineering information ("F"
14 Schedules), the determination of Service
15 Availability Charges and Allowance for Funds
16 Prudently Invested ("AFPI") charges as well as
17 the determination of reclaimed water charges for
18 reuse water. In addition, I perform used and
19 useful analyses in connection with rate cases and
20 new system acquisitions or other such special
21 projects requested by Senior Management.

22 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
23 PROCEEDING?

24 A. The purpose of my direct testimony is to briefly
25 describe the information that is contained in the

1 Commission's Minimum Filing Requirement Schedules
2 F-1 through F-10 as presented in Volume II, Book
3 11 of 11 (Water) and Volume III, Book 6 of 6
4 (Wastewater) of the rate application.
5 Specifically, my testimony will address the F-1
6 through F-10 Schedules for the water and
7 wastewater systems in the following counties:
8 Brevard, Clay, Hernando, Highlands, Lake, Nassau,
9 Orange, Osceola, Pasco, Putnam, and Seminole
10 Counties. Mr. Gerald C. Hartman will present
11 direct testimony pertaining to the F-1 through F-
12 10 Schedules for the systems in the following
13 counties: Citrus, Collier, Duval, Lee/Charlotte,
14 Marion, Martin, Volusia, and Washington Counties.
15 In addition, I will discuss the sources of the
16 information and the rationale used in completing
17 these schedules. I am also sponsoring ^{the development} ~~Volume I,~~
18 ~~of the remaining ERCs which are necessary for~~
~~Book 4 of 4 of the Minimum Filing Requirements~~
19 ~~which contains the~~ ^{the} development of AFPI charges.

20 Q. WERE THESE SUMMARIES AND SCHEDULES PREPARED BY
21 YOU OR UNDER YOUR DIRECTION AND SUPERVISION?

22 A. Yes, they were.

23 Q. WOULD YOU DESCRIBE THE "F" SCHEDULES CONTAINED
24 IN VOLUME II, BOOK 11 (ENGINEERING INFORMATION -
25 WATER)?

1 A. Book 11 of Volume II presents Schedules F-1
2 through F-10 of the Minimum Filing Requirements
3 for each water system. Schedule F-1 is entitled
4 "Gallons of Water Pumped, Sold, and Unaccounted
5 For." Column 2 of this schedule indicates the
6 "Total Gallons Pumped" for the historic test year
7 period January 1, 1991 through December 31, 1991.
8 These numbers are taken directly from the monthly
9 Water Treatment Plant Operation Report submitted
10 to the Florida Department of Environmental
11 Regulation ("FDER"). These reports are provided
12 in Volume IV, Books 5 and 6, Additional
13 Engineering Information.
14 Column 3 of Schedule F-1, entitled "Gallons
15 Purchased", is applicable only to a select few
16 systems where water is purchased to either
17 supplement our supply or is the sole source of
18 supply for the water system. The data in this
19 column comes from the bills received from the
20 supplier each month.
21 Column 4 of Schedule F-1, entitled "Gallons
22 Sold", is derived from information contained in
23 the billing analysis.
24 Column 5 of Schedule F-1 is entitled "Other Uses"
25 and is expressed in thousands of gallons. As

1 indicated on the bottom of the table, "Other
2 Uses" is broken into Flushing of lines, Utility
3 Use, Water Main Breaks, Unmetered and Stuck
4 Meters, and Fire Dept. Use.

5 Columns 6 and 7 of Schedule F-1 show the
6 resulting "Unaccounted For Water" in thousands
7 of gallons and as a percentage, respectively.

8 The unaccounted for water information is
9 sponsored by Mr. Charles Sweat and is further
10 discussed in his direct testimony.

11 **Q. WOULD YOU DESCRIBE THE INFORMATION CONTAINED ON**
12 **SCHEDULE F-3 IN VOLUME II, BOOK 11 (WATER)?**

13 **A.** Schedule F-3 is entitled "Water Treatment Plant
14 Data." Part 1 of the schedule shows the rated
15 plant capacity. The source of this data is the
16 FDER permit. I have added a line to include the
17 firm reliable capacity of the treatment plant
18 based on the largest unit being out of service.
19 Part 2 requests the maximum day demand which is
20 defined as being the single day with the highest
21 pumpage rate for the test year. The source of
22 this data is the monthly FDER Water Treatment
23 Plant Operation Reports. Part 3 requests
24 information on the "Five-Day Max Month" demand,
25 which is defined as "the five days with the

1 highest pumpage rate from the month with the
2 highest pumping rate during the test year." The
3 average of these five figures is also requested,
4 but has no real bearing upon the planning and/or
5 design of a water system. The average of the
6 five maximum consecutive days of the maximum
7 month of the historic test year may be a
8 significant factor in the planning of a very
9 large systems; however, this information is not
10 requested in Schedule F-3. Part 4 requests
11 information on the "Five-Day Max Year" demand,
12 which is defined as "the five days with the
13 highest pumpage rate from any one month in the
14 test year." Here again, the monthly FDER Water
15 Treatment Plant Operation Reports were the source
16 of this data. Part 5 requests the "Average Daily
17 Flow" during the test year which is a calculated
18 value. Its source again is the monthly FDER
19 Water Treatment Plant Operation Reports. Part 6
20 is the "Required Fire Flow" for the water system.
21 Typically, the source of this data is the
22 Insurance Services Office "Fire Suppression
23 Rating Schedule" dated June, 1980 or the County
24 Fire Code Ordinance. Copies of local county
25 ordinances, where applicable, are included in the

1 Appendix of Volume II, Book 11 of 11.

2 Q. WOULD YOU DESCRIBE THE "F" SCHEDULES CONTAINED
3 IN VOLUME III, BOOK 6 (ENGINEERING INFORMATION -
4 WASTEWATER)?

5 A. Book 6 of Volume III presents Schedules F-2, F-
6 4, F-6, F-7, F-8 and F-10 of the Minimum Filing
7 Requirements for each wastewater system.

8 Q. WOULD YOU DESCRIBE THE INFORMATION CONTAINED ON
9 SCHEDULE F-4 IN VOLUME III, BOOK 6 (WASTEWATER)?

10 A. Schedule F-4 is entitled "Wastewater Treatment
11 Plant Data" and indicates the overall rated
12 capacity of the wastewater treatment facilities
13 and some basic information concerning the flows
14 during the historic 1991 test year. The
15 treatment plant capacity is that which is
16 approved by the FDER and noted on the operating
17 permit. Copies of the current FDER operating
18 permits are provided in Volume IV of the rate
19 filing.

20 Q. WOULD YOU DESCRIBE THE INFORMATION CONTAINED ON
21 SCHEDULE F-5 IN VOLUME II, BOOK 11 (WATER)?

22 A. Schedule F-5 is entitled "Used and Useful
23 Calculations - Water Treatment Plant." As the
24 title indicates, Schedule F-5 presents the used
25 and useful analysis proposed by the Company for

1 water supply, treatment (if any), storage,
2 pumping facilities, and the water distribution
3 system for the 1991 test year. The used and
4 useful methodology is described in detail in the
5 Introduction section at the front of Volume II.

6 **Q. WOULD YOU DESCRIBE THE INFORMATION CONTAINED ON**
7 **SCHEDULE F-6 IN VOLUME III, BOOK 6 (WASTEWATER)?**

8 **A.** Schedule F-6 is entitled "Used and Useful
9 Calculations - Wastewater Treatment Plant." As
10 the title indicates, Schedule F-6 presents the
11 used and useful analysis proposed by the Company
12 for wastewater treatment plants, the effluent
13 disposal systems, and the collection systems.
14 Data specific to the treatment plant is shown at
15 the top of the Schedule and is referred to as
16 Input Data. This data includes some basic
17 information contained in the FDER operating
18 permits, the average daily flow during the
19 maximum month of the test year, a determination
20 of usage per equivalent residential connection
21 ("ERC") and the average number of ERCs connected
22 to the system. For those particular systems
23 requiring a margin reserve, the margin reserve
24 flow and margin reserve growth are shown on lines
25 21 and 22, respectively. The resulting used and

1 useful determination with the margin reserve
2 taken into consideration is shown on line 23 for
3 the wastewater plant, line 24 for the effluent
4 disposal system, and line 25 for the collection
5 system.

6 Q. WOULD YOU DESCRIBE THE INFORMATION CONTAINED ON
7 SCHEDULE F-7 IN VOLUME II, BOOK 11 AND VOLUME
8 III, BOOK 6 FOR THE WATER AND WASTEWATER SYSTEMS,
9 RESPECTIVELY?

10 A. Schedule F-7 is entitled "Used and Useful
11 Calculation - Water Distribution and Wastewater
12 Collection Systems." As the title indicates,
13 this schedule is generic to both water and
14 wastewater systems. However, the used and useful
15 determination for the water distribution systems
16 is shown on Schedule F-5 and the used and useful
17 determination for wastewater collection systems
18 is shown on Schedule F-6.

19 Q. WOULD YOU DESCRIBE THE INFORMATION CONTAINED ON
20 SCHEDULE F-8 IN VOLUME II, BOOK 11 AND VOLUME
21 III, BOOK 6 FOR THE WATER AND WASTEWATER SYSTEMS,
22 RESPECTIVELY?

23 A. Schedule F-8 is entitled "Margin Reserve
24 Calculations" and is generic to both water and
25 wastewater systems. A description of the margin

1 reserve determination is contained in the
2 Introduction at the front of Volume II Book 11
3 for water systems and Volume III Book 6 for
4 wastewater systems. The margin reserve is
5 computed for an eighteen month period of time for
6 treatment plants and one year for distribution
7 and collection systems. However, for large
8 utility systems, it often takes more time to
9 design, permit, and construct treatment
10 facilities. Mr. Hartman will address this issue
11 in more detail in his direct testimony.

12 **Q. WOULD YOU DESCRIBE THE INFORMATION CONTAINED IN**
13 **SCHEDULE F-9 IN VOLUME II, BOOK 11 FOR WATER**
14 **SYSTEMS?**

15 **A.** Schedule F-9 is entitled "Equivalent Residential
16 Connections -Water." This schedule provides the
17 beginning of year, end of year, and average
18 number of ERCs for each of the last five years,
19 including the test year. The source of the data
20 is the company's billing records for actively
21 metered customers. The average growth for the
22 last five years is calculated in column 9 as
23 required.

24 **Q. WOULD YOU DESCRIBE THE INFORMATION CONTAINED IN**
25 **SCHEDULE F-10 IN VOLUME III, BOOK 6 FOR**

1 **WASTEWATER SYSTEMS?**

2 A. Schedule F-10 is entitled "Equivalent
3 Residential Connections - Sewer." This schedule
4 provides the same basic information for the
5 wastewater systems as contained in Schedule F-9
6 for the water systems. The source of the data is
7 the company's billing records.

8 **Q. IS THERE A SUMMARY OF THE USED AND USEFUL**
9 **PERCENTAGES AND THE ASSET ACCOUNTS TO WHICH THEY**
10 **ARE APPLIED FOR THE WATER AND WASTEWATER SYSTEMS?**

11 A. Yes. A summary of the non-used and useful
12 percentages by asset account is contained in
13 Volume I, Book 1 of 4 behind tabs "W-Schedule F"
14 and "WW-Schedule F".

15 **Q. DID YOU CALCULATE THE NON USED AND USEFUL**
16 **PERCENTAGES CONTAINED IN THE SUMMARY?**

17 A. Yes, I did.

18 **Q. DO YOU HAVE ANY CORRECTIONS YOU WOULD LIKE TO**
19 **MAKE TO THE "F" SCHEDULES PREPARED BY YOU?**

20 A. Yes. The first correction I have is to Schedule
21 F-5, the used and useful model for the Beechers
22 Point water system contained in Volume II Book 11
23 of 11 on page 46. Lines 26 and 27 show that
24 there is two hydropneumatic tanks with capacities
25 of 5,000 and 15,000 gallons. That is incorrect.

1 This system is equipped with one 3,000 gallon
2 hydro tank. Therefore, the correct used and
3 useful percentage for the 3,000 gallon tank is
4 63%.

5 Q. I SHOW YOU EXHIBIT III (GSM-1) UNDER COVER PAGE
6 ENTITLED "SCHEDULE F-5 (CORRECTED) - BEECHERS
7 POINT." WAS THIS EXHIBIT PREPARED BY YOU OR
8 UNDER YOUR DIRECTION AND SUPERVISION?

9 A. Yes, it was.

10 Q. COULD YOU BRIEFLY DESCRIBE THIS EXHIBIT?

11 A. Exhibit III (GSM-1) is a corrected Schedule F-5
12 for the Beechers Point water system to reflect
13 the change I just discussed.

14 Q. DO YOU HAVE A CORRECTION YOU WOULD LIKE TO MAKE
15 TO SCHEDULE F-5 FOR THE AMELIA ISLAND WATER
16 SYSTEM?

17 A. Yes. During the preparation of this schedule,
18 three high service pumps were not included in the
19 used and useful determination for the water
20 system. They are identified as 680, 340, and 160
21 GPM pumps located at the repump station.

22 Q. I SHOW YOU EXHIBIT III (GSM-2) UNDER COVER PAGE
23 ENTITLED "SCHEDULE F-5 (CORRECTED) - AMELIA
24 ISLAND." WAS THIS EXHIBIT PREPARED BY YOU OR
25 UNDER YOUR DIRECTION AND SUPERVISION?

- 1 A. Yes, it was.
- 2 Q. **COULD YOU BRIEFLY DESCRIBE THIS EXHIBIT?**
- 3 A. Exhibit 111 (GSM-2) is a corrected Schedule F-5
4 for the Amelia Island water system. As indicated
5 in this exhibit, I have added the three high
6 service pumps to the used and useful model on
7 lines 20, 21, and 22 of column (b). This
8 correction changes the used and useful percentage
9 for the high service pumps from 86% to 75% for
10 the test year before the application of any
11 margin reserve.
- 12 Q. **I SHOW YOU EXHIBIT 111 (GSM-3) UNDER COVER PAGE
13 ENTITLED "SCHEDULE F-8 (CORRECTED) - AMELIA
14 ISLAND." WAS THIS EXHIBIT PREPARED BY YOU OR
15 UNDER YOUR DIRECTION AND SUPERVISION?**
- 16 A. Yes, it was.
- 17 Q. **COULD YOU BRIEFLY DESCRIBE THIS EXHIBIT?**
- 18 A. This exhibit contains a corrected Schedule F-8
19 for the Amelia Island water system to reflect the
20 correct used and useful percentage on line 8 for
21 the high service pumps. As indicated in Exhibit
22 111 (GSM-3), after the application of the margin
23 reserve, the used and useful percentage is 80%
24 rather than 92% as originally filed and shown on
25 page 11 of Volume II, Book 11.
- 26 Q. **DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**
- 27 A. Yes, it does.

1 MR. HOFFMAN: The witness is available for
2 cross.

3 CHAIRMAN BEARD: Mr. Jones?

4 MR. JONES: I have no questions.

5 CHAIRMAN BEARD: Public Counsel?

6 MR. McLEAN: No questions.

7 CHAIRMAN BEARD: Staff?

8 MR. GOLDEN: We're going to hand out some
9 exhibits here.

10 COMMISSIONER EASLEY: Mr. Hoffman thought it
11 really was Armistice Day. (Laughter) (Pause)

12 MR. GOLDEN: May we have this as a composite
13 exhibit, please?

14 CHAIRMAN BEARD: You can have "Response to
15 OPC Interrogatory 70 Appendix 70-B" will be Exhibit
16 112; and the "AFPI Supporting Information," is there a
17 reason to have that together?

18 MR. GOLDEN: No, that's just for further --

19 CHAIRMAN BEARD: They should be one exhibit,
20 the two pieces together?

21 MR. GOLDEN: Right.

22 CHAIRMAN BEARD: Okay. They will both be --

23 MR. GOLDEN: That's from the MFRs, we don't
24 really need that to be an exhibit.

25 COMMISSIONER EASLEY: The AFPI supporting

1 information?

2 MR. GOLDEN: Yes.

3 CHAIRMAN BEARD: That's not to be a part of
4 the exhibit?

5 MR. GOLDEN: No.

6 (Simultaneous conversation.)

7 MR. GOLDEN: That's just for information.

8 CHAIRMAN BEARD: Okay. We have 112, which is
9 identified as "OPC Response to Interrogatory No. 70,
10 Appendix 70-B." That's 112.

11 (Exhibit No. 112 marked for identification.)

12 COMMISSIONER EASLEY: Hold on. Mr. Chairman,
13 I think you're going to find that 112 is a composite
14 consisting of five documents?

15 MR. GOLDEN: That's correct.

16 CHAIRMAN BEARD: Not that I'm aware of.

17 COMMISSIONER EASLEY: Well, if you take this
18 off of there, you're going to find there are five
19 documents under OPC Interrogatory 70.

20 MR. GOLDEN: That's correct.

21 COMMISSIONER EASLEY: Do you want them
22 numbered as a composite or separately?

23 MR. GOLDEN: Separately.

24 COMMISSIONER EASLEY: There you go.

25 MR. GOLDEN: Can we have one --

1 CHAIRMAN BEARD: I'm trying to count, I count
2 four documents total?

3 COMMISSIONER EASLEY: There's five. The last
4 two are stuck together.

5 MR. GOLDEN: There's five with the MFR.

6 CHAIRMAN BEARD: We'll start out and we'll
7 figure it out. I've labeled 112. The next thing I've
8 got in my stack, if I've got it right, is "New
9 Equipment at Silver Lake Oaks," is that correct?

10 MR. GOLDEN: Yes.

11 CHAIRMAN BEARD: That's 113. The next one I
12 show in this stack is "Response to Staff Interrogatories
13 122 and 127."

14 MR. GOLDEN: Yes.

15 CHAIRMAN BEARD: That will be 114. The next
16 one that I show in my stack is "Customer Growth of
17 Palisades Systems."

18 MR. GOLDEN: Yes, that's the last one.

19 CHAIRMAN BEARD: That's 114, like I say.

20 (Exhibits 113 through 115 marked for
21 identification.)

22 COMMISSIONER EASLEY: I'm sorry, I have two
23 Palisades systems. That's why I had an extra one.

24 CHAIRMAN BEARD: Well, why don't I have two?

25 COMMISSIONER EASLEY: Well, because you don't --

1 MR. GOLDEN: There should only be one.

2 COMMISSIONER EASLEY: I beg your pardon?

3 MR. GOLDEN: There should only be one. I
4 guess that was --

5 COMMISSIONER EASLEY: Okay.

6 CHAIRMAN BEARD: She has to get something
7 twice before she understands it.

8 COMMISSIONER EASLEY: That's true. (Laughter)

9 CHAIRMAN BEARD: Don't say anything, Harold.

10 MR. McLEAN: I'm not going to say anything about
11 that, but I do want to say just a little something.

12 I missed a line of questioning for Mr. Morse.
13 I'm happy to go after Staff -- anybody's pleasure and,
14 of course, with the Company's indulgence, I think. But
15 whenever, I just have a line of questions. My support
16 Staff is working across the street and --

17 CHAIRMAN BEARD: Are you ready to go now?

18 MR. McLEAN: I would rather wait until they get
19 back, to tell you the truth. But I want to tell you now
20 in case you have the opportunity to make me go now.

21 (Laughter)

22 CHAIRMAN BEARD: If I make you go now, you're
23 going to stall. Is that what you're saying?

24 MR. McLEAN: No. No, no, I would never --

25 CHAIRMAN BEARD: Go ahead, Staff. We'll work it in.

CROSS EXAMINATION

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BY MR. GOLDEN:

Q Mr. Morse, good afternoon.

I'd like to refer you to the document which is identified as Exhibit 112, the Appendix 70-B, which is an answer to OPC Interrogatory 70. Did you attach this document to your response to OPC's inquiry concerning land? There's five pages. (Pause)

A Yes, that document was attached.

Q (By Mr. Golden) There are several listings on this exhibit. If you look through the pages where it says, next to the tracts, "future use." For instance like Citrus Springs, there's four or five?

A Yes.

Q What significance does this term "future use" have in relations to the parcels shown on the document?

A The significance is that the future use parcels do not have assets on them at the current time.

Q Are these parcels described, these future use parcels described in the exhibit included in the Utility's requested rate base for this proceeding?

A Sir, I believe your question is better put to Witness Lewis, as I am just not sure.

Q Okay. Mr. Morse, does it appear that in some communities in this exhibit, more land is described as

1 reserved for future use than is currently being used
2 for existing plant facilities?

3 A In terms of acreage, I would agree with that
4 statement.

5 Q Okay. Does the Utility have a definite plan,
6 perhaps, reduced to writing, that describes how these
7 parcels shall be used in the future?

8 A It very well may have. However, I don't know
9 the answer to that question.

10 Q Would there be a witness that would know?

11 MR. HOFFMAN: Chairman, may I inquire as to
12 what numbered issue we're talking about? Maybe that
13 would help us find the particular witness who is
14 responsible for this. (Pause)

15 MR. GOLDEN: Issue 31.

16 MR. HOFFMAN: Thank you.

17 MR. GOLDEN: We're asking this witness
18 because he furnished the document. He's the first
19 witness.

20 Q (By Mr. Golden) Mr. Morse, if these parcels
21 are currently vacant, how would they meet the test of
22 being used and useful properties?

23 A I believe that you would need to conduct a
24 reasonability test on future use parcels such as these
25 to determine if these parcels will be used sometime in

1 the near future for additional facilities and whether
2 or not it might have been or was prudent to invest in
3 these vacant parcels at the time they were originally
4 purchased.

5 Q Has the Company prepared a reasonability test
6 or feasibility test on this study?

7 A They may have, but I'm not aware of one.

8 Q If you're not the witness that has this
9 feasibility study or a written plan, could we have a
10 late-filed exhibit for some other witness who would?

11 MR. HOFFMAN: The only comment I would make,
12 Mr. Chairman, is based on this witness' testimony,
13 there's no evidence that anything in writing exists.
14 There may well be. We just don't know.

15 Q (By Mr. Golden) Who would know, Mr. Morse?

16 A I don't know.

17 CHAIRMAN BEARD: How about -- seems to me in
18 the past, we've done it before, that, to the extent it
19 exists, produce it in a late-filed. If you can't find
20 it or it doesn't exist, then let your late-filed
21 reflect it doesn't exist or that to the best of your
22 knowledge it doesn't exist.

23 WITNESS MORSE: Yes, sir.

24 MR. GOLDEN: Thank you.

25 CHAIRMAN BEARD: That will be 115. Short

1 title, "Existence"?

2 MR. GOLDEN: Yes.

3 CHAIRMAN BEARD: Just kidding. Let's do a
4 little better than that.

5 MR. GOLDEN: Is that 115 or 116?

6 CHAIRMAN BEARD: 115, I think. (Pause)

7 Short title, "Better than Existence"?

8 COMMISSIONER EASLEY: No, it's 116.

9 MR. PRUITT: I believe it is 116.

10 COMMISSIONER EASLEY: It is 116. 115 is
11 "Palisades."

12 MR. GOLDEN: "Reasonability Study." How is
13 that?

14 CHAIRMAN BEARD: My mistake. You're correct.
15 116. I apologize.

16 MR. GOLDEN: "Feasibility Study and Written
17 Report Regarding Planned Use."

18 CHAIRMAN BEARD: Okay.

19 (Late-Filed Exhibit No. 116 identified.)

20 COMMISSIONER EASLEY: While you're doing
21 that, could I ask the question?

22 Do we have a copy or do you know, Mr. Morse,
23 what the Interrogatory 70 was that this Exhibit 112 is
24 in response to? Do you have a copy of the
25 interrogatory itself?

1 WITNESS MORSE: Yes, ma'am. I can read that
2 to you.

3 COMMISSIONER EASLEY: Would you, please?
4 (Pause)

5 I just want to know what I'm looking at;
6 might help. (Pause)

7 MR. HOFFMAN: Chairman, while he's doing
8 that, may I inquire to make sure the Commission gets
9 the information it needs.

10 Counselor's questions were directed to Citrus
11 Springs. Is the request for all systems on this
12 exhibit which have the designation of the "future use"
13 next to a piece of property?

14 MR. GOLDEN: Yes.

15 MR. HOFFMAN: Okay.

16 WITNESS MORSE: The interrogatory reads as
17 such: "For any and all transfers and/or sales, parcels
18 of land to Utility operations from related parties
19 (former or present, parent company, affiliated company
20 or greater than 5% owners), (a), provide a description
21 of and state --"

22 COMMISSIONER EASLEY: I'm sorry, Mr. Morse,
23 let me keep you from having to do the whole thing --
24 just the interrogatory then was to get a description of
25 those lands transferred?

1 WITNESS MORSE: Yes, ma'am.

2 COMMISSIONER EASLEY: Okay, thanks.

3 Q (By Mr. Golden) Mr. Morse, could you refer
4 to Page 3 of 5 of that interrogatory?

5 Under the Spring Hill system, Parcel 8. It's
6 the eighth line down.

7 A I'm with you.

8 Q How does the Utility plan to use 372 acres in
9 this parcel?

10 A Again, that would probably be the study as we
11 just spoke of, some future use determination.

12 I can't answer that question. I'm not sure.

13 Q Will any of the parcels described as future
14 use properties be placed in service within the next
15 five years, do you know?

16 A No.

17 Q Would the late-filed exhibit disclose this
18 information within the five-year?

19 A I'm not sure what information the Company
20 has. Again, that would be the subject of the
21 late-filed. So I can't really say that it would say
22 that or it might not say that.

23 Q Going back to that Spring Hill system, why
24 should this property be considered prudently-acquired
25 if it's not going to be used within five years?

1 A Well, this particular parcel of land, with
2 the expansion of the wastewater treatment facility that
3 is imminent at Spring Hill, it certainly would be
4 prudent to use this parcel of land for any expansion
5 due to the nature of the road construction out there
6 now, and the fact that it might be that we are going to
7 use this parcel for that treatment facility expansion,
8 it's quite likely that that would be considered. But
9 that would be the subject, again, of that study, and
10 also of any determinations by the Engineering
11 Department.

12 Q Okay. (Pause) Mr. Morse, we are unable to
13 reconcile the land values shown on this exhibit for the
14 Deltona Lake system or the amounts reported in the
15 MFRs. Can you explain why those, why these reported
16 land balances differ?

17 A Again, I think your question would be better
18 addressed to another witness, as I did not physically
19 transfer the information on the books.

20 Q Would that be Mr. Lewis?

21 A You could take a shot at him. (Laughter)
22 I'm sorry, I just can't answer the question.

23 Q On the same exhibit, I'd like to turn your
24 attention to the Sunny Hills system. It's on Page 2,
25 where it says, "Unit 19, Tract A." It's the first

1 line, "acres 35.86"?

2 A I'm with you.

3 Q Isn't it correct not all 35.86 acres are
4 being used for the water and wastewater treatment
5 plant?

6 A I think I'd have to agree with that
7 statement, that not all 35.86 acres are used for the
8 water and treatment plants together. There is some --

9 Q Do you have an estimate of how many acres?
10 Ten acres? Five acres?

11 A No. But I could certainly provide you with
12 such an estimate.

13 Q If some of the land is not being used for
14 this, should it be excluded in rate base?

15 A Well, again, I'd have to -- in going back and
16 looking at it, I would have to determine several things
17 about the nature of the land. One of those is DER's
18 requirements to have separation distances between water
19 and wastewater supplies and things of that nature, and
20 then make that determination as to how much, if any,
21 should be considered not Utility use or not used and
22 useful.

23 COMMISSIONER EASLEY: But that portion that
24 would not be considered for Utility use should not be
25 in rate base; is that your answer or --

1 WITNESS MORSE: Again, I would preface that
2 by saying if it was prudent to make the investment at
3 the time, then I would say that if -- the prudency test
4 were made, then maybe it should not be removed from
5 rate base. That if it was a prudent investment, it
6 should be left in rate base.

7 COMMISSIONER EASLEY: Regardless of what it's
8 being used for?

9 WITNESS MORSE: Correct.

10 Q (By Mr. Golden) Along the same lines, if you
11 move down one line on the Spring Hill system to Unit 8,
12 Tract E, where it says "7.99 acres"?

13 A I'm sorry. I didn't follow that.

14 Q On the same page, Sunny Hills system, Unit 8,
15 Tract E, it's the second line down --

16 A Yes.

17 Q Where it says "7.99 acres"?

18 A Yes.

19 Q Isn't it correct the Utility is not using all
20 7.99 acres for that parcel, also?

21 A I believe that to be correct. Again, here
22 again, that would be the subject of determination we
23 just spoke about and, you know, here you have to make
24 several inquiries into whether or not these land sites
25 are going to be used for additional wells and what the

1 separation of those wells in the future would be. And
2 that would go to the prudence test of whether it was
3 prudent to invest in a parcel that size.

4 Q Mr. Morse, did you make any adjustments in
5 the A Schedules to lands which are held for future use?

6 A No, I did not.

7 Q Isn't it correct that the Company adds up all
8 the lands for future use and booked \$18,380 in the
9 303.3 land account, subject to check, for water
10 treatment plant?

11 COMMISSIONER EASLEY: 18,000?

12 MR. GOLDEN: \$18,380.

13 COMMISSIONER EASLEY: For what system?

14 MR. GOLDEN: Sunny Hills.

15 COMMISSIONER EASLEY: Oh, okay.

16 WITNESS MORSE: I'm sorry, I can't answer
17 that question. I'm just not familiar with what's been
18 booked.

19 COMMISSIONER EASLEY: Let me ask it a
20 different way, because you're almost getting where I
21 wanted to go and maybe we're going to have to wait for
22 Mr. Lewis.

23 I gather that what you're saying is that you
24 didn't -- not your job to do the book entries or the
25 valuation of this property?

1 WITNESS MORSE: Yes, ma'am.

2 COMMISSIONER EASLEY: So you don't know -- if
3 I wanted to look at Sunny Hills, any individual piece
4 of property, do you know what is actually in rate base
5 among those figures for any one of those lots?

6 WITNESS MORSE: No, ma'am, I'm not supporting
7 the rate base today.

8 COMMISSIONER EASLEY: So Lewis is the one who
9 would be able to answer that one?

10 WITNESS MORSE: I believe you're correct.

11 COMMISSIONER EASLEY: Okay.

12 Q (By Mr. Golden) I'd like to turn your
13 attention to the Rosemont and Rolling Green systems.

14 Isn't it true that it is your testimony, and
15 that's your deposition on October 23rd, that a second
16 well is required by DER when a system serves more than
17 350 persons?

18 A I believe that is what I said in my
19 deposition.

20 Q Would you agree, subject to check, that 384
21 bills were issued to the Rosemont customers in 1991?

22 A I might. I'm not sure what was billed to
23 them in '91. The number of bills, you're talking
24 number of bills?

25 Q Yes number of bills, 384.

1 A Subject to check, I would agree with that.

2 Q This number of bills is for 32 customers for
3 12 months; isn't that correct?

4 A I did not sponsor the billing analysis so I
5 can't say that it is correct or it isn't correct. Ms.
6 Helena Loucks will be testifying in that area.

7 Q Wouldn't you agree that the Rosemont system
8 alone did not need a second well to comply with the DER
9 requirements?

10 A Probably so if we were talking just about
11 that system. It might have been that we were
12 discussing both systems combined.

13 Q Wouldn't you agree that the primary reason
14 for upgrading Rosemont was to provide additional
15 capacity to serve Rolling Green?

16 A Well, that was one of the reasons. I believe
17 that there are a number of reasons, but that was one of
18 the reasons. One of the reasons was that the people
19 down at Rolling Green did not have sufficient pressure.
20 As far as the improvements and what that were made to
21 the system and why they were made and the timing of
22 that, Mr. Wood would be the witness on that.

23 Q Was the construction primarily to improve the
24 Rolling Green system?

25 A I believe it certainly was.

1 Q So in your testimony you also stated that you
2 thought the Company had considered an interconnection
3 with the City of Inverness, but you weren't certain.
4 What witness could testify to that? Or can you answer
5 that question?

6 A As far as the alternative to interconnect?

7 Q Yes.

8 A I think you should address your question to
9 Mr. Chuck Wood.

10 Q Going back to Exhibit 112, the 70-B
11 Interrogatory.

12 A Yes, sir.

13 Q I'd like to turn your attention to the Marion
14 Oaks system, on Page 2 of 5. Under Unit 9, Tract T-60,
15 it's the third line down.

16 A Yes, sir.

17 Q This tract represents where a new water
18 treatment plant is located. Isn't that correct?

19 A I believe that's correct.

20 Q Wouldn't you agree that no more than two
21 acres of land is required for this water treatment
22 plant?

23 A For the plant that currently exists?

24 Q Yes.

25 A I think the inference is in your question --

1 to answer your question, I would first have to preface
2 an answer by saying that here again the requirement for
3 the Company to own 15.38 acres there is just not, in
4 all probability, for the purpose of one water treatment
5 plant. There may be future plans down the road to
6 install two or three or four more water treatment
7 plants.

8 Q So you don't know if they want to construct
9 more wells at this particular site?

10 A I have no knowledge of that at this time.

11 Q Will there be a witness that would know?

12 A Well, I think that would be the subject of
13 the Late-Filed Exhibit 116, what the Company's plans
14 are, if any.

15 Q I'd like to turn your attention to Exhibit
16 113, the new equipment at Silver Lake Oaks, and Exhibit
17 114, a response to Staff Interrogatories 122 and 127.

18 (Pause)

19 In your introduction to the water engineering
20 schedules, you state that the firm reliability capacity
21 is the capacity of the wells with the largest well out
22 of system. Isn't that correct?

23 A With the largest well out of service.

24 Q Out of service. I'm sorry.

25 A That's correct.

1 Q For systems with ten or more wells, the firm
2 reliability capacity is determined with two wells out
3 of service. Isn't that correct?

4 A Well, as Mr. Hartman testified earlier today,
5 I think that has to be prefaced by saying that
6 generally that's true. However, you need to know what
7 the circumstances are.

8 For example, I heard him testify that at
9 Sugar Mill there was an operational problem, and that
10 that system has four wells and can only operate two
11 wells at one time and no two adjacent wells, I think I
12 heard him say this morning, could be operated at the
13 same time. So, yes, in general I might agree with your
14 statement but you need to know more about the
15 particular system you're dealing with.

16 Q Isn't it true during the test year the No. 2
17 Well at Keystone Heights, and the River Park system,
18 No. 2 Plant, were both out of service?

19 A I'm sorry. Could you repeat that?

20 Q Isn't it true during the test year, the No. 2
21 Well at Keystone Heights and the No. 2 Plant at the
22 River Park system were both out of service?

23 A Yes.

24 Q Isn't it true that the Keystone Heights
25 system has three wells and you calculated used and

1 useful for the Keystone Heights source of supply using
2 the capacity of one well?

3 A I'll have to look in the MFRs before I can
4 answer that question. (Pause)

5 For the Keystone Heights system, I calculated
6 the used and useful -- there's two wells there in the
7 test year that are in service or available for service,
8 and I calculated the used and useful based on those two
9 wells.

10 Q By calculating used and useful with one well
11 as opposed to two wells, used and useful increases;
12 isn't that correct?

13 A I don't follow your question.

14 Q The Keystone Heights system has three wells
15 that are currently operating; is that correct?

16 A That's correct.

17 Q On Schedule F-5 of the MFRs, it shows two
18 wells.

19 A That's correct. There was one well that was
20 not available for service during the test year.

21 Q When you calculate used and useful, you drop
22 one of these wells; is that correct?

23 A I generally take the largest -- to determine
24 the firm reliable capacity of the system, I take the
25 largest well out of service, yes.

1 Q So the used and useful was calculated using
2 only one well; is that correct?

3 A Yes.

4 Q Isn't it true that the River Park system
5 consists of three plants and the River Park plant has a
6 total of four wells?

7 A The River Park system consists of three water
8 treatment facilities, with a total of four wells.
9 During the test year River Park, Plant No. 2 was not
10 available for service.

11 Q Did you calculate used and useful using the
12 capacity of two wells at this River Park system as
13 opposed to three?

14 A Let me just check the MFRs. (Pause)

15 The used and useful calculation shown in the
16 MFRs indicates that there are three wells there, and I
17 would have calculated used and useful with the largest
18 well out of service.

19 Q So used and useful would increase because of
20 that; is that correct?

21 A Because of?

22 Q As opposed to using all four wells.

23 A Yes.

24 Q Are the No. 2 Well at Keystone Heights and
25 the River Park, No. 2 Plant, included in plant in

1 service?

2 A I can't answer that question. I don't know
3 whether they were included in the test year in plant in
4 service or not.

5 Q When a well is temporarily out of service, is
6 it ever removed from plant in service?

7 A When it's taken down for repairs, of the
8 nature that we had here, I would not think that the
9 Utility company would remove or retire the well from
10 its -- take it off its books knowing that the repairs
11 are going to, hopefully, be successful and the well
12 would be placed back in service.

13 Q So assuming the wells were not removed, by
14 excluding this service equipment from used and useful,
15 used and useful for that account would increase and
16 plant in service would remain unchanged. Isn't that
17 correct?

18 A Are you saying that if the plant in service
19 -- if the cost of this well was not removed from plant
20 in service, then the books wouldn't change; is that
21 what you're saying? I didn't follow your question.

22 Q The books wouldn't change and because the
23 plant is out of service, and used and useful increases
24 then; is that correct?

25 A I'm still not following your question.

1 Q Because the plant is out of service, used and
2 useful increases; is that correct?

3 A In this particular instance, yes, that would
4 be true, because I didn't include it in the test year
5 calculation. And if I were to go back and include it,
6 I think your inference is that the used and useful
7 would go down and that's true.

8 Q By applying a higher used and useful to plant
9 in service, rate base would be increased, isn't that
10 correct?

11 A Yes. I think on the other side of the coin
12 it's outside the test year. We're dealing with
13 something that's outside the test year, test year
14 occurrence. If there was costs that the Company
15 incurred to -- capital costs that the Company incurred
16 to put this asset back in service, and you came to me
17 and said, "I want you to recalculate the used and
18 useful," I would come back to you and I would say,
19 "That's acceptable to me." However, I would like to
20 see the Company earn a return on whatever investment it
21 made to place the usable asset back in service, even if
22 it was somewhat outside the test year.

23 Q Okay. I'd like to discuss the Silver Lake
24 Oaks system.

25 A Yes, sir.

1 Q Is it your testimony that equipment has been
2 added to this system?

3 A Yes, sir.

4 Q Do you believe that used and useful for the
5 system should be recalculated?

6 A I believe, referring to Interrogatory No.
7 132, the answer, based on what's in Interrogatory 132
8 would be yes. And I thought there was another
9 interrogatory that did just that.

10 Q I think it's in the prehearing statement,
11 Issue 28.

12 COMMISSIONER EASLEY: While he's looking for
13 that, could I ask -- this is not testimony -- could
14 somebody simply point me in the MFRs to where I could
15 find the property taxes on some of these properties?
16 What schedule would I find that in?

17 MR. HOFFMAN: Commissioner Easley, any
18 specific systems in mind? I think we could look at
19 B-17 Schedules.

20 COMMISSIONER EASLEY: Say again?

21 MR. HOFFMAN: We think they are the B-17
22 Schedules.

23 COMMISSIONER EASLEY: B-17?

24 MR. HOFFMAN: Yes, ma'am.

25 COMMISSIONER EASLEY: Let me try there, while

1 you all are doing this. Thank you.

2 That's volume what?

3 MR. HOFFMAN: It depends on the system.

4 COMMISSIONER EASLEY: Sunny Hills or Marion
5 Oaks?

6 MR. HOFFMAN: Sunny Hills. It will be Volume
7 2 on water and Volume 3 on wastewater. And the books
8 within each of those two volumes are broken down
9 alphabetically.

10 COMMISSIONER EASLEY: Thank you. (Pause)

11 WITNESS MORSE: I can't put my hands on it
12 right now, but I can certainly provide the
13 recalculation if you'd like.

14 MR. GOLDEN: Could we have that as a
15 late-filed exhibit?

16 CHAIRMAN BEARD: Exhibit 117. Short title?

17 MR. GOLDEN: "Used and Useful for Silver
18 Lake Oaks."

19 (Late-Filed Exhibit No. 117 identified.)

20 Q (By Mr. Golden) Mr. Morse, I'd like to turn
21 your attention to how you determined the margin reserve
22 at the Quail Ridge system.

23 Could you tell me how you calculated the 19
24 ERC margin reserve at Quail Ridge? (Pause)

25 A Yes. I'd refer you to my answer to OPC

1 Interrogatory No. 246, Set 4. There I had
2 conversations with one of our staff at the Company, who
3 is involved with some of these new systems that we were
4 developing, and --

5 Q Can you name the person in your Staff that
6 you --

7 A The gentlemen I spoke with, his name is Mr.
8 Edward Mangold, M-A-N-G-O-L-D.

9 Q Do you know how he determined this number,
10 Mr. Mangold?

11 A Well, I'm sure he, being familiar with the
12 nature of the systems and how they were anticipated --
13 they were new systems, anticipated to grow, he
14 estimated that 19 ERCs were the appropriate -- was the
15 appropriate growth for the next 12 months. (Pause) I
16 didn't have any reason to disagree with him.

17 Q Okay. I'd like to turn your attention to the
18 Palisade Country Club system, which is Exhibit 115.

19 A I'm sorry. What exhibit?

20 Q 115, the Customer Growth of Palisade System,
21 that's the description.

22 A My exhibit -- I have --

23 Q 114.

24 A Maybe I misnumbered it. Okay, Customer
25 Growth of Palisade System?

1 Q Yes.

2 A Go on.

3 Q In your response you stated that based on the
4 growth in this area in Lake County that Palisades
5 Country Club will experience 25 new connections in
6 1992; is that correct?

7 A Specifically, the response says that this is
8 a new housing subdivision and there's no historical
9 data. At the time the filing was being prepared, Mr.
10 Edward Mangold of our Business Development staff was
11 consulted, and he suggested that based on growth in the
12 area of the county and growth in the systems similar --
13 of similar characteristic, we will experience 25 new
14 connections in 1992. And that equates to 38 over the
15 1.5-year margin reserve period as reflected on Schedule
16 F-8. That's exactly what it says.

17 Q So Mr. Mangold provided you with this number?

18 A Yes, sir.

19 Q Do you know how many new customers the
20 Palisade's system currently has?

21 A I might be able to get that for you if you'll
22 give me a minute.

23 Q Okay. (Pause)

24 I can tell you how many equivalent
25 residential connections are served at 9-30-92.

1 Q Okay.

2 A 25 ERCs.

3 Q Don't you agree that it is unfair to set the
4 rates at Palisades based on three ERCs?

5 A Excuse me?

6 Q Don't you agree that it is unfair to set
7 rates at this Palisades system based on three ERCs?

8 A I'm not proposing to set any rates in this
9 filing.

10 COMMISSIONER CLARK: Let me ask, you're
11 talking about Palisades?

12 MR. GOLDEN: Yes.

13 COMMISSIONER CLARK: And did you indicate you
14 project there will be 25 new connections?

15 WITNESS MORSE: At the time the filing was
16 prepared, I believe that's what the interrogatory
17 infers, that there would be 25 new connections added.

18 COMMISSIONER CLARK: By when?

19 WITNESS MORSE: In 1992.

20 COMMISSIONER CLARK: Well, doesn't it stand
21 to reason that you should set rates on 25 as opposed to
22 three? I mean, isn't that sort of common sense?

23 WITNESS MORSE: I'm not disagreeing with you,
24 that would sound reasonable. However, I'm not the
25 rate-setting witness, I don't get involved in rate

1 design.

2 Q (By Mr. Golden) What witness could we ask
3 that question?

4 A I'm not sure if Mr. Lewis will be able to
5 answer that question or Ms. Helena Loucks.

6 Q Wouldn't you agree it would be much fairer to
7 set rates based upon the number of customers you will
8 have at this system at the end of 1995?

9 A At the end of when?

10 Q 1995, a five-year term?

11 A Again, I'm just not the rate design witness
12 so I can't say if that's reasonable or not.

13 Q Okay.

14 A I'm sorry.

15 Q Mr. Morse, I'd like to direct your attention
16 to the Sunshine Parkway system. Isn't it true that the
17 Sunshine Parkway system serves only general service
18 customers, subject to check?

19 A The Sunshine Parkway system serves mostly
20 commercial type establishments, like motels and gas
21 stations, things of that nature. I'm not sure, without
22 getting more involved from the ratemaking standpoint,
23 what class they categorize those as, but they are
24 definitely commercial establishments.

25 Q Isn't it true over the past five years

1 there's been a reduction in the number of customers but
2 no reduction in used and useful?

3 A Well, there has been a reduction in the
4 number of customers there. I don't know what the used
5 and useful was in the prior rate case, so I can't
6 answer the second part of your question.

7 Q Is there a witness that can answer that that
8 you're aware of?

9 A It would have to certainly be someone from
10 the engineering side. And I'm not sure if there is
11 anyone other than myself who could answer that
12 question.

13 I would have to go back and look at the last
14 rate filing and determine what the Staff recommended as
15 used and useful in its final order -- the Commission,
16 rather, in its final order on this system. The used
17 and useful may have gone down, I just can't say.

18 Q Okay. I'd like to turn your attention to the
19 AFPI part, which is, it says, "AFPI Supporting
20 Information," and these documents were drawn from
21 several areas of the MFRs?

22 A Is this the document you're referring to
23 (indicating)?

24 Q Yes. That's it. Did you prepare all the
25 requested AFPI rate calculations in this docket?

1 A Under Mr. Lewis' supervision using the
2 Staff's model, I assisted him in preparing the
3 schedules, that is, inputting the numbers. Actually,
4 the only thing I actually prepared in doing that was
5 the calculation of the remaining ERCs. I think, if
6 your questions are related to or specifically related
7 to items such as the investment, plant investment, cost
8 of qualifying assets, I think your questions are best
9 directed to Mr. Lewis.

10 Q Aren't you the witness identified as
11 sponsoring the AFPI in this case?

12 A If you will recall, earlier I amended, made a
13 small amendment to my testimony just to clear up that
14 point.

15 Q What was that amendment?

16 A As you see Mr. Lewis' name on top of these, I
17 believe he's the one sponsoring the calculations. The
18 only thing I provided to him was the calculation of the
19 remaining ERCs.

20 MR. GOLDEN: We'll ask Mr. Lewis the
21 questions on AFPI. I have no further questions.

22 CHAIRMAN BEARD: Commissioners?

23 COMMISSIONER CLARK: No.

24 CHAIRMAN BEARD: Redirect?

25 MR. McLEAN: Commissioner, I still have a

1 brief line.

2 CHAIRMAN BEARD: Stand fast. Public Counsel.

3 CROSS EXAMINATION

4 BY MR. McLEAN:

5 Q Mr. Morse, would you turn to Schedule F-9 of
6 the water schedules in the MFRs?

7 A Schedules which ones?

8 Q F-9, Page 1 of 1.

9 A What particular system would you like to
10 examine?

11 Q The one on Page 0049, and I believe it is Putnam
12 Beecher's Point. It is Page 1 of 1 of Schedule F-9.

13 A Yes, sir.

14 Q Did you prepare the schedule which is shown
15 on that page?

16 A Yes.

17 Q Did you prepare a number of other schedules
18 for filing in this case in the MFRs?

19 A Yes.

20 Q Do you know whether, when you prepare a
21 schedule such as this, that the Staff and the
22 Commission, Office of Public Counsel and other
23 interested parties are going to rely on it?

24 A I didn't follow your line.

25 Q Don't you offer that, don't you prepare these

1 so to give information to the Commission and Staff and
2 OPC and so forth?

3 A Yes.

4 Q And you know they'll rely on it, correct?

5 A Yes.

6 Q So you ought to do it carefully, don't you
7 agree with me?

8 A Yes, sir.

9 Q Look all the way down there, on the left-hand
10 side of that schedule. What you're doing here, now
11 you're trying to establish the five-year growth for
12 margin of reserve ultimately, aren't you, on this
13 schedule?

14 A What I'm showing on this schedule is that in
15 fact there was no prior data to establish a five-year
16 trend.

17 Q So you only have two years to work with?

18 A That's correct.

19 Q According to you. So you average 4.5 and
20 15.2 and come up with 9.8, correct?

21 A Yes, sir.

22 Q Do you have an exhibit which I just arranged
23 for you to be handed? (Pause)

24 Do you have the exhibit, sir?

25 A Yes.

1 MR. McLEAN: Okay. Mr. Chairman, may I have
2 the Order 20469, Commission Order, marked for
3 identification?

4 CHAIRMAN BEARD: It will be Exhibit No. 118.

5 MR. McLEAN: Short title, "Order 20469, PSC
6 Order."

7 (Exhibit No. 118 marked for identification)

8 Q (By Mr. McLean) Mr. Morse, would you turn to
9 the third page of that exhibit, please, sir. It says
10 on the first, second, third full paragraph down, second
11 sentence, "The Utility has added five water and sewer
12 customers since 1983." Is that correct?

13 A That's correct.

14 Q All right, sir. What utility was the
15 Commission referring to there? (Pause)

16 A I see the name Welaka Utility here.

17 Q Uh-huh. And do you suppose that could have
18 been Putnam Beecher's Point?

19 A I'm not sure.

20 Q You're not sure. Do you have a copy of the
21 application that the Utility filed in this case?

22 A Not in front of me.

23 Q Sir?

24 A Are you talking about the synopsis?

25 Q No, sir. I'd like you to obtain a copy of

1 the application of Southern States Utilities, Inc., and
2 Deltona Utilities, Inc., for increase in water and
3 sewer rates, water and wastewater rates.

4 COMMISSIONER EASLEY: This docket?

5 MR. McLEAN: Ma'am?

6 COMMISSIONER EASLEY: In this docket?

7 MR. McLEAN: In this docket.

8 WITNESS MORSE: I don't have it with me.

9 COMMISSIONER CLARK: Mr. McLean, it might
10 speed it up if you could give him a copy.

11 Q (By Mr. McLean) Would you accept, subject to
12 check, that it is the very same system?

13 A Yes.

14 Q Okay. Now, did you all not know that you
15 owned this system? Why couldn't you not come up with
16 this data?

17 A Well, I researched our records very carefully
18 and I could not find this information in our records.

19 Q Okay. Well, my question is, How carefully
20 did you search, Mr. Morse? Apparently not carefully
21 enough, right?

22 MR. HOFFMAN: Objection, move to strike,
23 argumentative. I think he's already answered the
24 question.

25 MR. McLEAN: Well, I wanted to ask him how

1 careful he is, because I have a couple other questions
2 about how careful Mr. Morse is.

3 CHAIRMAN BEARD: Ask the question again.

4 Q (By Mr. McLean) How careful are you, Mr. Morse?
5 Withdraw the question.

6 Mr. Morse, do you ever sign affidavits without
7 seeing them first?

8 A No, sir.

9 Q Do you have your deposition with you that I
10 took on September 16 in Apopka? (Pause)

11 A I have a copy of it in front of me.

12 Q All right, sir. Turn to Page 17, if you
13 will. Examine the question there, Mr. Morse, if you
14 will, please. (Pause)

15 I asked you this, didn't I, "So it's also
16 true that you saw Responses B and E before you signed
17 the affidavit, is that right?" Is that what it says?

18 A At the bottom of Page 17?

19 Q Yes, sir. (Pause) Is that a correct reading
20 of the question?

21 A That is.

22 Q Okay, now, in your answer, the last sentence
23 is, "But I generally see them before I sign any
24 affidavits." Isn't that what you say there?

25 A That's what it says there.

1 Q Okay. Now, what did you mean by "generally
2 see them"?

3 MR. HOFFMAN: Objection. I don't see the
4 relevancy of this line of questioning.

5 MR. McLEAN: The relevance is he just
6 testified that he didn't sign affidavits without seeing
7 them. Now he says here in this deposition that he
8 generally sees them. They can't both be true.

9 MR. HOFFMAN: I think he's mischaracterizing
10 the testimony. I don't think he said that.

11 MR. McLEAN: I'm reading it verbatim. If
12 there's any doubt about it, we can put the whole
13 deposition into the record.

14 COMMISSIONER EASLEY: Could I find out what
15 the point is?

16 MR. McLEAN: It goes directly to the
17 credibility of the witness who has furnished a great
18 portion of the MFRs which lie before you today.

19 COMMISSIONER EASLEY: The difference between
20 "generally" and "I never sign one."

21 MR. McLEAN: Exactly. He just told me he
22 never signed affidavits without reading them.

23 COMMISSIONER EASLEY: Okay. All right.

24 CHAIRMAN BEARD: To your knowledge, have you
25 ever signed one without having seeing it?

1 COMMISSIONER EASLEY: An affidavit.

2 WITNESS MORSE: No. I will say that if I, as I
3 read this in the deposition, I may -- as I read this now,
4 I may have been kidding when I made that statement. I'm
5 just not sure. But I --

6 CHAIRMAN BEARD: Let me --

7 COMMISSIONER CLARK: The written word
8 wouldn't have accounted for any inflection or --

9 WITNESS MORSE: Excuse me?

10 COMMISSIONER CLARK: The written word would
11 not have demonstrated any inflection --

12 WITNESS MORSE: That's right.

13 COMMISSIONER CLARK: -- or facial expression
14 when you made that statement.

15 WITNESS MORSE: That's correct.

16 CHAIRMAN BEARD: Let me ask a question. I
17 mean, if we're going to pursue this, I want to put it
18 in context. Were there questions to follow up on
19 "generally," to get him to define "generally"? I'm
20 trying to understand the context of this thing.

21 MR. McLEAN: That was at a long line of a
22 bunch of questions that I asked him about having said
23 that he didn't see part of an affidavit which he
24 signed. And I was curious to know just exactly why he
25 would be signing an affidavit which he didn't read

1 first. It wouldn't be so relevant but for the fact
2 that he now denies it.

3 CHAIRMAN BEARD: Well, I don't know the
4 context in which the deposition is in. Okay.

5 MR. McLEAN: Let's put it in the record.

6 CHAIRMAN BEARD: If you want to do that, it's
7 your exhibit --

8 COMMISSIONER EASLEY: Well, what you're --

9 CHAIRMAN BEARD: Let me finish.

10 COMMISSIONER EASLEY: I'm sorry.

11 CHAIRMAN BEARD: You have a statement that
12 "generally no." Okay. And I'm trying to put it in the
13 context was that pursued to say what does "generally"
14 mean? Never, ever, sometimes, part of the time, once
15 in a while? I'm trying to understand the context.
16 Because if you're going to pursue it, then I'm going to
17 understand the total context that words were made.

18 MR. McLEAN: I think that you can understand
19 the context if you put the deposition in the record,
20 we'll --

21 CHAIRMAN BEARD: Are you asking to put the
22 deposition in the record?

23 MR. McLEAN: Yes, sir.

24 CHAIRMAN BEARD: Okay.

25 COMMISSIONER EASLEY: Let me ask something.

1 You started off on this line of questioning, I thought,
2 going to how careful was Mr. Morse in researching this
3 information.

4 MR. McLEAN: Correct.

5 COMMISSIONER EASLEY: And you made the
6 statement that there were other questions you had to
7 ask him that were going to indicate how careful he was
8 or was not. Wouldn't it be easier or more appropriate
9 to ask the questions, get the answers, and let us make
10 a decision, rather than hinge it on the difference
11 between "generally" and --

12 MR. McLEAN: Commissioner, I think the record
13 will speak for itself.

14 COMMISSIONER EASLEY: All right.

15 MR. McLEAN: I asked him if he ever signed
16 affidavits which he didn't read? He said, "no." In
17 his deposition he told me it was, "generally no."

18 CHAIRMAN BEARD: And is there something going
19 to be in the deposition that is going to give me the
20 difference between "no, I don't" and "generally," so
21 that I can distinguish between that? Because we're
22 wasting a lot of time. Otherwise, and you're making
23 your point, if it's not in there -- I just want to
24 understand because the statement "generally" by itself,
25 without some context surrounding it, is not going to

1 help me; because I sometimes say things and the words
2 don't come out just so.

3 MR. McLEAN: Okay.

4 CHAIRMAN BEARD: And I just want to
5 understand.

6 MR. McLEAN: Maybe I can ask the witness one
7 more question.

8 CHAIRMAN BEARD: Okay.

9 Q (By Mr. McLean) Mr. Morse, does "generally"
10 in the way that you used it in the deposition mean
11 "never," or "always," or neither one? (Pause)

12 A I'd have to say in the context of the way
13 it's written here that I always see them before I sign
14 them.

15 MR. McLEAN: Okay. Then we don't have a
16 problem. Thank you, Mr. Morse.

17 MR. McLEAN: I have no further questions.

18 CHAIRMAN BEARD: Redirect?

19 REDIRECT EXAMINATION

20 BY MR. HOFFMAN:

21 Q Mr. Morse, in your opinion, should used and
22 useful percentage vary from year-to-year with the level
23 of consumption?

24 A Generally, that's true.

25 COMMISSIONER EASLEY: Now, by "generally,"

1 what do you mean? (Laughter)

2 WITNESS MORSE: Depending upon the data and
3 the test year, it will vary.

4 Q (By Mr. Hoffman) Mr. Morse, let me give you
5 a hypothetical question.

6 COMMISSIONER EASLEY: I'm not too sure my
7 question was all that facetious, if you really want to
8 know the dadblamed truth. Because I've got a sneaking
9 suspicion that that word has been used rather
10 frequently today, and maybe you ought to give me a
11 serious answer to what do you mean by "generally."

12 WITNESS MORSE: It will vary --

13 COMMISSIONER EASLEY: Thank you.

14 WITNESS MORSE: -- from year-to-year.

15 Q (By Mr. Hoffman) Mr. Morse, a hypothetical
16 question. If used and useful of, say, water facilities
17 for a certain system were 90% based on a certain level
18 of consumption in 1990 and in 1991 consumption dropped
19 10%, in your opinion, should used and useful also drop?

20 A Yes. It depends upon the maximum day that
21 occurred at the time. It may drop, it may not drop, it
22 all depends on the maximum him day that occurred in the
23 year, in the test year, or in the year that you're
24 dealing with.

25 Q But you would agree, would you not, in my

1 hypothetical question that the investment was prudent
2 in 1990 and prudent in 1991, would you not?

3 A Oh, yes, sir.

4 Q And that those facilities would need to
5 remain in place should consumption return in 1992 to
6 the level that it was in 1990, is that right?

7 A I would agree with that.

8 Q Let me move on. You were asked some
9 questions by Staff with respect to whether a certain --
10 whether equipment was added to certain systems and, if
11 so, whether used and useful percentages should be
12 recalculated. Do you recall those questions?

13 A Yes, sir.

14 Q Now, here is my question: If used and useful
15 percentages are to be recalculated, wouldn't you agree
16 that the Company's investment in the additional plant,
17 also must be included in rate base?

18 A I think I addressed that very specific issue;
19 that, yes, that if the Company made an investment to
20 return an asset to service, and the Staff was inferring
21 that we adjust the used and useful for the -- to
22 recognize that that asset has been returned, that the
23 cost of improving the asset, or whatever the capital
24 investment, should be included in rate base.

25 MR. HOFFMAN: Thank you, Mr. Morse. That's

1 all I have.

2 CHAIRMAN BEARD: Step down.

3 MR. HOFFMAN: Mr. Chairman, we would move
4 Exhibit 111.

5 CHAIRMAN BEARD: Without objection.

6 MR. GOLDEN: Staff would move 112 through
7 117.

8 CHAIRMAN BEARD: I thought 117 was a
9 late-filed.

10 MR. GOLDEN: And 116 was.

11 CHAIRMAN BEARD: Pardon me?

12 MR. GOLDEN: 116 was also. So I guess 112
13 and 113.

14 CHAIRMAN BEARD: That's correct.

15 WITNESS GOLDEN: May I be excused?

16 (Laughter)

17 COMMISSIONER EASLEY: Have you ever heard a
18 more pitiful --

19 CHAIRMAN BEARD: I taught school, I got asked
20 that question a lot. Different context. Generally
21 speaking.

22 (Witness Morse excused.)

23 MR. McLEAN: Citizens move 118.

24 CHAIRMAN BEARD: Without objection.

25 (Exhibit Nos. 111 through 115, and 118

1 received into evidence.)

2 CHAIRMAN BEARD: Next witness.

3 MR. HOFFMAN: Mr. Chairman, the Company's
4 witness stepped out. You think we could take five?

5 CHAIRMAN BEARD: Yeah, we're going to take a
6 break.

7 (Brief recess.)

8

9 CHAIRMAN BEARD: You're on.

10 MR. ARMSTRONG: Commissioners, the next
11 Company witness is called Charles Lewis.

12 CHARLES K. LEWIS

13 was called as a witness on behalf of Southern States
14 Utilities, Inc. and, having been duly sworn, testified
15 as follows:

16 DIRECT EXAMINATION

17 BY MR. ARMSTRONG:

18 Q Could you state your name and address, Mr.
19 Lewis?

20 A My name is Chuck Lewis. My business address
21 is 1000 Color Place, Apopka, Florida 32703.

22 Q Did you prepare and cause to be filed direct
23 testimony in this proceeding?

24 A Yes, I did.

25 Q Do you have any changes to your direct

1 testimony?

2 A I have three corrections.

3 Q Could you please provide them?

4 A Page 7, Line 21 should read Schedule D, not
5 Schedule E. Page 16, Line 10 should read account
6 408.120, not 408.110/112. And Page 20, Line 1, should
7 read 282,394, not 282,934.

8 Q With those corrections, if I asked you the
9 questions contained in your direct testimony, would
10 your answers be the same?

11 A Yes, they would.

12 MR. ARMSTRONG: Mr. Chairman, I ask that the
13 prefiled direct testimony of Charles Lewis be inserted
14 into the record as though read?

15 CHAIRMAN BEARD: It will be so inserted.

16 Q (By Mr. Armstrong) Mr. Lewis, it's true you
17 don't have any exhibits, is that correct?

18 A No.

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I. INTRODUCTION

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Q. PLEASE STATE YOUR NAME AND BUSINESS AND ADDRESS.

A. My name is Charles K. Lewis. My business address is 1000 Color Place, Apopka, Florida 32703.

Q. BY WHOM ARE YOU EMPLOYED?

A. I am employed by Southern States Utilities, Inc. and Deltona Utilities, Inc.

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

A. I serve as Director of Rates for Southern States Utilities, Inc. and Deltona Utilities, Inc. These companies were legally merged on July 15, 1992, and hereinafter I will refer to them collectively as "Southern States" or the "Company."

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I received an Associates Degree in Accounting from Jackson Community College in 1972. In 1975, I received a Bachelors Degree from Michigan State University in the field of Economics/Political Science, and a Masters in Political Science from Michigan State University in 1978. In addition, I have

1 attended a number of schools, seminars,
2 conferences, workshops and short courses on
3 utility rate making, cost of service, rate
4 design, and return on investment sponsored by
5 various professional associations,
6 universities, and accounting firms.

7 **Q. HOW LONG HAVE YOU BEEN EMPLOYED IN THE UTILITY**
8 **INDUSTRY AND WHAT POSITIONS HAVE YOU HELD?**

9 A. Over the past 14 years, I have held various
10 positions in a supervisory capacity within the
11 Rates and Revenue Requirements areas at
12 Consumers Power Company, Northeast Utilities,
13 Seminole Electric Cooperative, Inc., and
14 Southern States.

15 **Q. TO WHAT TRADE AND/OR PROFESSIONAL**
16 **ORGANIZATIONS DO YOU BELONG?**

17 A. I am a member of the American Water Works
18 Association and the Florida Chapter of the
19 National Association of Water Companies.

20 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE A PUBLIC**
21 **UTILITIES COMMISSION?**

22 A. Yes. I have submitted testimony and/or
23 testified before the Michigan Public Service
24 Commission, the Connecticut Department of
25 Public Utility Control, the Massachusetts

1 Public Utility Department, the Florida Public
2 Service Commission, the Polk County Utilities
3 Board, the Hillsborough Board of County
4 Commissioners and the Sarasota County hearing
5 examiners.

6 Q. WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR OF
7 RATES.

8 A. As Director of Rates, I am primarily
9 responsible for the determination of the
10 Company's revenue requirements.

11 Q. PLEASE OUTLINE THE SCOPE OF YOUR TESTIMONY IN
12 THIS PROCEEDING.

13 A. I will testify with respect to the Company's
14 Cost of Service and sponsor the following
15 documents filed in this case:

16 Volume II - Water Minimum Filing Requirements

17	Book 1 of 11	Schedules A & B: Rate Base and 18 Income for <u>Amelia Island</u> 19 <u>through Dol Ray Manor</u>
20	Book 2 of 11	Schedules A & B: Rate Base and 21 income for <u>Druid Hills through</u> 22 <u>Holiday Haven</u>
23	Book 3 of 11	Schedules A & B: Rate Base and 24 Income for <u>Holiday Heights</u> 25 <u>through Marco Shores</u>

1 Book 4 of 11 Schedules A & B: Rate Base and
2 Income for Marion Oaks through
3 Point O' Woods

4 Book 5 of 11 Schedules A & B: Rate Base and
5 Income for Stone Mountain
6 through Zephyr Shores

7 Volume III - Wastewater Minimum Filing Requirements

8 Book 1 of 6 Schedules A & B: Rate Base and
9 Income for Amelia Island
10 through Florida Central
11 Commerce Park

12 Book 2 of 6 Schedules A & B: Rate Base and
13 Income for Fox Run through Park
14 Manor

15 Book 3 of 6 Schedules A & B: Rate Base and
16 Income for Point O' Woods
17 through Zephyr Shores

18 Q. WERE THESE DOCUMENTS PREPARED BY YOU OR UNDER
19 YOUR SUPERVISION?

20 A. Yes, they were.

21 II. FPSC JURISDICTIONAL OVERVIEW

22 Q. PLEASE DESCRIBE THE SYSTEMS YOU HAVE FILED IN
23 THIS CASE.

24 A. The Company has included 90 water and 37
25 wastewater systems in this filing as

1 identified in Volume I, Book 1 of 4 of the
2 Minimum Filing Requirements ("MFRs") which
3 previously have been identified as Exhibit 39
4 (FLL-1). The combined 127 systems represent
5 all systems currently operated by Southern
6 States, except for the two Marco Island
7 systems and the two Lehigh Utilities, Inc.
8 ("Lehigh") systems, which are under Florida
9 Public Service Commission ("Commission")
10 jurisdiction. Applications for rate increases
11 for the Marco Island and Lehigh systems
12 currently are being processed with the
13 Commission.

14 **Q. WHAT TEST YEAR HAS BEEN USED AS A BASIS FOR**
15 **DETERMINING COSTS IN THIS FILING?**

16 **A.** The Company requested and the Commission
17 approved the use of a historical test year
18 ended December 31, 1991. The proposed final
19 rates are based on actual 1991 costs adjusted
20 for certain pro forma adjustments reflecting
21 known and certain events.

22 **Q. BASED ON THE TEST YEAR ENDED DECEMBER 31,**
23 **1991, WHAT RETURN WILL SOUTHERN STATES EARN**
24 **UNDER PRESENT RATES ON THE 127 JURISDICTIONAL**
25 **WATER AND WASTEWATER SYSTEMS FILED IN THIS**

1 **RATE CASE?**

2 A. The overall jurisdictional rate of return for
3 the combined water and wastewater systems
4 filed in this case under present rates would
5 be 2.54%, which is equivalent to a -8.32%
6 return on equity. Individually, the rates of
7 return for water and wastewater would be 3.07%
8 and 1.74%, respectively. These rates of
9 return equate to negative returns on equity of
10 -7.07% (water) and -10.18% (wastewater). A
11 negative return on equity indicates that
12 present revenues are severely deficient, that
13 no return is available for investors, and that
14 the Company is not able to fully cover
15 interest costs on debt.

16 **Q. WHAT INCREASE IN REVENUES IS THE COMPANY**
17 **PROPOSING?**

18 A. The Company is proposing an overall increase
19 in sales revenues of \$8,665,518 (or a 43.58%
20 increase) as shown in Volume I, Book 1 of 4,
21 page 8 of the MFRs. The proposed increase for
22 water and wastewater is \$5,064,353 (40.16%)
23 and \$3,601,165 (49.53%), respectively. The
24 overall jurisdictional revenue requirement for
25 the water and wastewater systems filed in this

- 1 case is \$28.5 million.
- 2 **Q. WHAT RATES OF RETURN DO THE PROPOSED INCREASES**
3 **PRODUCE?**
- 4 **A.** As shown in Volume I, Book 1 of 4, page 8, the
5 Company's proposed increase would produce an
6 overall rate of return of 11.57% for combined
7 water and wastewater service. The proposed
8 increase for water (approximately \$5.1
9 million) would produce an 11.88% rate of
10 return and the proposed increase for
11 wastewater (approximately \$3.6 million) would
12 produce an 11.11% rate of return.
- 13 **Q. HAS THE COMPANY DETERMINED ITS REQUIRED RETURN**
14 **ON EQUITY BASED ON THE COMMISSION'S LEVERAGE**
15 **GRAPH FORMULA APPROACH?**
- 16 **A.** Yes. The Company is requesting an overall
17 jurisdictional return on equity of 12.83%
18 based on the Commission's leverage graph
19 formula approach. The capital structure
20 proposed by the Company is shown in Volume I,
21 Book 1 of 4, Schedule ^D E, page 138 of the MFRs.
- 22 **Q. WOULD YOU PLEASE EXPLAIN WHY THE COMPANY HAS**
23 **PROPOSED DIFFERENT RATES OF RETURN FOR WATER**
24 **AND WASTEWATER OPERATIONS?**
- 25 **A.** The proposed rate design is explained by Mr.

1 Joseph P. Cresse and Ms. Helena Loucks. The
2 proposed rate design results in a moderate
3 revenue shift of approximately \$178,000 from
4 wastewater to water. This produces a slightly
5 higher rate of return for water operations
6 than wastewater operations. A jurisdictional
7 summary of required revenues is shown in
8 Volume I, Book 1 of 4, pages 25 through 25-
9 15. A comparison of the Company's proposed
10 and required increases is provided in Volume
11 I, Book 1 of 4, page 25-16. This information
12 is discussed by Mr. Cresse and Ms. Loucks.

13 **III. RATE BASE**

14 **(a) Overview**

15 **Q. WOULD YOU GENERALLY DESCRIBE THE DEVELOPMENT**
16 **OF RATE BASE IN THIS FILING.**

17 **A.** The Company developed rate base information
18 according to the Commission's MFRs. The
19 amounts shown for rate base are average
20 balances based on a simple average of the
21 beginning and ending test year balances.
22 Working capital was determined according to
23 Commission precedent using the 1/8 of
24 Operation and Maintenance ("O&M") expense
25 methodology. Volume I, Book 1, page 9

1 provides a jurisdictional summary of rate base
2 and pages 26 through 82 and 203 through 247
3 provide a system by system summary of water
4 and wastewater rate base, respectively. The
5 detailed development of water rate base is
6 shown in Volume II, Books 1 through 6,
7 Schedule A and wastewater rate base is
8 detailed in Volume III, Books 1 through 3,
9 Schedule A.

10 Q. WHAT IS THE TOTAL RATE BASE REQUESTED IN THIS
11 FILING?

12 A. The total rate base for the 127 systems filed
13 in this case is \$57.1 million, consisting of
14 \$34.2 million of water rate base and \$22.9
15 million of wastewater rate base.

16 (b) Adjustments to Rate Base

17 Q. HAS THE COMPANY MADE ANY ADJUSTMENTS TO PER
18 BOOK RATE BASE FOR PURPOSES OF FINAL RATES?

19 A. Yes, it has. Pro forma adjustments have been
20 made which reduce total jurisdictional water
21 rate base by (\$468,370) and increase
22 wastewater rate base by \$6,651,470. These
23 adjustments are summarized in Volume I, Book
24 1 of 4, pages 43 and 216.

25 Q. WOULD YOU PLEASE DESCRIBE THESE ADJUSTMENTS?

- 1 A. Yes, I will.
- 2 • Water plant in service was reduced by
- 3 (\$378,900) and sewer plant in service was
- 4 reduced by (\$214,815) to reflect the
- 5 elimination of organizational costs
- 6 booked to account 301/351.
- 7 Organizational costs were at issue in our
- 8 last rate case and have been removed from
- 9 this case. As Mr. Forrest Ludsen will
- 10 explain, these and other costs were
- 11 removed in an attempt to produce as non-
- 12 controversial a filing as possible due to
- 13 our urgent need for rate relief.
- 14 • Water plant in service was increased by
- 15 \$11,590 and sewer plant in service was
- 16 increased by \$21,403 to reflect the
- 17 transfer of plant booked as Plant Held
- 18 for Future Use to Plant in Service for
- 19 ratemaking purposes. The adjustment was
- 20 made to reflect plant actually in service
- 21 during the test year prior to determining
- 22 non-used & useful plant.
- 23 • Land & Land Rights for water were reduced
- 24 by (\$1,241,591) and for wastewater by
- 25 (\$436,501) to reflect the original cost

1 of land when first devoted to public
2 service. This adjustment reflects the
3 results of land appraisals performed for
4 the Company in 1991 by independent
5 professional land appraisers.

6 • Sugar Mill Woods' sewer rate base was
7 increased by \$229,485 to reflect a zero
8 rate base. Absent this adjustment, the
9 rate base would be negative. The Company
10 should not be assessed a negative rate
11 base since to do so would remove any
12 incentive to operate the system. The
13 adjustment also is consistent with the
14 Commission Staff's recommended treatment
15 in Docket No. 900329-WS. Finally, I have
16 been advised by counsel that the Florida
17 courts have recognized that it would be
18 unlawful and unwise to remove a utility's
19 incentive to operate a system by
20 depriving it of the opportunity to
21 produce earnings from such operations.

22 • Water accumulated depreciation was
23 reduced by \$116,612 and sewer accumulated
24 depreciation was reduced by \$46,197 to
25 reflect the adjustment referred to above

- 1 concerning organization costs.
- 2 • Water and sewer accumulated depreciation
3 were increased by (\$94,680) and
4 (\$32,745), respectively, to reflect the
5 shortened useful life of one of the
6 Company's software packages. The reserve
7 was adjusted because the Company believed
8 that previously it had been understated.
9 For this reason, there was no
10 corresponding adjustment to Plant in
11 Service or depreciation expense in the
12 rate filing.
- 13 • CIAC was reduced at Sugar Mill Woods by
14 \$1,065,198 and \$4,785,078 for water and
15 sewer, respectively. CIAC was reduced at
16 Burnt Store by \$3,175,231 for sewer.
17 These adjustments were made to remove
18 pre-paid CIAC which is non-used and
19 useful. The non-used and useful
20 adjustment to CIAC reflects CIAC
21 collected prior to 1987 from lot owners
22 who have not built their homes as of yet.
23 This adjustment eliminates the double
24 whammy effect of a non-used and useful
25 adjustment and CIAC offset for these

1 lots.

2 • CIAC amortization was reduced at Sugar
3 Mill Woods by (\$91,982) and (\$653,689)
4 for water and sewer, respectively. Sewer
5 CIAC was also reduced at Burnt Store by
6 (\$324,056).

7 • Working capital was adjusted upward by
8 \$145,384 for water and \$55,882 for sewer.
9 This increase was calculated by dividing
10 the pro forma incremental water O&M
11 expenses of \$1,163,074 and pro forma
12 incremental sewer O&M expenses of
13 \$447,056 by 8.

14 IV. INCOME

15 (a) Overview

16 Q. WOULD YOU GENERALLY DESCRIBE THE DEVELOPMENT
17 OF INCOME IN THIS FILING?

18 A. The Company developed income information
19 according to the MFRs. Volume I, Book 1, page
20 10 provides an overall jurisdictional summary
21 of income and a system by system summary of
22 water and sewer income is provided on pages 84
23 through 132-16 and 248 through 285-12 for
24 water and sewer systems, respectively. The
25 detailed development of water income is shown

1 in Volume II, Book 1, Schedule B and the
2 development of sewer income is shown in Volume
3 III, Book 1, Schedule B.

4 **Q. WHAT IS THE TOTAL JURISDICTIONAL NET OPERATING**
5 **INCOME REQUESTED IN THIS FILING?**

6 A. The total jurisdictional net operating income
7 under present rates is \$1.4 million (\$1.0
8 million for water and \$.4 million for sewer).
9 The Company is requesting total jurisdictional
10 net operating income of \$6.6 million (\$4.1
11 million for water and \$2.5 million for sewer).

12 **(b) Adjustments to Income**

13 **Q. HAS THE COMPANY MADE ANY ADJUSTMENTS TO PER**
14 **BOOK INCOME FOR RATEMAKING PURPOSES?**

15 A. Yes, we have. The Company has made pro forma
16 adjustments to water and sewer revenue and
17 expenses as shown in Volume I, Book 1, pages
18 125 through 132 and 280 through 285,
19 respectively. The net effect of the pro forma
20 adjustments on revenues and expenses is a
21 reduction of present income for water of
22 (\$565,208) and an increase of present income
23 for sewer of \$74,741, or a net reduction to
24 present income of (\$490,468).

25 **Q. WOULD YOU PLEASE DESCRIBE THE ADJUSTMENTS MADE**

1 BY THE COMPANY.

2 A. First, water and sewer adjusted test year
3 present revenues were increased by \$506,081
4 and \$603,779, respectively. This increase
5 represents the annualized revenue effect of
6 the interim rates under stay in Docket No.
7 900329-WS. A second adjustment to test year
8 revenues was made to reflect new miscellaneous
9 service charges for certain systems which were
10 approved by the Commission in the consolidated
11 Southern States Utilities, Inc./Deltona
12 Utilities, Inc. tariff. Under the
13 consolidated tariff, all systems have
14 miscellaneous service charges consistent with
15 Staff Advisory Bulletin No. 13. The
16 adjustment to water and sewer income to
17 reflect these new miscellaneous service
18 charges are an increase to water of \$109,021
19 (\$106,721 + \$2,300 reclassified from sewer)
20 and decrease to sewer of \$2,300 (reclassified
21 to water).

22 The net effect of these two adjustments
23 to income is an increase of \$1,216,581.

24 Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO
25 RECLASSIFIED PENSIONS AND BENEFITS TO BE

1 **CONSISTENT WITH NARUC ACCOUNTING METHODS.**

2 A. The 1991 Southern States Utilities,

3 Inc./Deltona Utilities, Inc. books lumped

4 fringe benefits, workers' compensation and

5 payroll taxes all in accounts 604/704. These

6 expenses were reclassified for ratemaking

7 purposes into accounts consistent with NARUC

8 accounting. Payroll taxes were reclassified

9 out of account 604/704 (fringe benefits) into

10 account ^{408,120}~~408,110~~ (payroll taxes), as shown

11 on Schedule B-15 Taxes Other Than Income

12 Taxes. These adjustments were required for

13 the following reasons: (1) to achieve

14 consistency with NARUC accounting, (2) to

15 provide the Commission with the true amount of

16 benefit costs for utilization in the benchmark

17 guideline analysis and (3) to provide a

18 uniform amount of pension and benefits costs

19 on a Company-wide basis (rather than the

20 deceptive fluctuating benefit costs which

21 appear on the Company's books). The

22 methodology used to make these adjustments was

23 to determine the total Company costs for

24 benefits, workers' compensation and payroll

25 taxes. The amounts were divided by our

1 Company-wide payroll to determine the total
2 percentage of payroll applicable to each of
3 these categories of expense. The result was
4 a uniform cost factor for each category of
5 expense which could be applied on a system by
6 system basis to the system-specific labor
7 included for ratemaking. The cost factors
8 that resulted from this calculation were
9 19.04% for fringe benefits, 3.36% for workers'
10 compensation and 8.63% for payroll taxes.
11 These adjustments resulted in the reduction to
12 water and sewer O&M of \$442,296 and an
13 increase in payroll taxes of \$460,470. The
14 difference represents the amount that was
15 underapplied on the books.

16 **Q. PLEASE EXPLAIN THE OTHER ADJUSTMENTS TO**
17 **OPERATING EXPENSES REFLECTED ON SCHEDULE B-1**
18 **FOR WATER AND SCHEDULE B-2 FOR SEWER.**

19 **A.** The first adjustment reflects the four year
20 amortization of rate case expenses of \$329,196
21 (water) and \$113,854 (sewer). The Company
22 provided detailed support for this adjustment
23 in the supplemental information provided in
24 Appendix N of Exhibit 40 (FLL-2).

25 The second adjustment adds back and

1 reallocates the administrative and general
2 ("A&G") expenses previously allocated to
3 Lehigh during the period October through
4 December, 1991. The purpose of this
5 adjustment is to permit us to allocate a full
6 twelve months of A&G costs rather than only
7 three months. The impact of this adjustment
8 was \$70,082 (water) and \$24,238 (sewer). As
9 explained by Mr. Forrest L. Ludsen, A&G
10 expenses of Southern States and Lehigh were
11 pooled and reallocated to each water and sewer
12 system based on the number of customers
13 served.

14 The third adjustment reflects the
15 estimated annualized Lehigh A&G expenses. The
16 estimation of Lehigh A&G expenses was
17 necessary since Lehigh was not acquired until
18 June 30, 1991. Thus, we did not have twelve
19 months of experience with Lehigh as part of
20 our family of utilities. The impact to the
21 water and sewer systems in this case is
22 \$125,226 and \$43,310, respectively. These
23 costs were allocated to the 127 systems based
24 on customers served.

25 The fourth adjustment reallocates labor

1 to reflect the sale of certain gas operations
2 in December of 1991. This sale required the
3 Company to reallocate costs associated with
4 employees reassigned after the sale or lost to
5 the Company which purchased the gas
6 operations. In contemplation of this sale,
7 the Company had not filled certain authorized
8 positions during 1991 so that employees who
9 previously worked in our gas operations could
10 remain with the Company if they chose to do
11 so. This adjustment reduced water expenses by
12 (\$20,650) and increased sewer expenses by
13 \$1,154.

14 The fifth adjustment was made to reflect
15 an attrition allowance. This attrition
16 allowance was made to historic 1991 expenses
17 after reflecting the adjustments I just
18 discussed. We used the Commission's 1992 CPI
19 factor of 3.63% as our attrition factor for
20 all expenses except those booked to Accounts
21 601/701 and 603/703. Expenses booked in these
22 accounts were adjusted by 5.00% which
23 represents the Company's projected percentage
24 increase for 1992 salaries. The impact of the
25 attrition allowance on the water and sewer

1 systems in this case is \$282,³⁹⁴~~934~~ and \$169,046,
2 respectively. We believe our request for an
3 attrition allowance is reasonable since this
4 case is premised on historic costs which will
5 be more than one year old before final rates
6 are determined. Also, the Commission rules
7 concerning indexing preclude us from obtaining
8 relief which would otherwise be available to
9 us (for expenses other than those booked to
10 Accounts 601/701 and 603/703) but for our
11 involvement in this proceeding.

12 The sixth and final adjustment relates to
13 post-retirement benefits expenses (other than
14 pensions) per FASB 106. Mr. Bruce Gangnon of
15 Minnesota Power will testify concerning this
16 adjustment. The impact to the water and sewer
17 systems in this proceeding is \$679,550 and
18 \$235,025, respectively.

19 The total impact of these adjustments on
20 the water and sewer income statements
21 contained in the MFRs is an increase of
22 \$1,163,074 and \$447,056, respectively.

23 **Q. PLEASE EXPLAIN ADJUSTMENTS MADE BY THE COMPANY**
24 **TO DEPRECIATION EXPENSE AND THE AMORTIZATION**
25 **OF CIAC.**

1 A. We adjusted depreciation expense and CIAC
2 amortization to reflect an adjustment for non-
3 used and useful CIAC explained earlier in my
4 testimony. However, I would like to point out
5 that in 1991, we converted all water and sewer
6 systems that did not already have Commission
7 approval to use average life depreciation to
8 the average life depreciation method.
9 Associated expenses are reflected in the
10 income statements as well as in the
11 depreciation reserve for 1991. The following
12 water and sewer systems were converted to
13 average life depreciation rates in 1991:

14 WATER:

15 Kingswood, Oakwood, Apache Shores, Citrus
16 Springs Utilities, Crystal River Highlands,
17 Oak Forrest, Pine Ridge Utilities, Point O'
18 Woods, Rolling Green, Sugar Mill Woods,
19 Lakeview Villas, Postmaster Village, Marco
20 Shores Utilities, Spring Hill Utilities, Hobby
21 Hills, Holiday haven, Imperial Mobile Terrace,
22 Silver Lake Estates, Sunshine Parkway, Marion
23 Oaks Utilities, Daetwyler Shores, Holiday
24 Heights, Lake Conway Park, University Shores,
25 Westmont, Fountains, Intercession City, Lake

1 Ajay Estates, Tropical Park, Windsong, Palm
2 Terrace, Zephyr Shores, Deltona Utilities,
3 Jungle Den, Sugar Mill And Sunny Hills
4 Utilities.

5 SEWER:

6 Apache Shores, Citrus Springs utilities, Point
7 O' Woods, Sugar Mill Woods, Marco Island
8 Utilities, Spring Hill Utilities, Holiday
9 Haven, Sunshine Parkway, Marion Oaks
10 Utilities, University Shores, Palm Terrace,
11 Zephyr Shores, Deltona Utilities, Jungle Den,
12 Sugar Mill and Sunny Hills Utilities.

13 The final adjustment we are requesting is
14 to recognize a shortened depreciation life for
15 R.O. permeators. The reasons for this
16 adjustment are explained by Mr. Gerald C.
17 Hartman.

18 V. SPECIFIC SYSTEM COST

19 Q. WHY HAS THE COMPANY ESTABLISHED A MAXIMUM BILL
20 FOR 10,000 GALLONS OF CONSUMPTION?

21 A. If the maximum bill is not applied, the
22 revenue requirements for certain systems,
23 based solely on a stand alone cost of service
24 study, would be excessive on a per customer
25 basis.

1 Q. COULD YOU EXPLAIN WHY THE SYSTEMS WHICH WILL
2 BENEFIT FROM THE MAXIMUM BILL PROPOSAL HAVE
3 HIGH REVENUE REQUIREMENTS?

4 A. Generally, those systems which will benefit
5 from the proposed maximum bill mechanism have
6 a low customer base and low consumption.
7 These facts result in virtually no economies
8 of scale and high rates. Some systems also
9 have high investment costs to comply with
10 regulatory requirements, must compensate for
11 poor water quality from indigenous sources,
12 use expensive disposal methods necessitated by
13 environmental conditions, etc.

14 WATER

15 **Apache Shores** - The customer base is low (161)
16 with average monthly water consumption of less than
17 2,000 gallons per customer per month. Even though
18 the system is not built out, there is zero growth.
19 There is no economy of scale achieved to reduce the
20 impact of this system's rate base or O&M costs on
21 a per customer basis.

22 **Burnt Store** - The customer base is low (186),
23 averaging less than 5,000 gallons of consumption
24 per month. The direct O&M expenses associated with
25 the R.O. facility providing water to these

1 customers is more costly than costs associated with
2 operating a conventionally chlorinated water plant.
3 Even though the system is far from being built out,
4 growth has been sporadic at best. No economy of
5 scale is achieved to reduce the impact of the
6 higher than typical O&M costs for an advanced
7 operation of this type.

8 **Fountains** - This is a new system with only 8
9 customers. The average flow also is only 8,000
10 gallons per month. There is a large rate base
11 (associated with new plant) with a small number of
12 customers over which associated costs may be
13 spread. Thus, even considering economies we can
14 achieve on the O&M side (by spreading labor costs
15 of the operator among a number of systems), rates
16 will remain high on a per customer basis.

17 **Fox Run** - The customer base is low (92) with an
18 average monthly usage of 8,810 gallons. The system
19 is 100% used & useful with higher than normal O&M
20 costs due to the high iron content of the water in
21 the area. The system is built out, therefore, there
22 will be no growth to offset additional capital and
23 O&M costs.

24 **Gospel Island** - The customer base is very low (8)
25 with an average usage of 5,852 gallons per month.

1 There is zero growth and there is no economy of
2 scale at this time.

3 **Hermits Cove** - There is a small customer base (178)
4 with low average usage of 2,850 gallons per month.
5 We have experienced no growth even though the
6 system is not built out.

7 **Holiday Haven & Jungle Den** - The customer base is
8 small (113/116). O&M costs (which include the cost
9 of water purchased from the City of Astor) are high
10 on a per customer basis. There is low average
11 usage of 2,902 and 2,146, respectively, and no
12 growth because the systems are built out.

13 **Lake Ajay** - The customer base is low (35), although
14 there has been significant growth over the past
15 four years. Average monthly usage is 9,912
16 gallons. Once again, there is no economy of scale
17 at this time to reduce rate base and O&M expenses.

18 **Lakeview Villas** - The customer base is low (13)
19 with an average monthly usage of only 2,329
20 gallons. Growth is negative. There is no economy
21 of scale at this time.

22 **Palisades County Club** - This is a new system with
23 only 4 customers on line. There is a large rate
24 base consistent with new plant.

25 **Park Manor** - The small customer base (30) uses an

1 average of 3,660 gallons per month. There is no
2 economy of scale at this time.

3 **Quail Ridge** - High rate base to customer ratio.
4 There is no growth. The customer base (11) uses
5 an average of 6,530 gallons per month. There is no
6 economy of scale at this time.

7 **Rosemont** - High rate base to customer ratio due to
8 a large amount of plant in service. The customer
9 base (47) uses an average of 9,430 gallons per
10 month, but this usage is offset by negative growth.

11 **Salt Springs** - A large amount of capital additions
12 have been required in the past 3 years. The
13 customer base (112) uses an average of 1,848
14 gallons per month. O&M costs increased in
15 association with the required capital additions.

16 **Saratoga Harbor** - High rate base to customer ratio.
17 The customer base (40) uses an average of 3,305
18 gallons per month. There has been some growth on
19 this system.

20 **Silver Lake Oaks** - High rate base to customer
21 ratio. The customer base (26) uses an average of
22 3,749 gallons per month.

23 **Stone Mountain** - There are only 6 customers. There
24 is negative growth which offsets the high average
25 use per customer of 17,151 gallons. There is no

1 economy of scale at this time.

2 **Wootens** - The customer base (17) uses only 2,007
3 gallons per month on average. There is no economy
4 of scale at this time. Growth is minimal.

5 **Zephyr Shores** - The customer base (514) has a
6 positive growth factor, but the average use per
7 month is only 3,361 gallons.

8 **SEWER**

9 **Apache Shores** - The customer base (112) uses only
10 an average of 1,297 gallons per month. Growth is
11 negative. There is no economy of scale.

12 **Beechers Point** - The customer base is low (16) and
13 average usage is only 3,573 gallons per month.
14 Growth is minimal. No economy of scale at this
15 time.

16 **Chuluota** - The customer base (132) uses an average
17 of 5,713 per month. There is negative growth. We
18 were required to retire the old sewer plant and
19 replace it with a new plant.

20 **Holiday Haven** - The customer base (96) has an
21 average usage of only 2,985 gallons per month.
22 Growth is minimal. No economy of scale at this
23 time.

24 **Jungle Den** - There is a fair level of growth.
25 However, customers (115) use an average of only

1 2,217 gallons per month. No economy of scale at
2 this time.

3 **Marion Oaks Utilities** - High rate base to customer
4 ratio. There is growth on this system. The
5 customer base (1,276) uses an average of 4,445
6 gallons per month.

7 **Morningview** -The customer base is low (35) and
8 average usage is 9,065 per month. There is some
9 growth on this system. However, there is no
10 economy of scale at this time.

11 **Park Manor** - Park Manor is another system where
12 economy of scale has not been achieved. There are
13 only 26 customers using an average of only 3,781
14 gallons per month.

15 **Point O' Woods** - The customer base (114) uses an
16 average of only 3,332 gallons per month. There is
17 excellent growth on this system. However, economy
18 of scale has not yet been achieved.

19 **Silver Lake Oaks** - There are only 25 customers who
20 use an average of only 3,912 gallons per month.
21 There is negative growth at this time.

22 **Sunny Hills** - High rate base to customer ratio.
23 The customer base (175) uses an average of 4,331
24 gallons per month. There is negative growth at
25 this time.

26 Q DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

27 A Yes, it does.

1 MR. ARMSTRONG: The witness is available for
2 cross examination.

3 MR. JONES: I have no questions.

4 MR. MCLEAN: Yes, sir. Mr. Lewis, how are
5 you, sir?

6 COMMISSIONER CLARK: Mr. Lewis, shouldn't the
7 answer to the last question should have been yes? You
8 said is it true that you have no exhibits?

9 WITNESS LEWIS: It is true that I have no
10 exhibits, I'm sorry, Commissioner.

11 MR. ARMSTRONG: Commissioners, I'm not sure --

12 CHAIRMAN BEARD: Generally.

13 MR. FEIL: Mr. Chairman, I don't know whether
14 or not it's necessary to give the MFRs an exhibit
15 number. I don't recall --

16 COMMISSIONER EASLEY: I don't think we did
17 either, come to think of it.

18 MR. FEIL: And I believe Mr. Lewis is
19 sponsoring the A and B Schedules of the MFR.

20 CHAIRMAN BEARD: Why don't -- once they're
21 all sponsored and done at the end, let's don't forget,
22 we'll give them the very last exhibit number.

23 MR. ARMSTRONG: Is that the MFRs we're
24 talking about?

25 CHAIRMAN BEARD: Yeah.

1 MR. ARMSTRONG: I think we introduced them
2 through Forrest Ludsen as his --

3 COMMISSIONER EASLEY: The whole shooting
4 match, did we?

5 MR. ARMSTRONG: Yeah. The whole shooting
6 match. We thought that would be convenient to have
7 them all identified as one exhibit.

8 MR. FEIL: I'll check on that. I'm sorry.

9 CHAIRMAN BEARD: I got to tell you, if you
10 did, I'm not seeing it. Anyway, if we haven't, when we
11 get to the end, we shall. (Pause)

12 CROSS EXAMINATION

13 BY MR. McLEAN:

14 Q Mr. Lewis, you've been provided two exhibits,
15 have you?

16 A Yes, sir.

17 MR. McLEAN: Mr. Chairman, may I have those
18 two exhibits marked for identification?

19 CHAIRMAN BEARD: First one, I guess is OPC,
20 Set No. 1, Document Request No. 2, is that correct?

21 MR. McLEAN: Yes, sir.

22 CHAIRMAN BEARD: That will be Exhibit No.
23 119. And the next one will be 120, and that will be
24 Set 4, Document Request No. 7.

25 (Exhibit Nos. 119 and 120 marked for

1 identification.)

2 Q (By Mr. McLean) Mr. Lewis, would you agree
3 that the bulk of the Utility MFRs were prepared using
4 electronic spreadsheets?

5 A That's correct.

6 Q All right, sir. An example of that would be
7 the O&M expenses contained in Volume 1, Book 3 of 4?

8 A Yes.

9 Q And the other schedules as well as, namely
10 summary schedules contain in Volumes 1, Book 1 of 4?

11 A That is correct.

12 Q All right, sir. Would you look to exhibit
13 119 please, sir? And that appears to be a request by
14 our office to Southern States, is it not?

15 A Yes.

16 Q And it says this: "Provide on an IBM
17 compatible floppy disk in Lotus 1-2-3, Word Perfect,
18 and/or ASCII file, format copies of all the electronic
19 schedules and work papers created in the process of
20 filing or revising the current rate increase request."
21 Now, would that include the two specific areas to which
22 I earlier referred?

23 A Yes, it would.

24 Q All right, sir. Now the response here, it
25 said that you sent A and B Schedules, E and F, correct?

1 And there's no mention of C or D, and I believe no
2 mention of O&M expenses or summary schedules, correct?

3 A That's correct.

4 Q Okay, Now, you and I discussed this problem
5 in your deposition on, I believe it was September 16th,
6 didn't we?

7 A Yes, we did.

8 Q And at that time I asked a general question,
9 and we can look it up if you want, but let's see if we
10 can remember. I asked a general question that said, we
11 haven't received all the electronic media yet, can you
12 give it to us. Do you remember that? Is that roughly
13 correct?

14 Q Yes.

15 Q And you said you would. And then you filed
16 -- is that correct also?

17 A Yes.

18 Q Okay. Then as a late-filed exhibit to your
19 deposition, you furnished us with Late-filed No. 1, PC
20 floppy disk allocation Schedule C and D Schedules. I
21 believe that would be Page 2 of Exhibit 119, correct?

22 A Yes, it would.

23 Q Now, are you -- do you recall that our office
24 also moved to compel that you file C and D as well as
25 other schedules?

1 A I think what the question was, Mr. McLean,
2 was, file floppies if I had, or could get floppy disk
3 of C and D.

4 Q Well, can we go back to Exhibit 119, first
5 page?

6 A Yes.

7 Q Okay. Now, would you read that question and
8 tell me whether you believe that is restricted to the
9 floppies which you already have?

10 A Yes.

11 Q Okay. Do you think it is restricted only to
12 those that you already have, or do you think we're
13 asking you to put it on to IBM compatible floppies?

14 A The way I understood this request, during the
15 discovery process was that if we had it on the floppy,
16 to provide it.

17 Q How do you understand it now, Mr. Lewis?

18 (Pause)

19 A If we have it on a floppy provide it and --

20 Q Okay, is that -- did you take a position, do
21 you know, did the Company take a position that it was
22 compelled only, or required by that question only to
23 comply -- only to furnish those diskettes which were
24 readily available?

25 A I know I can't speak for the Company, but I

1 know that I provided all diskettes that I had
2 available.

3 COMMISSIONER EASLEY: Were those provided --
4 were they IBM compatible?

5 WITNESS LEWIS: I think, Commissioner, the
6 ones I provided was Quatro Pro, subject to check, and
7 some of the others ones may have been SAS ASCII. I'm
8 not sure, but mine were basically Quatro Pro, which is a
9 --

10 COMMISSIONER EASLEY: So they may have been
11 IBM compatible, but they were in a different program?

12 WITNESS LEWIS: Yes.

13 COMMISSIONER EASLEY: Okay.

14 CHAIRMAN BEARD: You said in ASCII?

15 WITNESS LEWIS: I think some of the things
16 that were provided -- not from me, but maybe from some
17 of the others might have been ASCII SAS files, but from
18 mine came Quatro Pro floppies.

19 CHAIRMAN BEARD: Last time I checked, ASCII
20 was very easily converted to the others. I'm still not
21 sure what the problem is. Matter of fact, most laptops
22 like these convert them automatically without even
23 asking. Go ahead.

24 Q (By Mr. McLean) Mr. Lewis, I want to read
25 some language here to you, and ask you if you recognize

1 it. "The Utility must produce, within five days of the
2 date of this order, all diskettes in its possession,
3 not just those which are readily available," is that
4 correct? I'm sorry, not is that correct? Have you
5 ever heard that before?

6 A No, I haven't.

7 Q Would you be surprised to find out that those
8 are the words of the prehearing officer in the case?

9 A Yes, I would.

10 Q Okay. Now, let me ask you this: Do we have
11 -- do you know whether your Company has furnished
12 Office of Public Counsel the allocation schedules, the
13 O&M comparisons, or the summary schedules at this
14 point, in any format whatsoever?

15 I'm sorry. You can strike from that list the
16 -- let me re-ask the question. Do you know whether
17 your Company has provided in any electronic format, the
18 O&M comparisons and/or summary schedules?

19 A I'm under the impression that that wasn't
20 done up front. It was done in the late-filed.

21 Q Okay. Now, I believe that was Schedule C and
22 D that you were furnished with the late-filed, wasn't
23 it?

24 A Page 2 of exhibit -- Late-filed 119 says
25 Allocation Schedules, and C and D Schedules.

1 MR. ARMSTRONG: Commissioners, could I just
2 ask for a clarification of what an O&M comparisons are?
3 I'm just not familiar -- I just would like
4 clarification -- I'm wondering what O&M comparisons
5 are. Mr. McLean asked if we provided those. I just
6 don't know what the O&M comparisons are.

7 MR. McLEAN: We'll produce them for you in a
8 moment. I believe they're in your MFRs. (Pause)

9 MR. ARMSTRONG: It's clarified. They're
10 talking about the benchmark analysis.

11 Q (By Mr. McLean) Was the benchmark analysis
12 prepared by electronic spreadsheet?

13 A Yes, it is.

14 Q Do you know whether we have been provided
15 that by electronic media at this point?

16 A I can't answer that question for sure.

17 Q So you don't know?

18 A Not for sure.

19 Q You were the one responsible for answering
20 OPC 119, correct?

21 A Yes.

22 Q Mr. Lewis, is it your understanding that C
23 and D Schedules are the same as allocation schedules?

24 A I'm not sure I understand your question.

25 Q Okay. We're talking about three things here,

1 correct? We're talking about allocation schedules,
2 talking about C Schedules and D Schedules. Now, did
3 you all provide us the allocation schedules with the
4 late-filed exhibit? Do you know that for sure?

5 A Those were my instructions. I did not
6 physically check the floppy disk after I gave the
7 instructions.

8 Q Okay. Now with respect to the summary
9 schedules, do you know whether we have received those?

10 A Once again, I did not physically look at the
11 floppy disk.

12 Q Sir?

13 A I didn't physically look at the floppy disk,
14 so I can't answer that question.

15 Q Well, can you show us where you believe we
16 received them, if you do believe that? I'm speaking --
17 let me clear something up. We received the allocation
18 schedules; that's my error. I'm talking about the
19 summary schedules. Now, is there any part of this
20 which purports to have furnished us the summary
21 schedules. When I say "this," I mean either your
22 response to 119, or your late-filed exhibit.

23 A If the summary schedules weren't provided up
24 front on Document Request No. 2, it doesn't appear that
25 they were on what we're calling 119.

1 Q Okay. Now, were the summary schedules also
2 prepared by electronic media?

3 A Yes, they were.

4 Q Okay, thanks. Now, do you know why our
5 office has not received either the O&M comparisons,
6 namely the benchmark, or the summary schedules in
7 electronic media, thus far?

8 A If, in fact, you haven't received them, it
9 would have been a communications problem between myself
10 and the people underneath me that were scheduled to put
11 the information on the floppy disk for you.

12 Q Okay. And we discussed that in the
13 deposition, didn't we?

14 A Yes, we did.

15 Q Okay, thanks. Let's look to the second
16 exhibit here, please, sir. The one the chairman has
17 marked 120. Now this document request, which came from
18 our office, asked for reports, studies or other
19 documents in the Company's custody or control, which
20 compare the Company's operations to that of other water
21 and sewer -- wastewater utilities, correct?

22 A Yes, it does.

23 Q And you provide us with Appendix 7-A, is that
24 correct?

25 A Yes.

1 Q And you're the person who provided us with
2 Appendix 7-A, correct?

3 A Yes, I am.

4 Q And it's Page 1 of 1, correct?

5 A Yes, it is.

6 Q Do you think that this -- do you believe that
7 this is still the only document in the Company's
8 possession which qualified under this request? And by
9 qualified, I mean fell under the request actually.

10 (Pause)

11 A No. There was a document supplied to OPC in
12 Set No. 4, Document Request No. 6.

13 Q Would you describe what that instrument was,
14 sir?

15 A Financial and operating data for
16 investor-owned water utilities, 1989.

17 Q Okay thank you, Mr. Lewis. Wait one moment.

18 (Pause)

19 Mr. Lewis, we want to look to Exhibit No. 62.
20 Do you have it before you? Probably not. I don't
21 guess.

22 A No, I don't.

23 Q (By Mr. McLean) 62. I'm not sure that we
24 need to refer to it directly. Let me just read from it
25 a bit, and I think you'll know what I'm talking about.

1 One of the -- what's this program called?
2 Keys to Success -- Key Result Areas. One of the things
3 Ms. Loucks was going to do in 1991. One of her goals
4 -- one of the goals assigned to her, I believe, was to
5 evaluate and prepare a residential billing comparison,
6 which ranks SSU rates with all FPSC-regulated
7 investor-owned and municipal utilities' rates by
8 December 1, 1991. Now, I don't mean to imply that it
9 should have been done. I only want to know if it was
10 done. Do you know whether it was done?

11 A I am not in Helena's Care A Group. I think
12 that question, she'll have to answer.

13 Q But you don't know whether it was done or
14 not?

15 A Not for sure.

16 Q If it had been done, should it have been
17 included?

18 A Should it have been included in --

19 Q Yes, sir.

20 A In which one of these requests?

21 Q In the second. The one which asks you for
22 comparative studies.

23 A In the Document Request No. 7, of which I
24 told you I responded to in No. 4, Document Request No.
25 6, that talks about operational and financial

1 information of which, here, you're saying the Company's
2 operations. What you're asking that Helena did was
3 strictly rates. So I'm not sure we're talking apples
4 and apples.

5 Q Well my question -- I don't mean to get too
6 hung up on this and take too much time with it, but my
7 question is not whether the report which should have
8 been -- or was, perhaps, produced as a result of the
9 goals that y'all had. My question is not whether that
10 is like the response that you just read from, but my
11 question is whether this study which might have been
12 done, is like what we asked for. You understand?

13 A Right. And what I'm trying to tell you is,
14 the Company's operations, which is operational and
15 financial, versus what you're purporting she done was a
16 rate study.

17 Q Okay. So then in your opinion there is a
18 distinction between Company's operations and -- as
19 opposed to Company's rates?

20 A Well, they're distinctly different.

21 Q And it's your opinion that rates is not part
22 of operations?

23 A As far as doing some type of study, normally
24 when you do a rate study, you do a rate study versus --
25 you can do an operational and financial study. And if

1 you go back and look at this operational and financial
2 study, it doesn't compare rates.

3 MR. McLEAN: Thank you, Mr. Lewis. That's
4 all the questions we have. Thanks.

5 CROSS EXAMINATION

6 BY MR. FEIL:

7 Q Mr. Lewis, were you here for Mr. Morse's
8 questioning?

9 A Yes, I was.

10 Q Okay. A few questions were referred to you.
11 I'd like to ask them of you now. Mr. Morse was asked a
12 few questions concerning systems that were relatively
13 new, i.e., Palisades Country Club and the Quail Ridge
14 system. Basically, the questions were whether or not
15 you would think it would be reasonable to set rates,
16 assuming 80% build-out of the systems, rather than at
17 their current level of ERC use? Let me back up a
18 little bit, maybe that will help. The Palisades
19 Country Club system has three connections currently.
20 Would you agree with that, subject to check?

21 A Yes, I would.

22 Q Don't you think it would be a little more
23 reasonable to set rates based upon a number of
24 customers, at some point in time in the future, such as
25 1995 when the system is a little more built out?

1 A Could I have that question once more, please?

2 Q Don't you think it would be a little more
3 reasonable to set rates based upon the number of
4 customers that the system may have when the system is
5 closer toward build-out, like around 1995?

6 A I'm flattered that you're asking me that
7 question, but because Helena Loucks is manager of
8 rates, and she does the rate design, I don't want to be
9 stealing her thunder. So, I think she should answer
10 that question.

11 Q All right, I'll bounce it back to her.
12 Mr. Morse, or excuse me Mr. Lewis, I'm for
13 getting who you are. Was it you in the Company who
14 made the decision not to impute CIAC on margin reserve?

15 A Yes, it was.

16 Q Isn't it correct that if the Commission did
17 not impute CIAC on margin reserve the Utility would be
18 allowed to earn a return on plant that will be
19 contributed by future customers?

20 A No, it was not.

21 MR. FEIL: Commissioners, I ask we take
22 administrative notice of two orders; the Order Nos. for
23 the record are 23660, and a long one, PSC-92-0594-FOF-SU.
24 Both those orders address the imputation of CIAC on margin
25 reserve.

1 CHAIRMAN BEARD: Okay.

2 Q (By Mr. Feil) Mr. Lewis, Mr. Morse also
3 referred some other questions to you regarding Exhibit
4 No. 112. Do you have that in front of you? It was the
5 response to an OPC interrogatory. It was Appendix 70-B.

6 A Yes, I do.

7 Q Do you recall the questions asked of Mr. Morse
8 while he was here regarding that exhibit?

9 A Could you refresh my memory, please?

10 Q Basically, what is there, there are several
11 future use plant sites listed there. Could you tell me
12 whether or not those future use plant sites are
13 included in rate base?

14 A The future use sites that were booked to the
15 general ledger were incorporated into the rate filing
16 and then implemented into the rate base.

17 Q Do you believe that vacant land should be
18 considered used and useful?

19 A I believe that if what you are referring to
20 as "vacant land" has been committed for construction
21 and that construction is going to take place in the
22 period of time that parallels the margin of reserve or
23 of which the period now looks to me like from 18 months
24 to five years, yes, it should.

25 Q And the Company is going to be preparing a

1 late-filed exhibit describing any such plans for that
2 future use land, correct? I believe we asked that as a
3 late-filed exhibit from Mr. Morse.

4 Would you be able to participate in his
5 preparation of that late-filed exhibit? It's
6 Late-Filed Exhibit 116.

7 A Yes, I will. (Pause)

8 Q Do you know whether or not a written plan for
9 the future use properties use is in existence? Does
10 the Company have a written plan for these future use
11 sites?

12 A I don't normally get involved in the planning
13 area through the Engineering and Operations Section, so
14 I'm probably not the one to answer that, but I would be
15 surprised if there wasn't.

16 COMMISSIONER EASLEY: Then let me follow
17 that. I don't understand, if you don't know whether
18 there is a plan and don't participate in the plan, how
19 do you come up with determining that used and useful
20 depends upon whether or not the future use will come
21 about in 18 months to five years? How are you going to
22 know?

23 WITNESS LEWIS: I relied upon the Engineering
24 Section and Mr. Morse to tell me that there was going
25 to be assets within the period of what they were

1 providing the margin reserve over five years for so I
2 didn't make the adjustment.

3 COMMISSIONER EASLEY: Okay. So you're assuming
4 if there is a plan, Mr. Morse has it.

5 WITNESS LEWIS: I'm assuming if there's a plan
6 that the engineers, the operation people, and Mr. Morse
7 would have known about it in doing their used and useful
8 calculation, yes.

9 COMMISSIONER EASLEY: Okay.

10 Q (Mr. Feil) Mr. Lewis, if you could, on
11 Late-Filed Exhibit 116, I believe we asked for a
12 written plan if one existed. If you could also, as
13 part of that exhibit, compile a plan if there is not
14 one presently in existence, or give us some idea of
15 what the future use intentions are for those particular
16 sites in that exhibit.

17 A Certainly.

18 COMMISSIONER EASLEY: Could I get in this
19 before you leave that late-filed? What you're going to
20 furnish in that late-filed exhibit is the future use
21 plans for all the systems, as I understand it; is that
22 the way you understand it?

23 WITNESS LEWIS: All the systems that have
24 land questioned in Exhibit 116.

25 COMMISSIONER EASLEY: I thought that was all

1 of them.

2 MR. FEIL: I think we asked just to all of
3 them that were in that exhibit.

4 COMMISSIONER EASLEY: Oh, wait a minute. In
5 116, not in 112? Are Sunny Hills and Marion Oaks in
6 there?

7 WITNESS LEWIS: Yes.

8 MR. FEIL: Yes.

9 COMMISSIONER EASLEY: All right. In that
10 case, using specifically Sunny Hills and Marion Oaks,
11 only because I haven't gone through the rest of this
12 list, will I be able to tell from there whether or not
13 in the future use plans -- say, for instance, at Sunny
14 Hills, that shows the date dedicated to utility service
15 as being 1971 -- whether or not those plans have been
16 changed, updated in that 21-year interval? I mean, are
17 we talking about the same future use plans that they
18 were in 1971 is what I'm trying to get to.

19 WITNESS LEWIS: I think what we would need to
20 do would be a chronology.

21 COMMISSIONER EASLEY: Either that or tell me
22 when they became, in your opinion, used and useful.

23 WITNESS LEWIS: Okay.

24 COMMISSIONER EASLEY: I'm having a little
25 trouble with 18 months to 5 years when something has

1 been sitting there for 21 years. If that plan hasn't
2 changed and nothing has happened, I've got a problem.
3 That's where I'm trying to go. Thank you.

4 Q (Mr. Feil) Mr. Lewis, do you recall whether
5 or not those future use plant sites were included or
6 excluded from rate base in the last rate case?

7 A To the best of my recollection, the systems
8 that were in the mega case, i.e., Sunny Hills, Marco
9 Shores, Marion Oaks, versus Deltona Lakes, Spring
10 Hills, Citrus Park, Pine Ridge, subject to check, yes.

11 COMMISSIONER EASLEY: And they are included
12 in this rate case?

13 WITNESS LEWIS: Yes. But I think the numbers
14 are different because of the adjustments for the land
15 appraisal. Subject to check.

16 COMMISSIONER EASLEY: We'll talk about that
17 when you all get through with this.

18 Q (Mr. Feil) Assuming that the future use
19 plant sites are in rate base now -- strike that.

20 If we could, Mr. Lewis, we've had trouble tying
21 the land values in the MFRs to that Appendix 70-B. If you
22 could provide a late-filed exhibit tying the land values
23 in the Appendix 70-B to what's in the MFRs?

24 A Yes, I could. I'd just like to say that the
25 MFRs tied to the general ledger, which ties back to

1 FPSC auditor, Mr. Todd's, audit report, excluding one
2 mechanical error which he described on Page 16. But
3 I'd be more than happy to reconcile that piece of the
4 MFRs back to 70-B.

5 Q It may very well be what was in 70-B doesn't
6 tie to the ledger, isn't that correct?

7 A That is correct. And you may be looking at
8 average versus year-end plan, et cetera, but we will do
9 that for you.

10 MR. FEIL: Thank you. Mr. Chairman, may I
11 have an exhibit number?

12 CHAIRMAN BEARD: Why sure. 121. Can I have
13 an exhibit?

14 MR. FEIL: Short title, "Reconciliation
15 Appendix 70-B to MFRs."

16 COMMISSIONER EASLEY: And that's going to be
17 the A-1 and A-2 schedules for both water and sewer?

18 MR. FEIL: It would depend on the plant site.

19 COMMISSIONER EASLEY: Well, --

20 MR. FEIL: Because I believe 70-B has both
21 water and wastewater items in there.

22 COMMISSIONER EASLEY: It does.

23 MR. FEIL: So it would be for both.

24 COMMISSIONER EASLEY: Yes, it would be for
25 both. Thank you.

1 (Late-Filed Exhibit No. 121 identified.)

2 (Pause)

3 Q (Mr. Feil) Mr. Lewis, I believe I handed you
4 an exhibit which we passed out when Mr. Morse was on
5 the stand. Excuse me, it wasn't an exhibit, it was
6 something labeled "AFPI Supporting Information." There
7 are several excerpts from the MFRs. Do you have that
8 in front of you?

9 A Yes, I do.

10 Q I believe Mr. Morse said that he prepared
11 much of the AFPI information but that it was done under
12 your direct supervision and control, is that correct?

13 A Yes, it is.

14 Q Is it correct that the AFPI charges are based
15 on the requested cost of capital, and particularly the
16 return on equity requested in the case?

17 A Yes.

18 Q So if the cost of capital changes, the AFPI
19 charges will change. That's also correct?

20 A Yes.

21 Q And the AFPI rate should be adjusted to
22 conform with any used and useful adjustments, is that
23 also correct?

24 A Yes, it is.

25 Q If any adjustments cause the AFPI charge to

1 exceed the amount shown in the MFRs, should the AFPI
2 charges be adjusted accordingly?

3 A Yes, they should.

4 Q I have you refer to the page, I believe it's
5 the second page in that package; it has page No. 20 at
6 the bottom.

7 I just want you to confirm that with regards
8 to property taxes, which appears in the second, or
9 excuse me, what would be the third column, I want you
10 to confirm that the Company excluded from the AFPI
11 charges all property taxes; is that correct?

12 A Yes, it is.

13 Q Isn't it correct that the Company is requesting
14 recovery of all of its property taxes through its service
15 rates to its current customers; is that correct?

16 A That is correct.

17 Q If property taxes relating to nonused and
18 useful plant were excluded from test year operating
19 expenses, would inclusion of those expenses through the
20 AFPI charges allow the Utility to recover those
21 expenses?

22 A Would you repeat your question, please?

23 Q Yes, I will. If property taxes relating to
24 nonused and useful plant were excluded from test year
25 operating expenses, i.e., not recovered through the

1 current rates, would inclusion of those expenses in the
2 AFPI calculation allow the Utility to recover those
3 expenses?

4 A Theoretically, it would all depend upon if
5 you had any customers hook up to the system to collect
6 the AFPI.

7 Q I think what you're describing is a manner by
8 which the Utility would be harmed if the property tax
9 carrying costs for nonused and useful property were
10 included in the AFPI charge; is that correct?

11 I believe what you're saying is that if the
12 property taxes for nonused and useful property were
13 included in the AFPI charge, the Company might be
14 harmed because the customers may not connect; is that
15 correct?

16 A That's correct. And it is a typical cash
17 flow expense.

18 Q All right. May I refer you to the page that
19 has at the bottom 221. I believe it's three pages
20 further down in the pile. It's Sugar Mill Woods
21 Schedule G, Page 1 of 4. In looking at the schedule,
22 isn't it correct that the Company is proposing one APFI
23 charge for both treatment and collection facilities?

24 A Yes, it is.

25 Q Is the Utility proposing a similar type

1 combined charge for a number of other water and
2 wastewater systems included in this filing?

3 A Would you repeat the question, please?

4 Q Isn't it correct that the Utility is
5 proposing a similar type of combined charge for the
6 other water and sewer systems included in this filing?

7 A Subject to check, yes.

8 Q If you could turn to the next page, it has a
9 222 at the bottom, it's Page 2 of 4. Again, it's
10 dealing with Sugar Mill Woods. If you could refer to
11 the second line there where it says, "divided by future
12 ERC." Isn't it correct that that number was arrived at
13 by dividing the number above it by the number below it?

14 A The 40333?

15 Q Yes.

16 A That's the piece of the exhibit that Mr. Morse
17 sponsored, and I don't want to answer that question.

18 Q Isn't it correct at least that the charge
19 which the Utility has compiled is, in effect, a blended
20 charge, because it covers both treatment plant and
21 distribution?

22 A Yes, it is.

23 Q All right.

24 Could you refer to the page that has at the
25 bottom No. 231. I think it's closer towards the

1 bottom. It's a G Schedule for University Shores.

2 A I have it.

3 Q Isn't it fair to say that there's a
4 substantial difference there for the remaining ERCs
5 between treatment plant and the collection system?

6 A Yes, there is. You're looking at 195 versus
7 over 1,000.

8 Q Would collection of separate AFPI charges for
9 those two components be unreasonable? (Pause)

10 A My response to that would be no. The only
11 negative aspect to this would be administrating two
12 rates for an AFPI charge versus one and maybe that
13 would be less equitable than splitting out the pieces.

14 Q Would you look at what I believe is one of
15 the top pages of what's been handed to you, it's
16 labeled 19 at the bottom? It's in that same package,
17 it's a G Schedule, Page 1 of 4, for Burnt Store?

18 A I have it.

19 Q Okay. Isn't it correct here that there are
20 several plan components for remaining ERCs?

21 A Yes, there is. They range from 32 for 3,684.

22 Q Wouldn't it be possible, in this instance, to
23 have several different AFPI charges were the Commission
24 to segregate out the different types of facilities?

25 A Yes, it is. Once again, my response would be

1 it would be how equitable it would be to do that versus
2 your administrative burden.

3 Q Well, if the Commission were to divide it
4 into two separate areas, transmission and distribution
5 and treatment plant, would the storage plant facilities
6 go in the distribution category or in the treatment
7 category?

8 A You're asking a non-engineer to answer that?

9 Q Yes.

10 A Subject to being ridiculed by my Engineering
11 Department, probably water treatment.

12 Q Does the Utility propose to discontinue
13 collecting AFPI charges when the reported number of
14 remaining ERCs are all connected?

15 A The Company's position would be to cover AFPI
16 under the guidelines and rules of the Florida Public
17 Service Commission per the tariff sheets.

18 Q The number of remaining ERCs diminishes each
19 time a customer connects. So, does that count of
20 diminished ERCs commence on January 1, 1992?

21 A My recollection would be that the AFPI
22 charges would commence once the Florida Public Service
23 Commission has ruled on the rate case, so ordered the
24 AFPI rates, and put them into effect with a signed
25 tariff sheet by Mr. Hill.

1 Q Could I have you turn to the next page, Page
2 20? It's another G Schedule for Burnt Store.

3 A Okay. (Pause)

4 Q The second line there, divided by future
5 ERCs, 2,204. Isn't that number the number of persons
6 who could connect beginning at the ending of 1991 and
7 the beginning of 1992?

8 A Once again, that's a question for Mr. Morse,
9 he sponsored the ERCs. (Pause)

10 Q We're going to have something passed out to
11 you. Again, it's another schedule from the MFRs.
12 (Pause)

13 For the record, I think it's Schedule A-2,
14 Page 1 of 2, from Volume III, Book 3 of 6.

15 Do you have that in front of you, Mr. Lewis?

16 A Yes, I do.

17 Q Doesn't this show that Sugar Mill Woods has a
18 zero rate base?

19 A Yes, it does.

20 Q If all of the numbers in Column 4 were added
21 up, wouldn't it have a negative rate base? Or would
22 you agree, subject to check, that it would? (Pause)

23 A I can add those up, if you would like.

24 Q Would you agree, subject to check? (Pause)

25 A I think I'd better add them up, if you don't

1 mind.

2 Q If you want to, go ahead. (Pause)

3 MR. ARMSTRONG: Commissioners, if I may,
4 while we're waiting. Mr. Feil has asked for the
5 Commission to take judicial notice of two orders, and I
6 was just wondering what it was in those orders that you
7 were asking for judicial notice of.

8 MR. FEIL: Imputation of CIAC and margin
9 reserve.

10 MR. ARMSTRONG: Okay. Thanks.

11 MR. FEIL: Sorry, I though I said that.

12 MR. ARMSTRONG: That's okay, I might have
13 missed it. (Pause)

14 A That's correct.

15 Q (By Mr. Feil) All right. Could you refer to
16 Line 6, Column 3. Doesn't this show that the Utility
17 made a used and useful adjustment in CIAC?

18 A Yes, it does.

19 Q Does this schedule show that the Utility
20 claims that more CIAC than plant is not used and
21 useful?

22 A No. What it's suggesting is that, because of
23 the abnormal amount of CIAC, including the prepaids
24 that were paid up prior to 1987 when it was owned by
25 PGI, that we made an adjustment based on the composite

1 nonused and useful of the plant in service. That's
2 what that adjustment is.

3 Q Would you agree that the sum of the CIAC number
4 there -- or, excuse me, the adjustment to the CIAC number
5 there and the adjustment to the accumulated amortization
6 of the CIAC number there is greater than the nonused and
7 useful balance listed in Line 3, Column 2?

8 A Yes, it is.

9 Q Isn't it true that the Utility claims that
10 CIAC is partly nonused and useful for Sugar Mill Woods
11 water and Burnt Store wastewater systems?

12 A I made that adjustment to Burnt Store sewer
13 -- excuse me, wastewater -- Sugar Mill Woods wastewater
14 and water, yes, I did. (Pause)

15 Q If I could again refer you to the AFPI exhibit?
16 I'm calling it an exhibit, even though it's not one. Page
17 222, Sugar Mill Woods Schedule G, Page 2 of 4?

18 A Okay.

19 Q Could you tell me how the nonused and useful
20 CIAC is considered in this calculation of AFPI?

21 A It's not reflected in it.

22 Q Since the Utility's wastewater facilities in
23 Sugar Mill Woods are wholly offset by CIAC, why do you
24 contend that AFPI revenues are needed for that system?
25 (Pause)

1 A Having had an opportunity to look back with
2 some hindsight, I would agree that there should be an
3 adjustment made for the prepaid used and useful in our
4 AFPI calculation.

5 Q And that would be true for the other systems
6 that we've mentioned as well, also?

7 A Sugar Mill Woods water, Sugar Mill Woods
8 wastewater -- this is in Citrus County, not to be
9 confused with Sugar Mill in Volusia County -- and Burnt
10 Store in Charlotte/Lee Counties.

11 Q Isn't it correct that the Utility uses gross
12 plant rather than net plant to calculate its requested
13 AFPI charges?

14 A Yes, it is.

15 Q Isn't it correct that used and useful
16 adjustments are applied to net plant in the rate base
17 determination?

18 A Yes, it is.

19 Q For the Sugar Mill Woods wastewater system,
20 is it correct that the nonused and useful reduction to
21 rate base is \$833,000 less than the nonused provision
22 for plant in the AFPI calculation? Would you agree to
23 that, subject to check?

24 A Would you repeat? You lost me.

25 Q Sure. I got lost, too.

1 For the Sugar Mill Woods wastewater system is
2 it correct that the nonused and useful reduction to
3 rate base is \$833,000 less than the nonused provision
4 for plant in the AFPI calculation?

5 A That looks close.

6 Q So your answer is yes, subject to check?

7 A Yes, it is.

8 Q If accumulated depreciation is ignored in the
9 AFPI calculation would the Utility collect interest and
10 equity earnings on the balance associated with the
11 previously claimed depreciation expense? (Pause)

12 A I'm not sure what your question is, but maybe
13 I can give you the reason why I used gross plant, if
14 that would help you.

15 Q Yes, please.

16 A When you do a used and useful on the rate
17 base side, the Commission has developed a vehicle
18 called AFPI to recover from the future customers the
19 carrying costs of that plant that was deemed nonused
20 and useful.

21 I feel that in the AFPI calculation, unless
22 you've already collected through previous AFPI rates
23 rate base carrying charges, depreciation and, if
24 requested, property taxes, that in the case of our
25 systems that's never had an AFPI calculation, that if

1 you do not use gross plant, that there would be a piece
2 of accumulated depreciation that will never be
3 recovered in AFPI rates.

4 And once that plant becomes 100% used and
5 useful in a future rate case, it will have been buried
6 in accumulated depreciation, and, therefore, you will
7 have never recovered it. So that is why I have always
8 testified before the Commission to use gross plant.

9 COMMISSIONER CLARK: While he's conferring
10 over there, would you say what you just said again?
11 Slowly.

12 WITNESS LEWIS: Yes, ma'am. As you know, the
13 Commission has developed AFPI rates to help the Utility
14 recover the carrying charge of the cost of the plant,
15 depreciation, and, if requested, property taxes through
16 AFPI.

17 And what I'm saying is that once you develop
18 the nonused and useful and you have never had AFPI
19 rates before, if you don't use gross plant, there's a
20 piece of accumulated depreciation that gets -- based
21 upon the time you file the rate case and if you have
22 any growth -- that comes back; that if you don't
23 develop original AFPI rates on gross plant, you'll
24 never receive that, whether or not you have growth to
25 build-out within those five years or not.

1 And that's why that I'm requesting gross
2 plant on AFPI rates for systems where that plant has
3 never had a AFPI rate previous. Because once that
4 plant becomes used and useful and you go back to rate
5 base, your starting points from the last rate case pull
6 forward, even if it's 100%, that accumulated
7 depreciation is going to show up in the used and useful
8 accumulated so it reduces your rate base.

9 That's what I'm saying.

10 COMMISSIONER CLARK: So, in other words, if
11 you, in order to recognize the fact that you -- if you
12 do not use gross plant, you do not recognize the fact
13 that on your books you have accounted for depreciation
14 that was unpaid for, unfunded depreciation?

15 WITNESS LEWIS: Yes, ma'am.

16 COMMISSIONER CLARK: Okay.

17 Q (By Mr. Feil) Mr. Lewis, did you participate
18 at all in the preparation of the AFPI calculation in
19 the Lehigh case? (Pause)

20 A No. But I wish I had. (Laughter)

21 Q Were you aware of what transpired regarding
22 the AFPI calculation at the Lehigh hearing?

23 A Not until, gosh, is today Wednesday? Monday
24 of this week.

25 Q And what was it that transpired regarding the

1 AFPI calculation?

2 A I was told by Mr. Nixon that he reversed his
3 opinion in his deposition and used net plant. And I
4 don't want to say in front of the Commission what I
5 told him after he said that.

6 MR. FEIL: All right. (Laughter)

7 COMMISSIONER CLARK: Well, you have just
8 provided an explanation of why you believe it shouldn't
9 be net plant, right? I mean, that's the real issue is
10 the logic behind doing it one way or the other?

11 WITNESS LEWIS: Yes, ma'am. Because of that
12 piece of accumulated depreciation.

13 Q (By Mr. Feil) Does uncounted accumulated
14 depreciation sometimes relate to depreciation expense
15 claimed even before acquisition of a system by Southern
16 States?

17 A I need to have you repeat that question,
18 please.

19 Q I'm sorry. My lips are a little parched.

20 (Pause)

21 Does the uncounted accumulated depreciation
22 sometimes relate to depreciation expense claimed even
23 before acquisition of a system by Southern States?

24 (Pause) And as an example, you may want to think of
25 the Deltona systems.

1 A Please run that by me once more.

2 Q Does uncounted accumulated depreciation
3 sometimes relate to depreciation expense claimed even
4 before acquisition of a system by Southern States?

5 A Could I have a second to think about that,
6 please?

7 Q Sure. I'll have a drink while you're doing
8 that. (Pause)

9 A I'm having a problem with the definition of
10 "unaccounted depreciation" and what you mean by that
11 "prior to the acquisition."

12 COMMISSIONER CLARK: Let me try it this way:
13 When Deltona owned it, they had a book value when they
14 first invested in the plant. And over the years, they
15 have depreciated it. And you acquire it. Won't you,
16 if you use gross plant, won't you be being paid for
17 depreciation that took place while it was owned by
18 Deltona if you include that in your gross plant for
19 AFPI?

20 I mean, you have a change in ownership and,
21 in effect, you'll be getting the depreciation back that
22 was charged when it was owned by Deltona. Is that what
23 you're saying?

24 COMMISSIONER EASLEY: Kind of like I buy a
25 typewriter at the office, has a three-year life and I

1 depreciate it. And I sell you the used typewriter, and
2 you depreciate it for another three years.

3 WITNESS LEWIS: I'm having a problem
4 answering that because of two independent variables.
5 Number one, you'd have to look at what was being
6 collected in depreciation -- let's say, using Deltona
7 as an example. I'd have to know what was being
8 collected by Deltona in current rates, and if they had
9 AFPI charges, what was being collected there, as far as
10 used and useful -- what the used and useful piece was
11 when you obtained the utility. And if, going back to
12 my first scenario, that Deltona was collecting AFPI on
13 the nonused and useful, as I said earlier, I would have
14 no problem -- in fact, I would suggest that Generally
15 Accepted Accounting Principles would say that you would
16 go with net plant, otherwise, you would be recovering
17 depreciation expense that Deltona had recovered through
18 AFPI, knowing that they couldn't have recovered it
19 through depreciation, because if you get it as nonused
20 and useful, obviously, it was nonused and useful when
21 Deltona had it. And that gets back to my point where,
22 if there's already been an AFPI charge, I would have no
23 problem using net plant.

24 COMMISSIONER CLARK: Even if there wasn't an
25 AFPI charge when Deltona had it, why should you be able

1 to collect for the unfunded depreciation that they
2 experienced?

3 WITNESS LEWIS: That's going back to the same
4 argument, when you acquire a system, do you get it at
5 net book value, or do you get it at what you paid for
6 it?

7 COMMISSIONER CLARK: Well, wouldn't it be
8 more consistent if the Commission continues the book
9 value, and whether that results in a negative or
10 positive acquisition adjustment? It's been my
11 experience, that the Commission continues the book
12 value. So why -- if they do that, why should you be
13 able to collect the depreciation that was experienced
14 while Deltona owned it? I mean, you didn't invest in
15 that if we used book value.

16 A Well, once again, as you're going forward,
17 unless there's no growth whatsoever. And if there is
18 no growth whatsoever, the AFPI charges are academic,
19 because you're never going do collect them, but, as you
20 go forward from the time that Deltona owned it, to the
21 time of purchase, I would hope that there is some
22 growth. So the used and useful is going down
23 considerably, which tells me that if there was no prior
24 AFPI charge, there's -- and I understand what you're
25 saying is there's a certain portion that depreciation

1 that Deltona ate, and so why should you recover.

2 COMMISSIONER CLARK: That's right.

3 WITNESS LEWIS: Good question.

4 COMMISSIONER CLARK: I mean, we're going to
5 get -- we take book value, regardless of what you pay
6 for it, usually. I mean, I think that's what the rule
7 is.

8 MR. McLEAN: No.

9 COMMISSIONER CLARK: It's not a rule yet?

10 MR. McLEAN: It's not a rule.

11 COMMISSIONER CLARK: I think we just have to
12 be consistent, I mean.

13 COMMISSIONER EASLEY: Generally.

14 WITNESS LEWIS: I know if I make a commitment
15 on this, I'm going to go back tonight, lay down in my
16 bed, think about it for about sixteen hours, and feel
17 really bad that I gave the wrong answer.

18 COMMISSIONER CLARK: You can come back
19 tomorrow.

20 WITNESS LEWIS: They're calling for me in
21 Apopka.

22 COMMISSIONER EASLEY: Then Mr. Nixon will
23 have a chance to tell you what you did.

24 Q (By Mr. Feil) Mr. Lewis, are you aware of
25 any instance in the past where the Commission has

1 approved an AFPI charge, based on gross plant rather
2 than net plant?

3 A I thought they did in our 1989 Seminole
4 Electric -- Seminole Electric, excuse me -- Seminole
5 County water and sewer case, on the sewer site at
6 Chuluota and Florida Central, but that's subject to
7 check. That's been so long.

8 Q Would you agree, though, it's basically
9 Commission practice to using that plant, though?

10 A Yes, it is.

11 Q I believe we asked Mr. Hartman a question
12 regarding capping on AFPI. Is it correct that the
13 amount of the charge is capped at the end of five
14 years, but the utility can still collect the charge
15 after five years?

16 A I've never personally had the opportunity to
17 administrate -- administer the AFPI charges, but I
18 think that's how it works. I know the present value of
19 the rate stops after 60 months, but I'm not real sure
20 if any new customers come on after that, if you can
21 charge them that 60-month present value cap charge or
22 if you can't charge anymore. I'm not sure.

23 Q Moving to the area of AFUDC. Did you prepare
24 the schedules which show the AFUDC rates and
25 calculations?

1 A Did I prepare the actual schedules?

2 Q Yes.

3 A Mr. Morse did, under my direction, and placed
4 my name on it.

5 Q Is it correct that the utility is requesting
6 identical AFUDC rates for all of its systems?

7 A Oh, I'm sorry. I thought we were talking --
8 can we correct the record? I'm sorry, you jumped from
9 AFPI to AFUDC, and I apologize.

10 Q Different acronym.

11 A To answer your questions, I sponsored them.
12 Based on our consolidated capital structure, we are
13 requesting uniform AFPI rates for all 127 systems in
14 this filing, versus the Lehigh and Marco filings, which
15 we requested stand-alone AFUDC.

16 COMMISSIONER CLARK: I think you misspoke.
17 You used AFPI in the middle of that. You mean AFUDC,
18 right?

19 WITNESS LEWIS: May I stand to be corrected
20 about the AFUDC not AFPI?

21 Q (By Mr. Feil) The AFUDC rate is calculated
22 on the cost of capital, I believe is what you said, is
23 that correct?

24 A Yes, it would tie back to the D Schedules
25 except per the FPSC rules, we have excluded ITC.

1 Q If the return on equity approved in the case
2 were lower than what is listed in the MFRs the AFUDC
3 rate would change, would it not?

4 A Yes, sir, it would.

5 Q And the same with interest rate on debt, the
6 AFUDC rate would change, would it not?

7 A Would you repeat that question, please?

8 Q If the Commission approved a lower cost of
9 debt than what it is requested in the MFRs, the AFUDC
10 rate should change, correct?

11 A That's correct, also.

12 MR. FEIL: All right. Commissioners, this
13 may be an appropriate place to take a break. Mr. Lewis
14 has been up there for a little while. I'd like to have
15 a few minutes if that's all right. I have maybe 15 or
16 20 minutes left.

17 CHAIRMAN BEARD: Would taking a break help
18 you clarify that 15 or 20 minutes?

19 MR. FEIL: I think so.

20 CHAIRMAN BEARD: Because I think it's been
21 actually about an hour, I think, since we came back
22 from break. Maybe a little bit longer, not much.

23 COMMISSIONER EASLEY: Well, if it looks like
24 we can take a break and wind it up.

25 CHAIRMAN BEARD: Oh, we will wind it up.

1 (Brief Recess.)

2 - - - - -

3 COMMISSIONER BEARD: Back to the salt mines.

4 Q (By Mr. Feil) Mr. Lewis, who was the company
5 for the system that has that AFPI charge?

6 A I can't name them off the top of my head, but
7 I think there are some where there's a parallel between
8 existing and requesting new.

9 Q You say that they parallel?

10 A In other words, I think there are some
11 systems that have existing AFPI that we requested new
12 AFPI based on the latest used and useful.

13 Q Can you give me an proximate number of how
14 many?

15 A It might be easier -- I don't have them right
16 off the top of my head. I have to look. But I would
17 guess that it would be -- it's definitely all the
18 Deltona systems that we acquired that had existing --

19 Q All right. On Issue 79, which relates to
20 \$14,326 test year expense for the Jungle Den system,
21 the Company's position, I believe, was that if the item
22 is not an expense, it should be amortized over three
23 years. Could you tell me why it should be amortized
24 rather than disallowance as an expense as OPC
25 advocates?

1 A Could I get a copy of that issue, please?

2 Q How about if I read it to you?

3 A Okay.

4 Q The issue is "Should \$14,326 test year
5 expense in the Jungle Den system to televise and repair
6 wastewater collection lines be amortized?" Do you have
7 it in front of you now?

8 A Yes, I do.

9 Q Could you tell me why it should be amortized
10 rather than disallowed as an expense, or disallowed as
11 a nonoccurring expense?

12 A Okay. In my eyes it's a legitimate expense.
13 And why we're requesting to amortize it over three
14 years versus having it in there as a reoccurring event,
15 I think an occurrence like this does occur on utility
16 systems. Maybe not the same system, but it does occur
17 and it will keep occurring. And what we're looking for
18 here is the fact that it does occur, and in my eyes,
19 because it will be performed more than one time in the
20 life of the system, that you don't just exclude that
21 expense. And if you don't put it into the rates all at
22 once in one shot, the only other way to do it would be
23 to amortize it, and because we're seeing here that we
24 think this will reoccur, I see nothing wrong with a
25 three-year amortization back through the rates of that

1 expense.

2 Q All right, Mr. Lewis. If you could refer to
3 a document that we passed out during the break. It
4 says "Description supporting information for
5 amortization of CIAC." Again, these are excerpts from
6 the MRFs. Do you have that in front of you?

7 A No, I don't. (Pause) Yes, I do.

8 Q These are excerpts from the MFRs. On the
9 page that's labeled there, 120, again this is for Sugar
10 Mill Woods water rate base, and you see again there on
11 Line 6 the used and useful adjustment for CIAC; is that
12 correct?

13 A Yes, it is.

14 Q Could you turn to the next page which has at
15 the bottom 171. It's a B-13 Schedule.

16 A Yes.

17 Q Does this show how the Utility has calculated
18 depreciation expense?

19 A Yes, it is.

20 Q And depreciation expense is offset or
21 adjusted for amortization of CIAC; is that correct?

22 A Yes, it is.

23 Q Could you turn to the page immediately after
24 that. It's Page 172 labeled at the bottom. It's a
25 B-13 Schedule.

1 A I have it.

2 Q Does the Utility reduce the provision fo
3 amortization of CIAC for nonused and useful property,
4 or make a nonused and useful adjustment to amortization
5 of CIAC?

6 A Are you talking about the Column 5?

7 Q Yes.

8 A Yes, I have.

9 Q Could you refer back to the page that's
10 labeled 120?

11 A All right.

12 Q Line 6, Column 4. That is the amount of CIAC
13 after of the used and useful adjustment, correct?

14 A That's correct.

15 Q Is the amortization of CIAC reduced a second
16 time for used and useful when the adjustment in Column
17 5 on Page 172 is made?

18 A Yes. If you look at the adjustment, because
19 you pulled forward in Column 2 post-adjusted CIAC for
20 nonused and useful, the Column 5 adjustment is double
21 accounting for that.

22 Q Is that an error?

23 A Yes, it is.

24 Q Should that double accounting error be
25 corrected?

1 A Yes, it should.

2 Q Would you agree, subject to check, that the
3 same error was made with regard to the other systems
4 that have prepaid CIAC?

5 A Yes. The error was made in Sugar Mill Woods,
6 water, sewer; Burnt Store, sewer.

7 MR. FEIL: Staff has no further questions.

8 COMMISSIONER BEARD: Commissioners?

9 COMMISSIONER EASLEY: Mr. Lewis, do you have
10 -- I hate to do this -- do you have Exhibit 122 or 112,
11 which is 70-B, Appendix 70-B?

12 WITNESS LEWIS: Yes, ma'am. I do.

13 COMMISSIONER EASLEY: Turn to Page 2 of 5 and
14 then look at MFRs Book 4 of 11, Volume 2, Page 3. I
15 think we can do this by my just telling you what these
16 column headings and numbers are, if you've got 112 in
17 front of you.

18 WITNESS LEWIS: I have 112. I think Mr.
19 Hoffman is bringing me the other one.

20 COMMISSIONER EASLEY: Let's try it. If I get
21 you lost, we'll take a minute.

22 I'm trying to read this and put it in the
23 context of what I'm going to see in the Late-filed
24 Exhibit 121, that's going to reconcile the differences
25 between the MFRs and the 70-B on the land values.

1 WITNESS LEWIS: I have the volume, now.
2 Commissioner. Could you give me the page that you're
3 on.

4 COMMISSIONER EASLEY: Page 3, which should be
5 Schedule 1-A, Page 2 of 2.

6 WITNESS LEWIS: Marion Oaks?

7 COMMISSIONER EASLEY: Yeap.

8 WITNESS LEWIS: Yes, ma'am.

9 COMMISSIONER EASLEY: Look at Marion Oaks on
10 Page 2 of 5 and 70-B. When I look at these column
11 headings, Balance Per Books in the MFR, is that the
12 same as Value on Books in Schedule 70-B?

13 WITNESS LEWIS: It should be so Column 2,
14 Balance for Books, Column 3, Utility Adjustments, the
15 659,287 and 488,200 -- what I plan on doing is
16 explaining or reconciling to the Commissioners that
17 659,287 back to 872,464 and --

18 COMMISSIONER EASLEY: Whooh. What 872,464?

19 WITNESS LEWIS: Value on Books in your No.
20 70.

21 COMMISSIONER EASLEY: Oh, all right. Okay.
22 Good, because that's a \$67,000 difference.

23 WITNESS LEWIS: And then the 488,200,
24 reconcile that back to the 613,139 for each of the
25 systems on Exhibit 70-B.

1 COMMISSIONER EASLEY: Okay.

2 WITNESS LEWIS: And that should answer The
3 staff and Commissioners' questions on that portion of
4 the request.

5 COMMISSIONER EASLEY: All right. That's
6 going to help a lot. Now, which column is it that is
7 actually in rate base?

8 WITNESS LEWIS: Column 4.

9 COMMISSIONER EASLEY: Okay. Now, questions
10 concerning -- all right. Adjusted utility balance will
11 be -- is that shown in a comparable column on Schedule
12 70-B?

13 WITNESS LEWIS: Would you repeat your
14 question, Commissioner?

15 COMMISSIONER EASLEY: Column 4 in the MFRs.

16 WITNESS LEWIS: No.

17 COMMISSIONER EASLEY: It's not shown anywhere
18 on 70-B?

19 WITNESS LEWIS: No, ma'am. And just to
20 either un-complicate or complicate things a little bit
21 further, on 70-B one of the pieces of the explanation
22 will have to be that like when we're looking here at
23 Marion Oaks, we're looking at Value on Books 872,464.
24 If you look back in there, we're mixing water with
25 wastewater, so I have to segregate that for you also.

1 COMMISSIONER EASLEY: And I've done that.
2 I've gotten to both volumes and in the numbers I've
3 tried to put together that \$67,000 difference that I'm
4 talking about is between water and wastewater.

5 WITNESS LEWIS: Okay.

6 COMMISSIONER EASLEY: So the total from 70-B
7 does consider -- that I've given you does consider
8 water and wastewater. What I'm trying to get to, if I
9 look at 70-B and I read across any one of these for
10 whether it's future use or anything else, it appears
11 that value at time placed in serviced subtracted from
12 value on books, yields adjustment to books; is that
13 correct? Is that how you got there?

14 WITNESS LEWIS: Subject to check, it looks
15 like that to me, too. If you take Column 1 -- excuse
16 me. You're right. What we're calling value at time,
17 place, and service, minus Value on Books we get to
18 column Adjustment to Books.

19 COMMISSIONER EASLEY: So can I assume from
20 that that what is in rate base is the equivalent of the
21 value at the time the land was placed in service?

22 WITNESS LEWIS: Subject to check, yes, along
23 with what other noncontroversial land dollars there are
24 in those systems. This isn't the total value of the
25 land.

1 COMMISSIONER EASLEY: Say that again. I'm
2 not sure I understood that.

3 WITNESS LEWIS: I think, subject to check,
4 that this isn't the entire value of all the land for
5 those systems. I think this --

6 COMMISSIONER EASLEY: So I can't take the
7 Marion Oaks' figure -- okay. I can't match it up --

8 WITNESS LEWIS: No, I think it would be a lot
9 easier to wait and look at the reconciliation that will
10 show you all of the pieces.

11 COMMISSIONER EASLEY: Okay. And you said
12 earlier that you didn't have anything to do with the
13 determination of the value on the books. That's Ms.
14 Kimball or --

15 WITNESS LEWIS: That's correct. She was the
16 comptroller.

17 COMMISSIONER EASLEY: All right. That's
18 going to help. Thank you.

19 MR. FEIL: Mr. Chairman, if I may, I have one
20 question which got lost which one of the engineers
21 referred to Mr. Lewis.

22 COMMISSIONER CLARK: On Page 16 you indicate
23 that on Southern States Utilities and Deltona Utility's
24 books they lump together fringe benefits, workers'
25 compensation, and payroll taxes. And then it says

1 "These expense were reclassified for ratemaking
2 purposes into accounts consistent with NARUC
3 accounting."

4 My question is, my recollection is we've
5 regulated Southern States and Deltona for sometime now.
6 What happen that they were not doing that to begin
7 with?

8 WITNESS LEWIS: I'm not sure I can give you
9 an accounting answer coming from the Rate Department,
10 but I do know that Ms. Kimball is still scheduled to
11 appear, and the reclassification was done under her.

12 COMMISSIONER CLARK: You have a listing of
13 the systems that will benefit from the maximum bill
14 proposals, specifically those that have high revenue
15 requirements, and you indicate for some of them there's
16 a negative growth. People are moving out of the those
17 areas?

18 WITNESS LEWIS: Yes, ma'am. There actually
19 are systems where over a period of five years, if you
20 look at the F Schedules that Mr. Hartman and Mr. Morse
21 have done, you actually see some small systems where,
22 as an example, Apachee Shores, where you may see over a
23 five-year period they vary from, say, 155 to 165.

24 And after visting these systems and giving
25 rate speeches, basically the feedback I'm getting from

1 them is, you know, it's more the economical versus any
2 other reason why they're looking elsewhere, and that's
3 why we're real concerned for rate reasons why, if we
4 don't cap our rates, this type of thing will happen.
5 And it's a Catch 22 death spiral on the existing
6 customers if we don't do something about it.

7 COMMISSIONER CLARK: Does Apache Shores
8 serve mobile homes?

9 WITNESS LEWIS: Yes, it is, ma'am. From my
10 recollection it was probably all mobile homes.

11 COMMISSIONER CLARK: Same is true with
12 Lakeview Villas?

13 WITNESS LEWIS: To the best of my
14 recollection, that's correct. Double accounting.

15 COMMISSIONER CLARK: What about Stone
16 Mountain? They have a negative growth with a high
17 average use per customer of 17,000 plus gallons. Is
18 that a mobile home?

19 WITNESS LEWIS: I have never visited there
20 myself, but to my recollection of reading the
21 historical background of it, no, they're not.

22 COMMISSIONER CLARK: How come they're using
23 so much water, do you think?

24 WITNESS LEWIS: I think in a situation like
25 this, if you look at Stone Mountains' rates versus some

1 of the other rates, and the fact that not knowing that
2 much about the geographics, I'd say it would be going
3 for irrigation.

4 COMMISSIONER CLARK: And people are
5 abandoning their homes? How do you have negative
6 growth? People are --

7 WITNESS LEWIS: A lot of places where there's
8 negative growth, as a good example, would be Citrus
9 Park just on the south side of Ocala where we've had
10 complaints. And I went to a rate meeting before where
11 I've been gotten ahold by people that own duplexes that
12 rent it, and one of the first things the people look at
13 is they want to know what the utilities are.

14 MR. FEIL: Commissioner Clark, I don't mean
15 to testify for Mr. Lewis, but I think Stone Mountain
16 has somewhere between eight and ten customers and I
17 suppose if they lose one customer, it would show up
18 significantly for negative growth.

19 COMMISSIONER EASLEY: Your percentage goes up.

20 COMMISSIONER CLARK: Okay. Thank you.

21 CHAIRMAN BEARD: Staff?

22 MR. FEIL: Thank you, Mr. Chairman.

23 Q (By Mr. Feil) Mr. Lewis, some of the
24 engineering witnesses, maybe it was Mr. Morse, referred
25 to you the question regarding the interconnect between

1 Rosemont and Rolling Green. Do you recall that
2 discussion?

3 A I was probably out of the room when you
4 discussed it with Mr. Morse.

5 Q Do you know that Rosemont and Rolling Green
6 are interconnected?

7 A Yes, I do.

8 Q Is the cost of completing the interconnect
9 between Rosemont and Rolling Green included in
10 Rosemont's rate base? (Pause)

11 A Rosemont and Rolling Green's rate base was
12 developed based on entries in the general ledger no
13 later than December 31st, 1991. So, knowing that --
14 knowing what I know that I don't think the completion
15 was taken place until sometime in May 92, I would say
16 no.

17 Q Do you think Ms. Kimball would be a little
18 more familiar with that situation?

19 A Yes, she would.

20 MR. FEIL: Okay, I will defer to her, then.

21 Thank you, that's all.

22 CHAIRMAN BEARD: Redirect?

23 MR. ARMSTRONG: No redirect.

24 CHAIRMAN BEARD: Witness is excused.

25 Exhibits?

1 MR. ARMSTRONG: The Company had no exhibits.

2 CHAIRMAN BEARD: That's right, nobody.

3 MR. FEIL: Staff only had a late-filed, 121.

4 MR. MCLEAN: We had exhibit, did we not?

5 Two.

6 CHAIRMAN BEARD: 119 and 120?

7 MR. MCLEAN: Yes, sir.

8 CHAIRMAN BEARD: Without objection?

9 (Exhibit Nos. 119 and 120 received into
10 evidence.)

11 (Witness Lewis excused.)

12

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13 CHAIRMAN BEARD: Just out of curiosity, how
14 long do you all have for the next witness?

15 MR. MCLEAN: It depends on who it is. Do we
16 have a deal for Ms. Kimball perhaps, or a proposal?

17 MR. HOFFMAN: Mr. Chairman, let me tell you
18 what counsel has discussed and proposed to accommodate
19 Mr. Jones.

20 Mr. Jones says that he has some questions for
21 Ms. Kimball and, apart from that, he would like to get
22 out of town. So what we are --

23 CHAIRMAN BEARD: Oh, no. (Laughter) Only
24 for your wife.

25 COMMISSIONER EASLEY: Speaking of pitiful,

1 look at this. (Laughter)

2 CHAIRMAN BEARD: If nobody has any objection,
3 we can do that.

4 MR. HOFFMAN: What we are proposing is to
5 stipulate Mr. Jones' prefiled direct testimony and
6 exhibits into the record and to put Ms. Kimball on for
7 the sole purpose today of responding to Mr. -- I guess
8 I could put her rebuttal testimony and exhibits in and
9 she could respond to Mr. Jones' questions and then she
10 would come back.

11 CHAIRMAN BEARD: Okay. We will stipulate in
12 Mr. Jones' testimony and exhibits. The exhibits would
13 be numbered -- they are what? Are they attached to
14 your direct testimony?

15 MR. JONES: Yes, sir. Yes, the exhibits are
16 attached to my prefiled and direct testimony, right.

17 CHAIRMAN BEARD: Okay. Exhibit No. 122 will
18 be the exhibits attached to Mr. Jones' direct
19 testimony, and the testimony will be entered into the
20 record as though read and the exhibits will be, without
21 objection, put into the record. Exhibit -- that takes
22 care of that.

23 (Exhibit No. 122 marked for identification
24 and received in evidence.)

25 MR. FEIL: Actually, Mr. Chairman, I don't

1 know whether or not it's required to have Mr. Jones
2 sworn and then have it inserted into the record. I
3 don't know.

4 CHAIRMAN BEARD: Were you sworn earlier?

5 MR. JONES: I know I've been sworn several
6 times, but I'm not sure.

7 CHAIRMAN BEARD: Not sworn at, that's what I
8 get.

9 MR. JONES: No, I don't mean sworn at.
10 Perhaps not by you.

11 COMMISSIONER EASLEY: Did you take the oath
12 the other --

13 MR. JONES: May I stand?

14 COMMISSIONER EASLEY: Did you take the oath?

15 CHAIRMAN BEARD: Sure. Have you been sworn
16 in?

17 WITNESS KIMBALL: No.

18 (Witnesses collectively sworn.)

19 CHAIRMAN BEARD: Now, we can enter his
20 testimony in into the record as though read, generally.

21 (Laughter)

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DIRECT TESTIMONY OF HARRY C. JONES

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Q Would you please state your name and address.

A My name is Harry C. Jones and I reside at 3 Shumard Court South, Homosassa, Florida 34446.

Q What are your qualifications for testifying in this rate case for the Southern States Utilities customers in Sugarmill Woods?

A I am president of the Cypress and Oak Villages Association in Sugarmill Woods. COVA is a volunteer civic association representing all the homeowners. I am a retired professional engineer, licensed in the state of Florida. I have been a resident of Sugarmill Woods for approximately nine years and was involved in most of the prior rate cases at Sugarmill Woods. I am a graduate of General Motors Institute and spent the last twenty years prior to my retirement as owner of an engineering company in New Jersey where I was also licensed. I was president of several civic associations in New Jersey and was co-founder and later president of the Fluid Power Distributors Association, an international group. I was Vice President of the New Jersey Cooperative Education Consortium, a member of the White House Conference on Small Business, and a consultant to Governors Byrne and Kean on small business in New Jersey. I was also Southern Regional Coordinator for the Fluid Power Educational Foundation after my retirement.

Q What is the purpose of your testimony?

1 A My testimony in this case on behalf of the Cypress and Oak
2 Villages Association (COVA) serves several purposes.
3 First, to point out to the Commission that consumers need to
4 receive timely notice when a utility files a rate request. As we
5 indicated in our request for intervention it is almost impossible
6 for a consumer group with all volunteer members to collect enough
7 data to form intelligent questions.
8 Second, to show that by providing inaccurate information to the
9 newspapers our residents were led to believe that their utility
10 bills would not increase materially. We finally corrected this in
11 our late September newsletter.
12 Third, to get Southern States Utilities (SSU) to change their
13 usage from meter sizes to residential units to determine ERC's.
14 Previous Public Service Commission decisions used residential
15 units.
16 Fourth, to show that SSU is using incorrect data to determine
17 used and useful percentages. The 1990 rate decision, Docket No.
18 900329 is based on lower used and useful. Since that decision
19 three new wells have been added and growth has averaged only 6%.
20 Obviously the used and useful percentage requested by SSU is too
21 high. The water distribution used and useful calculates to be
22 22%. SSU uses 50%. The water plant used and useful calculates to
23 be 73%. SSU uses 100%. The sewer collection used and useful
24 calculates to be 21%. SSU uses 49%. All the above percentages
25 include margin reserve. Refer to HCJ Exhibit 1.
26

1 Fifth that there is no justification for raising our sewer cap
2 above 6000 gallons. Prior rate cases and history prove this
3 figure to be correct.

4 Sixth, that SSU is incorrect to base sewer charges on meter
5 sizes. It should be a flat rate.

6 Seventh, that SSU overstated the fire protection reserve of 2500
7 GPM. It should be 1500 GPM. Refer to HCJ exhibits 2 & 3

8 Eighth, that the rate case expense of \$412,253 for customer
9 notification is exorbitant. With less than 100,000 customers
10 this exceeds \$4 per customer.

11 Ninth, that the three new wells did not go on stream until April
12 1992 but their total cost was included in the 1991 test year.

13 Tenth, that a substantial increase in real estate taxes in 1990
14 and 1991 in Citrus County went unchallenged by the utility. The
15 concept that such pass through items are meaningless creates a
16 real doubt that SSU is attempting to hold down costs.

17 Eleventh, in the last rate case we proved that Sugarmill Woods is
18 unique in its requirement that all residents make substantial
19 payments to the utility called contribution in aid of
20 construction(CIAC). This makes it totally unfair for our residents
21 to be lumped together with other utility customers who are not
22 required to make similar payments when establishing water and
23 sewer rates. These contributions have paid for the water
24 distribution lines, the wastewater collection lines and the sewer
25 plant. There is in place in Sugarmill Woods a complete system to
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2 cover all existing residents plus substantial excess capacity to
3 cover our growth currently at 6% per year for many, many years.

4 Q Do you have any additional testimony to offer?

5 A No

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1 MR. JONES: May I go directly into cross?

2 COMMISSIONER EASLEY: Let's let him do his
3 thing.

4 CHAIRMAN BEARD: Let's go ahead and get the
5 preliminaries out of the way.

6 MR. FEIL: Mr. Chairman, also, somebody, I
7 suppose, Mr. Jones, should move his exhibit into the
8 record.

9 COMMISSIONER EASLEY: We already did that.

10 MR. FEIL: Okay, I'm sorry.

11 CHAIRMAN BEARD: I took the pleasure of doing
12 that for him.

13 MR. FEIL: Thank you.

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1 JUDITH J. KIMBALL

2 was called as a rebuttal witness on behalf of Southern
3 States Utilities, Inc., and, after being duly sworn,
4 testified as follows:

5 DIRECT EXAMINATION

6 BY MR. HOFFMAN:

7 Q Would you please state your name and business
8 address.

9 A Judith J. Kimball, 1000 Color Place, Apopka,
10 Florida.

11 Q Ms. Kimball, have you prepared and caused to
12 be filed prefiled rebuttal testimony on behalf of
13 Southern States Utilities in this proceeding?

14 A Yes, I have.

15 Q Do you have any changes or revisions to your
16 prefiled rebuttal testimony? I'm not referring to
17 exhibits, only your testimony.

18 A Yes, I do.

19 Q Could you please provide those?

20 A On Page 9, Line 5, change the word "life" to
21 "lift."

22 On Page 13, Line 20, change the word
23 "recorded" to "reported."

24 On Page 14, Line 23, add "Marco" to the end
25 of that line.

1 On Page 16, Line 10, add "t" to the end of
2 the third word so it reads "I do not," instead of "I do
3 no." And on Page 16, Line 15, add "ed" to the word
4 "present" so it's "presented."

5 Q Does that conclude your revisions to your
6 rebuttal testimony?

7 A Yes, it does.

8 Q Ms. Kimball, with those revisions, if I asked
9 you the same questions contained in your prefiled
10 rebuttal testimony today, would your answers be the
11 same?

12 A Yes, they would.

13 Q Mr. Chairman, I would ask that Ms. Kimball's
14 prefiled rebuttal testimony be inserted into the record
15 as though read.

16 CHAIRMAN BEARD: It will be so inserted.

17 Q (By Mr. Hoffman) Ms. Kimball, I'm aware that
18 you prefiled exhibits to your rebuttal testimony, and
19 we have distributed to the parties, as of yesterday, a
20 revised set of exhibits.

21 Could you please identify your set of revised
22 exhibits?

23 A Yes.

24 Q We're going to distribute those right now.

25 A Exhibit JJK-1, SSU's 1988 Property Tax

1 Return.

2 Exhibit JJK-2, Previous Owners 1987 Property

3 Tax Return.

4 Exhibit JJK-3, 1990 Preliminary Tangible

5 Personal Property Invoice for Sugar Mill Woods

6 Property.

7 Exhibit JJK-4, 1990 Revised Tangible Personal

8 Property Invoice for Sugar Mill Woods Property.

9 And Exhibit JJK-5, County Land Appraisal

10 Values Versus Books.

11 MR. HOFFMAN: Mr. Chairman, I would ask that

12 Ms. Kimball's revised exhibits to her rebuttal

13 testimony be marked for identification.

14 CHAIRMAN BEARD: It will be Exhibit 123.

15 MR. HOFFMAN: Thank you.

16 (Exhibit No. 123 marked for identification.)

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2 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
3 PROFESSION.

4 A. My name is Judith J. Kimball, 1000 Color Place,
5 Apopka, Florida 32703. I am Assistant Vice
6 President - Finance and Administration for Southern
7 States Utilities, Inc. ("Southern States").

8 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
9 OTHER QUALIFICATIONS.

10 A. I received a Bachelor of Science degree in Business
11 Administration with a major in Accounting from the
12 University of Central Florida in 1983. I became
13 licensed as a certified public accountant in the
14 State of Florida in 1984. I am a member of the
15 American Institute of Certified Public Accountants
16 and the Florida Institute of Certified Public
17 Accountants.

18 Q. WOULD YOU PLEASE DESCRIBE YOUR EMPLOYMENT HISTORY
19 IN THE FIELD OF PUBLIC UTILITY REGULATION?

20 A. In May 1983, I was hired as a public utility auditor
21 for the Florida Public Service Commission ("FPSC"
22 or "Commission"), working out of the Orlando field
23 office. I held that position until approximately
24 October 1984, at which time I joined Southern States
25 as Rate Director. I remained in that position until

1 June 1987 when I was appointed to the position of
2 Controller.

3 Q. WOULD YOU PLEASE DESCRIBE THE TYPE OF WORK YOU
4 PERFORMED WHILE AN AUDITOR FOR THE FPSC?

5 A. Most of the audits I participated in involved small
6 water and wastewater utilities located in central
7 Florida. I also performed audit work at United
8 Telephone in Apopka, Vista-United Telecommunications
9 at Disney World, and Gulf Power in Pensacola. In
10 addition to assisting on various portions of these
11 audits, I was audit manager on several of them. I
12 conducted staff assisted audits in those instances
13 where the utility was very small and virtually
14 created accounting records to support rate filings.
15 I participated in several audits of Southern States
16 during my tenure with the Commission. During these
17 audits, I worked on rate base issues, establishing
18 or verifying beginning balances, vouching plant and
19 CIAC additions and reviewing tax returns. I also
20 audited expenses for prudence and reasonableness.

21 Q. PLEASE DESCRIBE YOUR PAST AND CURRENT
22 RESPONSIBILITIES AT SOUTHERN STATES.

23 A. During my first three years at Southern States, I
24 was the Rate Director. In addition to filing rate
25 cases, I was involved in the filing of pass through

1 and indexing applications.

2 In June 1987, I was appointed to the position of
3 Controller. As Controller, my responsibilities
4 included overseeing the Financial Accounting,
5 Regulatory Accounting, Payroll, Accounts Payable
6 and Property Accounting Departments. The Accounting
7 area provides support to the Rate Department in its
8 filings and in the audit and discovery processes
9 that result from these filings.

10 In October of 1992, I was promoted to the position
11 of Assistant Vice President - Finance and
12 Administration. My current duties include Finance
13 and Administration Department support of rate
14 applications, synchronization of accounting records
15 with regulatory documentation, impact research on
16 regulatory accounting issues and coordination of
17 revenue activities on behalf of the Finance and
18 Administration Department.

19 **Q. PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY.**

20 **A.** The purpose of my testimony is to address a variety
21 of the adjustments to the Company's revenues
22 requirements proposed by Public Counsel's witness,
23 Kimberly H. Dismukes. I also will address certain
24 portions of the testimony of Mr. Harry Jones on
25 behalf of COVA.

- 1 Q. DO YOU AGREE WITH MS. DISMUKES' PROPOSED ADJUSTMENT
2 CONCERNING DISCOUNTS RECEIVED BY SOUTHERN STATES FOR
3 EARLY PAYMENT OF BILLS?
- 4 A. Yes.
- 5 Q. DO YOU AGREE WITH MS. DISMUKES' PROPOSED ADJUSTMENTS
6 REGARDING CHARITABLE CONTRIBUTIONS?
- 7 A. Yes. However, as a point of clarification, the Blue
8 Key sponsorship fee of \$500.00 was an advertising
9 item, not a charitable contribution.
- 10 Q. DO YOU HAVE ANY COMMENTS CONCERNING MS. DISMUKES'
11 PROPOSED ADJUSTMENT REGARDING AN ADDITIONAL WRITE
12 DOWN OF DELTONA LAKES LAND VALUES AFTER THE END OF
13 THE TEST YEAR?
- 14 A. Yes, the Company agrees with this adjustment. In
15 this instance, the Deltona write-down should have
16 occurred simultaneously with the other land
17 adjustments. However, final information was not yet
18 available. However, we reiterate if the Commission
19 makes downward adjustments for events occurring
20 outside the test year, "known and measurable" upward
21 adjustments also must be recognized. "Known and
22 measurable" is the standard applied by Ms. Dismukes
23 at page 35, line 16-17 of her testimony.
- 24 Q. DO YOU HAVE ANY COMMENTS REGARDING MS. DISMUKES'
25 PROPOSED ADJUSTMENTS TO 1991 BAD DEBT EXPENSE?

1 A. Yes. One item which should be corrected in Ms.
2 Dismukes' testimony relates to the allegation that
3 the increase in bad debt expense in 1991 resulted
4 from a change in methodology in determining the bad
5 debt reserve. This is not accurate. This matter
6 was discussed off the record during the depositions;
7 however, Company representatives were uncertain at
8 that time whether the methodology for determining
9 the reserve had changed in 1991 from what it was in
10 1990. Upon doing the research required to submit
11 a late filed exhibit on that topic, it was verified
12 that the same methodology for determining the
13 reserve was used in 1991 as was used in 1990.
14 I have to disagree with Ms. Dismukes' position that
15 \$30,000 of the increased bad debt expense associated
16 with M&M Utilities should be disallowed in the rate
17 case. Although the aging indicated \$30,000 of
18 potential bad debt expense for M&M, the actual bad
19 debt expense in 1991 on this plant's books was
20 \$17,719. This is the amount which was repooled and
21 allocated to the remaining systems. As a result,
22 if this adjustment is deemed appropriate, the amount
23 to be adjusted downward would be \$17,719 times
24 66.4503% (the filed-FPSC allocation factor) or
25 \$11,774.

1 Regarding the \$15,000 provision that was associated
2 with the Deltona gas operations that were sold, I
3 agree with Ms. Dismukes that non-regulated expense
4 should not be allocated to SSU's water and
5 wastewater customers. However, gas customers are
6 allocated \$14,411 of bad debt expense in the MFRs
7 as a result of the pooling of customer service
8 expenses. Included within this allocation pool was
9 the \$15,000 adjustment that was referenced. This
10 allocation follows the same theory as all other A&G
11 allocations in this docket. There is no basis to
12 treat this expense differently than other expenses
13 pooled and allocated based on number of customers;
14 allocation methodologies should be applied uniformly
15 and consistently to all allocated expenses.
16 Finally, with regard to the \$20,000 of bad debt
17 expense associated with Citrus Sun Club, bad debt
18 expense was not increased in 1991 due to the \$20,000
19 owed by Citrus Sun Club. This association had owed
20 SSU this money for a number of years and in fact,
21 at the end of 1990, owed SSU \$20,523. As a result,
22 the provision for this customer was established in
23 1990. The 1991 increase was unrelated to Citrus Sun
24 Club even though they still owed SSU \$19,398 at that
25 time. It has taken that customer until September

1 1992 to become current on their account.
2 The allocation of bad debt expense based on number
3 of customers is a prime example of where it is
4 improper to select one situation and remove it from
5 the calculation for the reserve and ignore
6 situations where treatment perhaps would go the
7 other direction. When reserve requirements are
8 analyzed, it is done on a total company basis, not
9 system by system. The resulting expense charged to
10 the system is based on that system's balance of
11 accounts over 60 days past due as a percent of the
12 total. If we were to look on a customer by customer
13 basis, we would find frequent cases where customers
14 owe us large amounts of money which we never
15 recover. Moreover, customers who may repay the
16 Company for outstanding sums owed constantly are
17 replaced by other customers who do not pay their
18 bills. Finally, and perhaps most importantly, bad
19 debt expense in this rate case is .6 percent of
20 revenue which is a very reasonable amount given
21 industry averages, SSU's system demographics and the
22 state of the economy.

23 Q. DO YOU AGREE WITH MS. DISMUKES' OUT OF PERIOD
24 ADJUSTMENT REGARDING THE BACKBILLING OF SOUTHERN
25 STATES BY JACKSONVILLE SUBURBAN UTILITIES

1 CORPORATION?

2 A. I do not agree with the proposed adjustment
3 regarding the Jacksonville Suburban Utilities
4 Corporation billing for past under payments. The
5 Company was required to make these payments based
6 on Jacksonville Suburban's tariff and Commission
7 rules regarding back billing. The amount of the
8 back billing should be amortized and reflected in
9 rates over a three year period which is
10 approximately the period during which the under
11 billing occurred. The unamortized portion of these
12 expenses should be included in the Beacon Hills rate
13 base. A prime example of why this type of an
14 adjustment is inappropriate can be found in a recent
15 similar situation between Jacksonville Suburban and
16 our Woodmere plant which may have significant
17 ramifications on Woodmere expenses, little to none
18 of which is reflected in this rate case.

19 Q. DO YOU AGREE WITH MS. DISMUKES' OUT OF PERIOD
20 ADJUSTMENT REGARDING THE EXPENSES RECLASSIFIED FROM
21 ORGANIZATION COST?

22 A. Yes. These were out of period expenses which should
23 not be included in the test year.

24 Q. DO YOU AGREE WITH MS. DISMUKES' PROPOSAL TO DENY
25 SOUTHERN STATES RECOVERY OF OPERATION AND

1 **MAINTENANCE EXPENSES ASSOCIATED WITH THE JUNGLE DEN**
2 **WASTEWATER SYSTEM?**

3 A. No. Ms. Dismukes' proposed disallowance of costs
4 incurred on the Jungle Den system to correct manhole
5 overflows and ^{lift} ~~life~~ station failures is not
6 appropriate. Ms. Dismukes did not even attempt to
7 establish that the overall level of operating and
8 maintenance expenses was unusual for the system.
9 In fact, 1991 expenses were approximately \$25,000
10 less than the 1990 expenses. Ms. Dismukes presents
11 no evidence that 1992 expenses will not more closely
12 approximate 1990, than 1991. O&M expenses must be
13 reviewed in their entirety before adjustments of the
14 nature proposed by Ms. Dismukes are accepted. Ms.
15 Dismukes also improperly characterizes my deposition
16 testimony. My understanding is that the work
17 performed on the specific manholes and lift stations
18 treated in 1991 will not be performed again.
19 However, each year work of this nature is performed
20 on some manholes and lift stations. This work is
21 an ordinary and necessary cost of maintaining the
22 Jungle Den system. I did not say in the deposition
23 that the indicated 1991 charges should be removed
24 from test year expenses. At a minimum, the costs
25 should be amortized over a three year period and the

1 unamortized balance included in the Jungle Den rate
2 base.

3 Q. DO YOU AGREE THAT THERE SHOULD BE AN ADJUSTMENT TO
4 REDUCE PROPERTY TAXES AT SUGAR MILL WOODS?

5 A. Yes, test year expenses should be reduced by \$33,063
6 due to an out of period amount contained in the
7 MFRs.

8 Q. COULD YOU PROVIDE SOME BACKGROUND INFORMATION
9 CONCERNING THE SUBJECT OF PROPERTY TAXES AT SOUTHERN
10 STATES UTILITIES AND CITRUS COUNTY SPECIFICALLY?

11 A. Since 1987, all property tax returns have been
12 prepared under my supervision and direction. The
13 Company has continued to search out ways to reduce
14 property taxes in the 27 counties in which it does
15 business. During 1991, a property tax consultant
16 was hired on a contingent basis to determine if the
17 Company could save money through the use of
18 consultants specializing in that arena. One of the
19 counties in which Southern States does business was
20 selected as a test site and some savings were
21 realized through the process. Once proposals were
22 submitted for handling the entire company, it became
23 readily apparent that the service would cost more
24 than the tax savings potentially realized.

25 Q. WOULD YOU EXPLAIN THE CHAIN OF EVENTS WHICH OCCURRED

1 WITH THE SUGAR MILL WOODS SYSTEM IN CITRUS COUNTY
2 AS THEY RELATE TO PROPERTY TAXES.

3 A. Of course. Sugar Mill Woods was acquired by
4 Southern States in December 1988. The tangible
5 personal property tax return for the year 1988 was
6 submitted by Southern States on March 23, 1989.
7 These tax returns are due on April 1 of each year.

8 Q. WHO PREPARED THAT RETURN?

9 A. I personally prepared that return and a copy of it
10 is included as Exhibit 123 (JJK-1). Also included
11 as Exhibit 123 (JJK-2) is the property tax return
12 as filed by the former owner of Sugar Mill Woods for
13 the year 1987.

14 Q. WHY DID YOU PERSONALLY FILE THE 1988 RETURN?

15 A. As Controller, I was quite actively involved in the
16 post acquisition activity related to Sugar Mill
17 Woods. I had spent some time with the individual
18 previously preparing their property tax returns to
19 gain an understanding of how they arrived at the
20 taxpayer's estimate of the taxable value. Unless
21 the company detects a serious flaw in how the
22 previous owner of a system calculated the value of
23 the total personal property, the policy was to keep
24 the calculations consistent with those of the
25 previous owner.

1 Q. WHAT IS THE RATIONALE BEHIND THE POLICY?

2 A. There is inconsistent treatment among the various
3 counties in the State of Florida as to how they
4 arrive at the valuation of the taxable value of
5 personal property. During the history of the
6 Company's acquisitions of various utilities, we
7 sometimes found that the prior owner had negotiated
8 with the counties as to what should or should not
9 be included in the taxable base. Quite typically
10 these acquisitions occur at year-end when the timing
11 is not such that it is possible to look into whether
12 changes should be made in the calculations. As a
13 result, at least for the first year, we consistently
14 apply the former owner's calculation methodology to
15 arrive at the numbers as presented on the property
16 tax returns.

17 Q. WHAT WERE THE RESULTS OF SSU PREPARING THE 1988 TAX
18 RETURN UPON WHICH THE TAXES DUE IN NOVEMBER OF 1989
19 WERE BASED?

20 A. As can be seen from Exhibits 123 (JJK-1) and ___
21 123 (JJK-2), the estimate of the taxable value went
22 from \$1,526,437 in 1987 to \$1,955,390 in 1988. This
23 resulted in a tax bill of \$36,546 if paid in
24 November 1989 versus \$25,662 if paid in November
25 1988.

1 Q. WHAT HAPPENED IN 1990 THAT CAUSED THE PROPERTY TAXES
2 FOR SUGAR MILL WOODS TO JUMP TO \$172,910 FROM THE
3 PRIOR YEAR FIGURE OF \$36,546?

4 A. In March 1990, the Company filed the tax return on
5 Sugar Mill Woods consistent with the methodology
6 used in both 1988 and 1989. However, in this
7 particular year, the return included the values in
8 accounts 331.400, Transmission and Distribution
9 Mains (Water) and 361.200, Collection Sewers-
10 Gravity (Sewer) even though those values had not
11 been picked up in prior years. The assumption made
12 was that because Southern States was taxed on useful
13 transmission lines in other counties, that the same
14 held true in Citrus County. The inclusion of those
15 lines raised the taxable value reported in 1990 to
16 \$3,918,902. Also, in 1990 the County Tax Appraisers
17 Office requested copies of our FPSC annual report.
18 When they were provided, the County realized we had
19 substantial dollars related to non-useful lines
20 which had not previously been ^{reported} recorded (consistent
21 with the prior owner's methodology). As a result
22 of that discovery, the Company received a proposed
23 tax bill having an assessed value of \$12,032,089.
24 As a result of that assessment, we received a tax
25 bill for 1990 of \$228,125 (See Exhibit 123 (JJK-

1 3)).

2 Q. DID THIS BILL GO UNCHALLENGED BY SSU?

3 A. Quite the contrary. I was in constant
4 communications with Ms. Terry Elmore of the Citrus
5 County Tax Assessor's Office. As a result of
6 various discussions, fact finding, and
7 understandings, our 1990 tax bill was reduced to
8 \$174,656 before discounts on an assessed value of
9 \$9,211,974 (See Exhibit 123 (JJK-4)), or a
10 reduction of \$53,469.

11 Q. DO YOU AGREE THAT PROPERTY TAXES SHOULD BE REDUCED
12 DUE TO APPRAISALS OF DELTONA UTILITIES AND UNITED
13 FLORIDA PROPERTIES?

14 A. No adjustment or provision is appropriate as a
15 result of the write-down of land values. The
16 utility does not report its booked value for land
17 to the County Tax Assessor's Office. The counties
18 perform their own appraisal on parcels of land owned
19 by the utility and arrive at their own assessed
20 value. This value could, theoretically, be greater
21 or less than the value recorded on the books,
22 Exhibit 123 (JJK-5) provides examples which
23 validate this position. A prime example relates to *Marco*
24 Island Tract D in 1991. The assessed value was
25 \$1,640,375 even though the combined value of Tract

1 D and F on the books at that time was \$48,206.
2 Exhibit 123 (JJK-5) also includes proposed tax
3 bills for 1992 which reflect an assessed value
4 consistent with what actual 1991 assessed values
5 were, even though the booked values had been written
6 down at that time. There is no justification for
7 an adjustment to property taxes in the Deltona
8 Utilities and United Florida properties due to the
9 write-down of the land values.

10 Q. DO YOU AGREE WITH THE ADJUSTMENT TO REMOVE DER
11 MANDATED TESTING THAT THE COMPANY FAILED TO DEFER
12 AND AMORTIZE?

13 A. Yes. We agree that \$32,739 should be removed from
14 1991 test year expense. This amount represents two
15 thirds of the total expense booked in 1991 which
16 should have been deferred and amortized.

17 Q. DO YOU AGREE THAT THE RATE BASE FOR THE SALT SPRINGS
18 WATER PLANT SHOULD BE REDUCED TO REFLECT ABANDONMENT
19 OF THE PLANT?

20 A. As indicated in response to Staff Interrogatory #51,
21 rate base should be reduced to reflect the
22 retirement of these assets and the related
23 contributions, depreciation and amortization. Plant
24 would be credited for \$18,704, accumulated
25 depreciation would be debited for \$7,561 and CIAC

1 and its related amortization would be debited and
2 credited, respectively, for \$3,703. As a result of
3 these entries, a loss will be recognized in the
4 amount of \$11,143. This loss should be deferred and
5 amortized as an extraordinary retirement.

6 Q. DO YOU AGREE WITH THE COMMISSION'S PROPOSED
7 REDUCTION OF EXPENSE DUE TO THE ANTICIPATED COST
8 SAVINGS FROM GOING TO IN-HOUSE REMITTANCE PROCESSING
9 VERSUS THE LOCKBOX SYSTEM?

10 A. I do ^{not} ~~no~~ agree with this reduction of expense for a
11 variety of reasons. First of all, the Company has
12 utilized a historic test year in this proceeding.
13 The Commission should not be reducing expenses by
14 savings which are not measurable and not
15 quantifiable. Information as ^{presented} ~~presented~~ in Staff
16 Interrogatory #48 did not include all costs related
17 to providing in-house remittance processing.
18 The remittance processing system, although scheduled
19 to be in service in February 1992, actually began
20 processing on December 9, 1991. However, no in-
21 service report for the related equipment was
22 prepared for the year 1991. As a result, this asset
23 is not included in general plant in the rate case.
24 If the Commission is going to reduce expenses
25 related to this process, then we must include

1 depreciation expense on the equipment along with a
2 rate of return and associated taxes on the
3 equipment. The equipment cost totaled \$122,000.
4 This equipment has a five year life which results
5 in depreciation expense of \$24,400. With the
6 overall rate of return requested of 11.57%, an
7 additional \$22,631 should be added to accommodate
8 a return and taxes on that investment.
9 Additionally, the information presented in
10 Interrogatory #48 did not include the labor cost of
11 a part-time clerk and the fringe benefits related
12 to that labor. Taking labor into consideration adds
13 an additional \$9,576 that should be added to the
14 cost of this system. It is unknown at this time
15 exactly what additional labor costs may be required
16 if the Company begins billing all customers on a
17 monthly basis. However, \$3,400 of temporary help
18 has been budgeted for 1993 to work in remittance
19 processing during peak periods.

20 A final factor which should be taken into
21 consideration, but which is very difficult to
22 quantify as it relates specifically to remittance
23 processing, is the earnings credits given by the
24 banks related to the balances SSU maintains in their
25 accounts. When the bank was processing remittance

1 payments for SSU, we maintained a higher balance in
2 the account and thus received a higher earnings
3 credit which is applied against other banking costs.
4 When SSU began processing in-house, the balance
5 maintained in the bank accounts was decreased. As
6 a result, the earnings credits are less today than
7 they were in 1991. Of course, part of the reason
8 for lower earnings credits also relates to the drop
9 in interest rates. In Interrogatory #48, 1991
10 expense related to remittance processing under Sun
11 Bank totaled \$85,278.74. That is the gross amount
12 charged for remittance processing. There are other
13 banking costs which run approximately \$50,000 a
14 year. Therefore, total banking costs run close to
15 \$135,000 per year. During 1991 the Company received
16 credits of approximately \$85,000 to offset the
17 banking charges to SSU. The net banking expense
18 that is charged to the customers then becomes
19 \$50,000. The company records the net effect, not
20 the component parts. As a result, if the Commission
21 approved Staff's recommendation to reduce expense
22 by \$70,798, it would put banking costs in a credit
23 position because the expense associated with total
24 banking costs would only be reflected as \$50,000 on
25 the books.

- 1 Some of the items I have described are very
2 difficult to quantify because of market conditions
3 and various unknowns which the Company is faced with
4 when doing cost benefit analyses for transactions
5 such as this. The Commission should not use cost
6 benefit studies as a tool against the utility to
7 reduce expenses out of the test year based on
8 speculation and incomplete information.
- 9 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**
- 10 **A. Yes, it does.**

1 MR. HOFFMAN: She's available for cross.

2 MR. JONES: Thank you very much, Ms. Kimball,
3 for being so cooperative. And thank you,
4 Commissioners, for going way beyond your call of duty.

5 CROSS EXAMINATION

6 BY MR. JONES:

7 Q Ms. Kimball, on a previous day, I believe I
8 questioned Mr. Ludsen regard something things which he
9 referred to you. And at that point, that was entered
10 into a document list four items which you may or may
11 not have copies of, Exhibit No. 42, 43, 44, and 45. Do
12 you have those?

13 A I have some documents that were given to me
14 by Mr. Ludsen after his testimony, but they aren't
15 labeled, so I don't know if we're dealing with the same
16 exhibits or not.

17 COMMISSIONER EASLEY: Is your first one "1991
18 SSU/SMU Citrus County Property Taxes"?

19 WITNESS KIMBALL: Correct.

20 COMMISSIONER EASLEY: I suspect they are the
21 same document.

22 MR. JONES: That would be Document No. 42.

23 MR. HOFFMAN: Mr. Chairman, before Mr. Jones
24 gets going here, we're going to raise an objection to
25 questions addressing these documents. The documents

1 have not been authenticated, they're all hearsay
2 documents, particularly the one that has been marked
3 Exhibit No. 42, which appears to have been prepared by
4 Mr. Hansen.

5 There are a number of statements in there
6 with which we disagree and we have no opportunity to
7 cross examine Mr. Hansen, so we are raising an
8 objection to these four exhibits.

9 COMMISSIONER EASLEY: All four?

10 MR. HOFFMAN: Yes, ma'am. And most
11 strenuously to Exhibit 42.

12 CHAIRMAN BEARD: What is your objection to
13 Exhibit 43 and 44?

14 MR. HOFFMAN: They're hearsay documents
15 prepared by Mr. Schultz.

16 MR. McLEAN: Just out of curiosity, is Mr.
17 Jones attempting to assert the truth of what this
18 letter says, or is he simply trying to prove that he
19 received this letter?

20 MR. JONES: I didn't quite hear you.

21 MR. McLEAN: Well, it strikes me that I'm not
22 sure that Mr. Jones is asserting the truth of what Mr.
23 Schultz says. I think the thrust of Mr. Jones'
24 position is, "Hey, did the Utility take this into
25 consideration?" So what's really -- what these are

1 offered seems to me to show is that Mr. Schultz sent
2 the letters, not that what Mr. Schultz said in the
3 letters is true or false.

4 CHAIRMAN BEARD: I think at least to the
5 extent Exhibits 43 and 44, perhaps they are hearsay,
6 but that's admissible under the limitations associated
7 with hearsay with respect to this hearing.

8 If you're not familiar with that -- which I
9 know you are -- Mr. Pruitt will be glad to recite, song
10 and verse.

11 MR. HOFFMAN: Familiar with it.

12 CHAIRMAN BEARD: Those two will stay.

13 Exhibit 42, quite frankly, Mr. Jones, I mean,
14 those were prepared by somebody else. Unless you are
15 able to testify to their authenticity and the accuracy
16 of each and every one of those numbers and prepared to
17 be cross examined on them, then I'm going to have a
18 problem with them.

19 MR. FEIL: Commissioner, if I may make a
20 suggestion to Mr. Jones, perhaps Exhibit No. 42 would
21 best be incorporated as part of COVA's brief.

22 CHAIRMAN BEARD: That might be the easiest
23 way to do that.

24 MR. JONES: The brief which will be filed
25 sometime later?

1 COMMISSIONER EASLEY: After, yes.

2 CHAIRMAN BEARD: Yes.

3 MR. JONES: That's perhaps acceptable.

4 CHAIRMAN BEARD: Then I think I will disallow
5 42 and you can use it for that purpose.

6 45?

7 MR. FEIL: Commissioners, 45 appears to me to
8 be some sort of public record acquired from a Property
9 Tax Appraiser's office, or Tax Assessor's office.

10 (Pause)

11 I don't know, Mr. Jones perhaps would be the
12 most appropriate person to authenticate this, though.

13 CHAIRMAN BEARD: See, the problem I've got, I
14 could create something like this --

15 COMMISSIONER CLARK: This is like those
16 letters, though. It looks like -- it says the owner's
17 name and address, Southern States. And it appears to
18 have come from the Property Appraiser.

19 CHAIRMAN BEARD: Well, quite frankly -- hold
20 on a second, if you would. It doesn't even appear to
21 be that on the surface, it may well be. But it would
22 take me about 15 minutes to create this on my own
23 little computer here. You know, concerning tax roll
24 Page 0, tax roll Line 1.

25 I mean, on its surface, I don't know what

1 this is. I have some earthly idea that someone has
2 either forged this man's signature or these are his
3 letters, I don't think that they've done that. And I'm
4 not questioning this, I just don't know based on what
5 I'm looking at what I've got.

6 MR. JONES: I asked Mr. Schultz to come up
7 this week so he could maybe validate these, but he
8 hasn't made it.

9 CHAIRMAN BEARD: I just don't have any idea.

10 MR. JONES: The information that's on the
11 computer thing did come from the Tax Appraiser's
12 office, and I appreciate the fact that it could be
13 duplicated.

14 Q (By Mr. Jones) However, would you, Ms.
15 Kimball, not be able to verify the numbers that are on
16 this last -- second page, I guess it is, Page 1 of 1,
17 showing the value, the assessed value for the years in
18 question?

19 A Is that the schedule that starts with '92 and
20 runs down to '83?

21 CHAIRMAN BEARD: Runs backwards, that is
22 correct.

23 Q (By Mr. Jones) That's correct, yes. (Pause)

24 A I can verify for some of those years what our
25 reported values were on the reports that we sent in.

1 CHAIRMAN BEARD: Let me ask you this. I
2 don't want to belabor this. Can we perhaps, if this is
3 what it purports to be, can we accept, subject to
4 check, that these numbers were generated from the tax
5 tables or whatever it is in, the Property Appraiser's
6 office? Is it possible to do that?

7 I'm asking legal counsel to give some advice
8 to the witness, I guess.

9 COMMISSIONER EASLEY: And maybe give the
10 witness an opportunity to look at it and see if they
11 are verifiable figures. I think that is what Mr. Jones
12 is looking for, anyway. If she's unable to verify the
13 figures, then at such time as you want to move it into
14 evidence, we've got a different problem.

15 MR. HOFFMAN: I think that's a fair way of
16 approaching it, so long as the witness has the
17 opportunity to verify it.

18 CHAIRMAN BEARD: Okay, this will be subject
19 to check -- and I know you're going home, but at some
20 point in time to put a verification that these numbers,
21 in fact, are from the tax book.

22 MR. JONES: Without being able to utilize
23 these, it makes it a little difficult for me to
24 question her.

25 CHAIRMAN BEARD: No, you can use those.

1 COMMISSIONER EASLEY: No, you can question
2 her to see if she can verify the number, as I
3 understand what we just got through doing.

4 CHAIRMAN BEARD: Well, I think what we're
5 doing is accepting these numbers, but subject to check
6 to get a chance to verify those at a later date to
7 ensure that they are accurate.

8 So you can use exhibits -- I'm going to allow
9 you to use Exhibits 43, 44 and 45. I will allow the
10 Company an opportunity to come back and if they find
11 any problem with 45, to bring it to our attention. You
12 use those if you like.

13 The other Exhibit 42, you can use that
14 information in your brief, if you want, but not here
15 today.

16 MR. JONES: I'll try to remember which thing
17 is where so that I don't miss.

18 CHAIRMAN BEARD: Sure. I'm sure that the
19 other attorneys will help you.

20 Q (By Mr. Jones) Ms. Kimball, did you get a
21 copy of the letter of September 25th which was
22 addressed to Mr. Armstrong by Mr. Schultz?

23 A Yes, I did.

24 Q Okay. Were you able to understand what he
25 was asking of you? (Pause)

1 A I guess, when I got it, I really wasn't
2 totally sure what he was trying to do and where he was
3 coming from. There's been speculation about what's
4 going on here.

5 The basic thing that I felt, though -- and I
6 did send Mr. Schultz a letter back as soon as I was
7 given his letter. And I felt like Mr. Schultz already
8 had all of the information, item by item, that he had
9 asked for in his letter. Most of it, he had gotten
10 back in 1990 when the property tax issue there first
11 really became significant.

12 And then in further discussions, I learned he
13 also had the current MFR filings; he had pages from our
14 purchase agreements that he had wanted; he has the CIAC
15 numbers; he has our annual reports for all of those
16 years; and he's got all the reported numbers that we
17 have filed by April 1 of each year, which lays out all
18 of this information. And I honestly don't know what
19 more I could give to Mr. Schultz to help him figure out
20 whatever it is he thinks he needs to do.

21 Q Is it possible that we're in the middle of a
22 power play or a struggle between a taxing authority and
23 a utility who appears to be being required to overpay
24 their taxes?

25 A Well, I certainly don't like the word "power

1 play."

2 I'm not in any power play with Citrus County.
3 We reported what we were supposed to report, and we're
4 in the middle of a rate proceeding.

5 When Mr. Schultz called me, I asked him to
6 put whatever it was he wanted in writing so I knew
7 exactly what he wanted and could respond to it. I
8 don't know of any power play.

9 Q We have had three meetings or more with
10 Mr. Schultz trying to get him to the point where he
11 would communicate with you so that you could understand
12 what it was he really needed because it appeared that
13 he was not utilizing the same rationale, or whatever
14 you want to call it, to --

15 COMMISSIONER EASLEY: Mr. Jones, you need to
16 remember to ask a question.

17 MR. JONES: I know, I'm trying to figure out
18 how to put it with a question mark.

19 CHAIRMAN BEARD: Don't you know?

20 MR. JONES: It's very difficult and it's
21 really not the kind of thing that can be presented in
22 this sort of a thing, but it does need to be addressed
23 because it's a couple hundred thousand dollars at stake
24 here. Some of it belongs to the Utility and some of it
25 belongs to the ratepayer.

1 COMMISSIONER EASLEY: Ask her the question,
2 Mr. Jones. You can't testify now.

3 Q (By Mr. Jones) If the 1990 taxes had
4 appreciated by what would have appeared to be a normal
5 amount, you would not -- would you have been at all
6 concerned about the new tax, that tax?

7 A If the 1990 taxes had appreciated, is that
8 what you said?

9 A Yes, by a normal amount, which might be 10%
10 or 6% or 8%?

11 A You mean if when we got our 1990 tax bill it
12 had been like a consistent increase from what 1989 was;
13 is that what you're asking?

14 Q Yes.

15 A Okay. Now what was your question?

16 Q Would you have felt that was normal and
17 passed it through with that question?

18 A When we get our tax bills, we do monitor our
19 increases and we attempt to tie those increases in the
20 assessed values back to what we reported to distinguish
21 what the differences are. And if they're differences
22 that we don't understand, then we're in communication
23 with the tax office to find out what it is that's going
24 on that we don't understand. As a rule, most of --
25 unless there's large construction, most of the tax

1 bills pretty much, you know, have a normal fluctuation
2 from year to year.

3 Q Wasn't the 1990 tax, as it was originally
4 presented to you, \$12,000 instead of what it is here?

5 A I'm not familiar with that number.
6 (Simultaneous conversation.)

7 Q Forgive me. The valuation of the property,
8 was it not in excess of \$12 million? I think that's in
9 your testimony.

10 A Yes, it is in my testimony. The original tax
11 bill we received in -- for the 1990 year had an
12 assessed value of \$12,032,089.

13 Q Did you not then question that?

14 A Yes, I questioned that.

15 Q And did you not then get a reduction?

16 A Yes. We got a reduction. As a result of
17 many, many conversations back and forth between myself
18 and the Citrus County property appraiser's office, we
19 got a reduction of -- well, the assessed value was
20 reduced to \$9,211,974, which saved the Company and the
21 customers, if there had been a rate case at that time,
22 \$53,469.

23 COMMISSIONER EASLEY: That was the year 1990?

24 WITNESS KIMBALL: Yes.

25 Q (By Mr. Jones) Do you feel that that's a

1 correct figure or do you feel it's still too high?

2 A I had personally a significant number of
3 conversations with Citrus County. They, at that time,
4 were first made aware that we had nonused and useful
5 property. They hadn't known that before. And I did
6 try to dissuade them from including nonused and useful
7 property in the calculations. And ultimately, they
8 backed out and included 60% of the nonused and useful
9 property in the calculation. That was how we got the
10 rates reduced. I can just go so far. I can try to
11 talk and persuade, but I can't hold a gun to their head
12 to make them not include that. If that's their
13 position to include that, I can't control that.

14 Q Do you feel that that's where the major part
15 of the adjustment, or whatever you want to call it,
16 occurred?

17 A As far as I know, that was the only issue was
18 the nonused and useful property. I would add, however,
19 that I tried also to get them to offset that with CIAC.
20 Some of the counties let you offset CIAC. Others do
21 not. And I tried that as well. And I reached -- you
22 know, I was not successful in that argument.

23 Q From this computer printout, would you think
24 that perhaps Citrus County, prior to Mr. Schultz, was
25 doing the taxes on that basis?

1 A I couldn't reach that conclusion. I really
2 feel what happened was that, you know, whether they
3 should have known or not, they obviously did not know
4 that there was nonused and useful property out there.

5 And in 1990 was the first year that they
6 asked for annual reports, and that was the year that
7 the PSC changed the format of the annual report which
8 brought nonused and useful plant into the asset pages.
9 And when they got those pages, they automatically
10 realized, of course, that we had a much larger value
11 there than what was on that report that we sent in.

12 So I don't know that it's prior owner versus
13 us or prior Mr. Schultz versus -- you know, I think
14 they just didn't have the information up until that
15 point in time.

16 Q Can you think of anyway we can help you
17 resolve this question, get some money back?

18 A Obviously the Utility is very open to working
19 with Citrus County to try to do what's right for the
20 customers, what's right for the Company. I'm just not
21 sure how that can work into this rate proceeding.
22 We've got a historical test year. Those were the
23 expenses. We have, by Mr. Shultz's own letters, he
24 indicates that the request for refunds must be approved
25 by the Department of Revenue before the tax collector

1 can issue any refunds. I have no guarantee, assurance
2 that that can happen, that that will happen.

3 Q Mr. Schultz's letter, Exhibit No. 44, does it
4 not say that there is an error and the error is in
5 excess of \$50,000?

6 A Maybe we're not looking at the same letter.

7 Q It's the one addressed to the Public Service
8 Commission.

9 A Yes. That says that there -- he says the amount
10 of the error has not yet been established, but it is in
11 excess of \$50,000. His letter doesn't tell me why he
12 thinks there is an error, what that error is, how he's
13 calculating that. I have no knowledge of that.

14 Q Do you think it might be because of the
15 meetings that COVA had had with him and other people in
16 the county relating to this problem?

17 A I have no idea. I wasn't party to the
18 meetings. I don't know.

19 COMMISSIONER EASLEY: Do you know whether or not
20 this is -- he says the amount of the error. I've been
21 trying to figure out is it an overcharge, or
22 overcollection or undercollection of that tax? Do you
23 know?

24 WITNESS KIMBALL: Well, you can't tell from
25 this letter.

1 COMMISSIONER EASLEY: That's why I asked the
2 question. You don't know; other than you can't tell
3 from the letter, you don't know which way he thinks the
4 error went, regardless of the amount?

5 WITNESS KIMBALL: Well, I can assume.

6 COMMISSIONER EASLEY: I can too, but I just
7 thought I'd ask, generally.

8 WITNESS KIMBALL: You can't tell from the
9 letter.

10 Q (By Mr. Jones) Is it possible that a meeting
11 could be arranged with the appropriate parties and in
12 time that this could affect this particular rate case?
13 I'm asking you that, I guess. (Indicating)

14 A Well, I think that's got to bring other
15 people into that question. I'm certainly willing to
16 meet with Mr. Schultz, but how it's going to affect
17 this rate case, I don't know if that's appropriate.

18 Q Is it possible to get an opinion from the
19 Commission as to whether that would be an appropriate
20 step? I can ask the question.

21 COMMISSIONER EASLEY: Go ahead, Mr. Chairman.

22 COMMISSIONER CLARK: The issue is whether or
23 not there is appropriate taxing, right?

24 MR. JONES: Whether or not they've been
25 overcharged, right. I'd say -- never mind.

1 COMMISSIONER CLARK: I mean, if it's occurred
2 in the past, to go back and try and change it may run
3 afoul of retroactive ratemaking. And the fact of the
4 matter is we're -- to the extent taxes go up more than
5 we anticipated or go down more than we anticipated,
6 what we look at is the bottom line. What are they
7 earning? Are they earning within the range allowed?
8 And even if the taxes go up or down, we don't -- I
9 guess if they go up we do do pass-throughs.

10 MR. McLEAN: Commissioner, we have an issue
11 -- don't we have an issue in there that says why don't
12 you all set a little money aside --

13 COMMISSIONER EASLEY: Why don't you all, what?

14 MR. McLEAN: Why don't you set some money
15 aside subject to working this thing out? I mean,
16 corporate undertaking, seems like just the right time
17 for a corporate undertaking.

18 CHAIRMAN BEARD: Well, that -- one, we will
19 not be holding up the rate case for this. Number two,
20 that can be an issue to be decided, whether or not we
21 hold money subject to refund or have a corporate
22 undertaking, depending on, you know, what's there and
23 what evidence is in the case to look at and see whether
24 that's, one, appropriate, or two, have they been
25 imprudent in their paying a tax bill, that they should

1 have fought harder, or whatever. Those will be issues
2 we'll deal with as they come forward.

3 COMMISSIONER EASLEY: The bottom line of what
4 Mr. Jones is asking is: Can we, as a Commission,
5 intervene down there and tell the property appraiser to
6 get on the stick. And I think, frankly, Mr. Jones, the
7 answer is no. I think it's outside our jurisdiction.
8 That's my opinion. I don't think I can tell the
9 property appraiser.

10 MR. JONES: Then it's sort of up to
11 Mr. Phillips and ourselves and --

12 COMMISSIONER EASLEY: I'm afraid it is. We
13 deal with the results of the constitutional officer's
14 decision.

15 MR. JONES: Then I guess that's really about --

16 COMMISSIONER EASLEY: Just like he can't item
17 us what to do.

18 MR. JONES: -- about as far as I can go with
19 this particular thing at the moment, and yet it seemed
20 important to bring it up into the case.

21 COMMISSIONER EASLEY: No, I think you needed
22 to bring it up.

23 MR. JONES: I wish we had someone here who
24 could have spoken to these letters.

25 WITNESS KIMBALL: Could I add one more piece

1 of information? We also have our proposed, estimated
2 property tax bills for Citrus County for Sugar Mill
3 Woods for this year.

4 MR. JONES: For 1992?

5 WITNESS KIMBALL: Yes. And even though
6 Mr. Schultz has written this letter, our assessed value
7 is now 9,836,000 rounded, up from 8,886,000 last year.
8 So he may be speculating, but the bill isn't changing.

9 MR. JONES: I noticed that.

10 COMMISSIONER EASLEY: Well, you have Property
11 Appraisal Adjustment Board, you have all kinds of
12 remedies available that we don't have any control over.
13 I do, however -- I intend to ask Ms. Kimball, when we
14 come back with her, for your information, Mr. Jones, I
15 do want to get some information from her concerning
16 what is happening with other property appraisers and
17 the difference in the way they treat CIAC and the used
18 and useful.

19 There may be a way, through cooperative
20 effort between agencies, if there is no information in
21 the property appraiser's tax manual. There may be a
22 way that we could impact it on a statewide basis, but
23 it wouldn't do any good for this specific case. To get
24 into some questions with her from that standpoint, from
25 a policy standpoint.

1 MR. JONES: When we intervened, we didn't
2 expect anything like this to happen. But there it was
3 and it needed to be investigated.

4 COMMISSIONER EASLEY: Sure.

5 MR. JONES: I guess I have no more questions.
6 I, gain, thank you very much for running over here at
7 the last minute and thank you all for helping me.

8 COMMISSIONER EASLEY: Have a safe trip home,
9 Mr. Jones.

10 MR. JONES: I'll do that.

11 CHAIRMAN BEARD: Thank you. 9:00 tomorrow
12 morning? Anything else before we adjourn for the day?
13 You all have a nice holiday. (Laughter)

14 (Thereupon, the hearing adjourned at 4:55 p.m.,
15 to reconvene at 9:00 a.m., Thursday, November 12th, 1992,
16 at the same location.)

17 (Transcript follows in sequence in Volume
18 XII.)

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